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LEGAL UPDATE

PART TWO
OF A FOUR-PART SERIES ON PROCLAMATION NO. 1434/2026

Ethiopia Rewrites the Rules on Amended Assessments, Limitation Periods, and New Evidence

Amended Assessments | Limitation Periods | New Evidence | Penalties & Compliance | Tax Clearance Certificate

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INSIGHTS / ANALYSIS / PRACTICAL GUIDANCE

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I. INTRODUCTION

In Part One of this series, we examined the conciliation regime introduced by Proclamation No. 1434/2026, the Tax Administration (Amendment) Proclamation published in the Federal Negarit Gazette on 30 July 2026. In this Part Two, we turn to a cluster of changes that will affect every taxpayer under audit, every practitioner preparing an objection, and every adviser assessing the exposure of a client to a reopened assessment. The amendment reworks the limitation periods governing amended assessments, extends the look-back period for suspected tax fraud to ten years, inserts a new statutory code on the revision of assessments, tightens the rules on the presentation of new evidence and attaches a ten per cent penalty to the late production of material documents, and creates a conditional tax clearance certificate whose legal effect is deliberately limited. Each of these changes is examined below.

II. THE REWORKED LIMITATION PERIODS AND THE EXTENDED LOOK-BACK FOR TAX FRAUD

The most consequential single change in the amendment is the restructuring of Article 28 of the Proclamation, which governs amended assessments and the period of limitation. Under the principal Proclamation as enacted in 2016, the Authority could amend an assessment at any time in cases of fraud, gross or wilful neglect by or on behalf of the taxpayer, and in any other case within five years of the filing of a self-assessment declaration or the service of a notice of assessment. The amendment replaces that scheme with a clearer, but in one respect considerably longer, set of periods.

Under the amended Article 28(2), the Authority may amend a tax assessment within ten years from the date on which the taxpayer filed the self-assessment notice where it obtains evidence proving that the taxpayer has committed tax fraud. In every other case, the Authority may amend within five years, whether the assessment is a self-assessment or an assessment issued by the Authority. The previous distinction between fraud, gross neglect, and wilful neglect, on the one hand, and ordinary cases, on the other, is thus replaced by a single threshold expressed in terms of tax fraud, but the outer limit of the exposure in fraud cases is now fixed at ten years rather than left open-ended. A new sub-Article (5) confirms that where evidence proves the commission of an act of fraud, the Authority may carry out a reassessment at any time within that ten-year period.

The significance of this change lies in the definition of tax fraud that accompanies it. Article 2(48) of the amended Proclamation supplies a broad definition, encompassing the submission of false books of account, documents, invoices or other tax documents, the concealment of income, transactions or taxable activities, the issuing or use of false or fictitious invoices or receipts, the filing of a false tax return, the destruction, alteration or concealment of records, the preparation and maintenance of multiple or parallel accounting records, the claiming of false deductions, tax exemptions, refunds or tax credits, and the commission of any other act or omission required by law unlawfully to reduce a tax liability. Several of these descriptions are capable of capturing conduct that a taxpayer might not instinctively characterise as fraud, including the omission of information required by law and the maintenance of parallel records. The practical consequence is that the ten-year look-back is not confined to cases of deliberate dishonesty in the ordinary sense. Taxpayers with historical exposure, and in particular those with incomplete or inconsistent documentation, should assess that exposure against the new definition without delay.

III. THE NEW STATUTORY CODE ON REVISION OF ASSESSMENTS

The amendment inserts, for the first time, a self-contained statutory code governing the revision of tax assessment notices. The new provisions, numbered 96 to 102 and renumbered as Articles 107 to 113 upon the general renumbering effected by the same instrument, address grounds for amendment, conditions for amendment, time limits, effect, notice, and the prohibition on repeated amendment for the same error.

The grounds on which a tax assessment notice may be amended are set out in the new Article on grounds for amending a tax assessment notice. An amendment may be made where there is a computational or arithmetical error, where there is relevant evidence that was not considered during the assessment or new evidence presented in accordance with the Proclamation, where the assessment is inconsistent with binding administrative rulings, or where any other mistake has resulted in an incorrect determination of tax liability. The inclusion of binding administrative rulings as a ground of amendment is notable. It gives statutory effect to the principle that the administration should not depart from its own published positions, and it provides taxpayers with a basis on which to seek correction of an assessment that is inconsistent with a public or private ruling in force.

The conditions for revision are equally significant. The Authority may revise an assessment only where the mistake is material and affects the amount of tax payable or refundable, where the revision is based on verifiable information or evidence, and, in the case of a taxpayer-initiated request, only before the matter is reviewed on appeal, unless new evidence is discovered or the taxpayer was prevented from presenting the evidence by force majeure. The last of these conditions introduces a temporal constraint on taxpayer-initiated correction which did not previously exist in express terms. A taxpayer who discovers an error after the matter has entered the appellate process may find that the route to correction is narrower than the route that was available at the assessment stage.

The time limits governing the Authority's power to revise are set out in the new Article on the time limit for revision. The process of revision is initiated either on the application of the taxpayer or on the Authority's own initiative. Where the Authority acts on its own initiative, it may amend the assessment within the earlier of five years from the date of the initial assessment notice or one year from the date the error was discovered. The effect of a revised assessment is addressed in the new Article on the effect of revision. A revised assessment replaces the original to the extent of the revision and is deemed to be an assessment made under the Proclamation. Where a taxpayer's request for revision is rejected, the limitation period for lodging an objection is computed from the date on which the initial assessment notice was served, not from the date of the rejection. The practical consequence is that a taxpayer who seeks revision of an assessment must continue to monitor, and where necessary to preserve, the objection period applicable to the original notice.

The final provision of the new code contains a prohibition which will be of interest to practitioners. No tax assessment notice may be amended more than once on account of the same error. The provision is intended to prevent successive adjustments of the same assessment in respect of the same defect, but its scope will require careful reading in cases where an error has multiple consequences or where a revision discloses a further error of a different character. The boundaries of the prohibition are likely to be tested in practice.

IV. THE TREATMENT OF NEW EVIDENCE AND THE TEN PER CENT PENALTY

The amendment also restates and tightens the law on the presentation of new evidence. Article 59 of the principal Proclamation, which addresses the burden of proof, is deleted and replaced. The new provision, renumbered as Article 70, preserves the rule that in any proceeding relating to a tax decision the burden lies on the taxpayer to prove that the decision is incorrect. It then introduces a general bar on the presentation of new evidence. A taxpayer who submits an objection, an appeal, or a request for correction of an error may not present evidence that is different from the evidence presented during the initial tax assessment.

Three exceptions are provided. New evidence may be admitted where its non-consideration would cause a heavy tax liability on the taxpayer, where the taxpayer obtained the evidence after the tax assessment notice was issued, or where the taxpayer was unable to submit the evidence due to force majeure. The first of these exceptions is expressed in terms of hardship rather than in terms of the materiality of the evidence, and its precise contours will fall to be determined in practice.

The amendment also introduces a monetary consequence for reliance on the hardship exception. Where a taxpayer presents new evidence under that exception, the taxpayer is liable to a penalty of ten per cent of the tax liability that ought to have been paid had the document not been previously withheld during the tax assessment. The penalty is expressed in the amendment as being without prejudice to the provisions concerning evidence obtained after the assessment notice and evidence withheld due to force majeure. The effect of the provision is therefore that a taxpayer who seeks to rely on the hardship exception, but not on the other two exceptions, must pay a penalty calculated by reference to the tax that would have been payable had the evidence been produced at the assessment stage. The provision is likely to be the subject of debate, both because the burden it imposes falls on the taxpayer who is already facing what the statute describes as a heavy tax liability, and because the relationship between the penalty and the underlying assessment will require clarification in the implementing Directive that the Ministry is expected to issue.

V. THE CONDITIONAL TAX CLEARANCE CERTIFICATE

A further innovation of the amendment is the conditional tax clearance certificate. The tax clearance provisions of the principal Proclamation previously allowed the Authority to issue a clearance certificate only where it was satisfied that the taxpayer had fulfilled its obligations to pay tax. The amendment inserts new sub-articles into those provisions which permit the Authority to issue a conditional certificate to a taxpayer who has outstanding tax liabilities in two defined situations. The first is where the taxpayer has formally lodged an objection, an appeal, or a tax dispute before the competent authority in accordance with the Proclamation. The second is where the taxpayer has entered into a valid instalment agreement with the Authority on the settlement of the outstanding liability.

The purposes for which a conditional certificate may be used are specified. It may be used to renew a business or professional license, to participate in a bid, for the annual inspection of vehicles or construction machinery, and to obtain a bank loan. The amendment is careful, however, to limit the legal effect of the instrument. The issuance of a conditional certificate does not constitute a waiver, suspension, or discharge of the taxpayer's liability. It does not prejudice the right of the Authority to recover tax due. Nor does it affect the outcome of any pending dispute or proceeding. The certificate is valid for such period as may be prescribed by a Directive to be issued by the Ministry, and it may be revoked on grounds to be specified in that Directive. The provision further confirms that the conditional certificate does not apply to the taxes listed under Article 33(1) of the Proclamation, which are those in respect of which withholding obligations and similar priorities are imposed.

The conditional certificate is a pragmatic instrument. It permits taxpayers with genuine disputes or agreed payment plans to continue to operate, to bid, and to borrow, without forcing them either to pay a disputed liability in full or to accept commercial paralysis. It does so, however, without resolving the underlying liability, and third parties who rely on the certificate, including licensing authorities, procuring entities, and banks, should understand that the certificate confirms only that the taxpayer has taken one of the two qualifying steps, and not that its tax affairs are in order.

VI. BANKS AS TAX GATEKEEPERS AND THE REPATRIATION OF FUNDS

The amendment also imposes a new obligation on banks. Under the new sub-article on conditional clearance, banks are required, prior to allowing a foreign investor to repatriate profits, dividends, or proceeds from the sale of a business, to require the investor to present a tax clearance certificate issued by the Authority confirming that tax has been paid on the profits, the dividends, or the taxable transaction. The provision creates a further checkpoint in the repatriation process and places on banks a duty to verify the fiscal position of the investor before permitting the transfer of funds abroad.

The implication for financial institutions is significant. Banks will need to integrate the requirement into their foreign exchange and remittance procedures, to determine the form of clearance certificate that will satisfy the requirement, and to consider the consequences, both regulatory and civil, of permitting a transfer in the absence of a valid certificate. The implication for foreign investors is equally significant. Repatriation of returns will depend not only on the availability of foreign currency and the observance of exchange control procedures, but also on the production of a certificate which, in the case of a disputed assessment, may itself be conditional and subject to revocation. Investors should review their exit and repatriation planning accordingly.

VII. CONCLUSION

Taken together, the changes examined in this Part Two represent a shift in the balance of the tax administration framework in several directions at once. The outer limit for reopening an assessment where fraud is suspected has been extended to ten years, and the definition of tax fraud has been drafted broadly. The grounds and conditions for revising an assessment have been placed on a statutory footing, and the time limits within which the Authority may act on its own initiative have been defined. The taxpayer's ability to introduce fresh evidence at the objection or appeal stage has been confined, and the reliance on the hardship exception now carries a monetary cost. At the same time, the amendment has introduced practical relief in the form of the conditional tax clearance certificate, permitting commercial life to continue while a dispute or a payment plan is outstanding.

The prudent course for taxpayers and their advisers is to assess historical exposure against the new definition of tax fraud, to review the completeness of documentation for periods still within the extended look-back, to bring forward any application for revision of an assessment before the matter enters the appellate process, and to consider whether the documentary record for any anticipated dispute is already complete. Part Three of this series will examine the amendments to enforcement, sanctions, and criminal liability, including the revised penalty for failure to issue a tax invoice, the new statutory defenses for officers of bodies, and the recalibrated rules on freezing orders.

Disclosure

This update is provided for informational purposes only and does not constitute legal advice. Clients are advised to seek specific legal counsel regarding their particular circumstances.

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