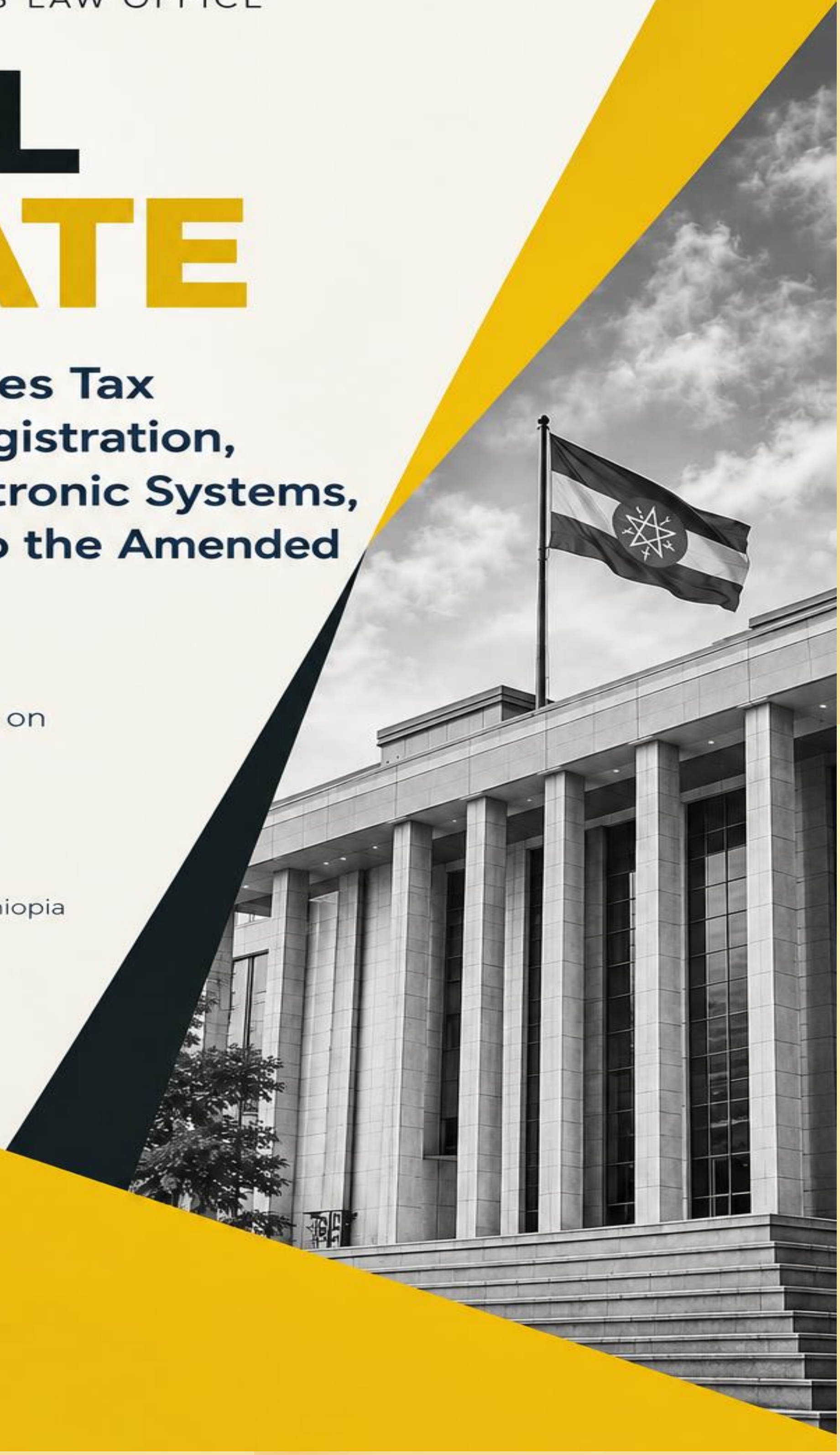
HIRKO AND ASSOCIATES LAW OFFICE

LEGAL UPDATE

Ethiopia Reorganizes Tax Administration: Registration, Segmentation, Electronic Systems, and the Transition to the Amended Regime

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



Hirko and Associates Law Office
September 2026 | Addis Ababa, Ethiopia

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I. INTRODUCTION

In Part One of this series, we examined the conciliation regime introduced by Proclamation No. 1434/2026. In Part Two, we examined the reworked limitation periods, the new statutory code on revision of assessments, the tightened rules on new evidence, and the conditional tax clearance certificate. In Part Three, we examined the revised penalties, the expanded definition of tax fraud, the treatment of officers of bodies, and the recalibrated rules on freezing orders and seizure. In this concluding Part Four, we turn to the institutional and administrative changes introduced by the amendment, to the renumbering of the Proclamation, to the transitional provisions governing pending cases, and to the practical compliance implications for taxpayers, advisers, and financial institutions.

II. TAXPAYER REGISTRATION AND SEGMENTATION

The amendment introduces three new sub-articles into Article 9 of the principal Proclamation, which governs the registration of taxpayers. The first provides that taxpayer registration shall be conducted based on the International Standard for Industry Classification approved by Ethiopia. The adoption of an international classification standard is a significant administrative reform. It aligns Ethiopian taxpayer registration with international practice, facilitates the comparability of data across sectors and jurisdictions, and supports the development of risk-based approaches to tax administration. For taxpayers, the practical consequence is that the sectoral classification assigned at registration will assume greater importance, both for the purposes of service delivery and for the purposes of any sector-specific incentive or compliance regime that may be introduced by Directive.

The second new sub-article empowers the Authority to segment taxpayers into different categories for the purpose of rendering fair, efficient, and effective services. The details of segmentation are to be determined by a Directive to be issued by the Authority. Segmentation is a common feature of modern tax administration, and its introduction in Ethiopia is consistent with the broader direction of the amendment. Taxpayers should anticipate that the category into which they are placed may affect the nature and intensity of the services they receive, the frequency of audits, and the manner in which disputes are handled. The criteria by which segmentation will be determined, and the consequences of placement in a particular category, will require careful study once the Directive is issued.

The third new sub-article requires the Authority to issue a Citizens' Charter publicly declaring the standard, quality, and efficiency of the services it provides to taxpayers. The Charter is an accountability instrument. It creates a public statement of what taxpayers may expect from the administration, and it provides a benchmark against which the performance of the administration may be assessed. The amendment does not, however, attach a specific remedy to a breach of the Charter. Taxpayers who consider that the standard declared in the Charter has not been met may need to rely on the general grievance and complaint mechanisms available under the Proclamation and other applicable laws.

III. ELECTRONIC TAX SYSTEMS AND QR-CODED RECEIPTS

The amendment inserts a new sub-article into Article 82 of the principal Proclamation, which governs the application of electronic tax systems. The new provision empowers the Authority to issue Directives on the use of electronic tax systems, on invoices bearing a Quick Response Code, on electronic commerce, and on any other taxable transaction to which an electronic invoice is issued. The provision consolidates and extends the Authority's existing power to prescribe electronic systems, and it responds to the growth of electronic commerce and the increasing use of digital payment and invoicing platforms.

The practical implications are twofold. First, taxpayers engaged in electronic commerce, and taxpayers whose transactions are documented electronically, should expect the Authority to prescribe specific requirements for the form and content of electronic invoices, including the use of Quick Response Codes. Second, the Directive-making power is broad, and the requirements to be imposed may extend beyond the form of the invoice to the manner in which transactions are recorded, reported, and verified. Taxpayers should monitor the issuance of the Directive and assess the readiness of their systems to comply with its requirements.

IV. THE RENUMBERING OF THE PROCLAMATION

The amendment effects a comprehensive renumbering of the principal Proclamation. The existing Articles 61 to 139 are renumbered sequentially as Articles 72 to 156. The purpose of the renumbering is to accommodate the new Articles 61 to 71, which, as examined in Part One of this series, constitute the conciliation regime, and the new Articles 96 to 102, which, as examined in Part Two, constitute the statutory code on revision of assessments. The renumbering is a drafting technique, but its practical consequences are significant. Every cross-reference in the principal Proclamation, and in every regulation, directive, contract, and legal opinion that refers to the principal Proclamation, must be updated. Practitioners who continue to cite the old numbering risk confusion, and in some cases error, particularly where the amendment itself refers to both the old and the new numbering in the same provision.

The prudent course for practitioners and for in-house counsel is to update internal precedent banks, templates, and research materials to reflect the new numbering, and to verify the numbering of every provision cited in correspondence, submissions, and filings. The transition period during which both numbering systems may be encountered is likely to be lengthy, and the risk of citation error is correspondingly high.

V. TRANSITIONAL PROVISIONS AND THE APPLICATION OF THE AMENDED REGIME TO PENDING CASES

The amendment contains three transitional provisions of immediate practical importance. The first, examined in Part One of this series, permits a taxpayer who has filed an appeal and has a pending dispute prior to the effective date of the Proclamation to submit an application for conciliation within sixty days from the effective date. The second, also examined in Part One, provides that tax incentives granted under the repealed incentive regulations shall remain valid until the expiration of the incentive period granted, and that an investor who obtained an investment permit before the issuance of the new incentive regulation may elect to be treated under the new incentive regime.

The third transitional provision is the most significant for present purposes. It provides that pending cases started before the issuance of the Proclamation shall be settled based on the provisions of the amended Proclamation. This direction has the effect of applying the amended regime to disputes that were already in progress at the time of the amendment. The consequence is that the extended look-back period, the revised rules on new evidence, the ten per cent penalty on the reliance on the hardship exception, the reworked limitation periods, and the revised burden of proof may all apply to disputes that were commenced under the principal Proclamation as originally enacted.

The retroactive operation of the amended regime raises questions that will require careful analysis in individual cases. The application of procedural provisions to pending proceedings is not, in itself, unusual, and legislatures commonly provide that procedural changes apply to pending matters. The application of provisions that affect substantive liability, including the extended look-back period and the penalty on new evidence, is more sensitive. The principle of legality in its application to penal provisions, and the constitutional protection against retroactive criminal liability, may be engaged where the amended regime imposes a heavier burden or a new penalty in respect of conduct that occurred before the amendment. Taxpayers with pending disputes should obtain specific advice on the application of the transitional provision to their particular circumstances.

The amendment also preserves the continuity of the existing tax complaint review committee and the Tax Appeal Commission until such time as the new structures contemplated by the principal Proclamation are established. The preservation of continuity is intended to avoid disruption to the administration of justice during the transition, and it means that pending appeals will continue to be heard by the existing bodies in accordance with the amended procedural rules.

VI. THE EFFECTIVE DATE AND THE ISSUANCE OF IMPLEMENTING DIRECTIVES

The amendment enters into force upon publication in the Federal Negarit Gazette, which occurred on 30 July 2026. The Ministry of Finance is expected to issue implementing Directives in several areas, including the procedure for conducting conciliation and the qualifications of the conciliator, the conditions under which the conciliation period may be extended, the form and content of electronic invoices and Quick Response Codes, the criteria for taxpayer segmentation, the form and period of validity of the conditional tax clearance certificate, and the detailed procedures for the revision of assessments. The issuance of these Directives will be an important development, and taxpayers should monitor the official publications of the Ministry for their content.

VII. PRACTICAL COMPLIANCE IMPLICATIONS

The four Parts of this series have examined a substantial body of change. The practical implications for taxpayers, advisers, and financial institutions may be summarised as follows.

For taxpayers with historical exposure, the extended ten-year look-back for suspected tax fraud, and the broad definition of tax fraud introduced by the amendment, require a reassessment of the completeness and consistency of documentation for periods that remain within the extended period. Particular attention should be paid to the existence of parallel records, to the treatment of transactions that may not have been fully reported, and to the documentation supporting deductions, exemptions, refunds, and credits.

For taxpayers presently under audit or in dispute, the tightened rules on new evidence, the ten per cent penalty on reliance on the hardship exception, and the direction that pending cases be settled under the amended regime require a review of the evidence already on the record and of the prospects for introducing further evidence. The conciliation facility introduced by the amendment offers a route to resolution that may be particularly attractive where the dispute turns on questions of fact or on the application of the law to complex transactions, and the sixty-day windows applicable to requests made after the filing of an appeal and to pending disputes existing at the effective date should be noted.

For taxpayers with pending appeals, the decision whether to continue to litigate or to seek conciliation will require an assessment of the strength of the case, the cost and duration of continued litigation, the availability of the prepayment required for appeals before the Tax Appeal Commission and the Federal High Court, and the prospects for a negotiated outcome. The decision is a strategic one, and it should be taken on the basis of advice that takes account of the specific facts and the specific procedural posture of the matter.

For officers and managers of bodies, the introduction of the internal control defence in the renumbered Article 149 creates a clear incentive to document, maintain, and periodically review internal controls relating to tax compliance. The defence is not automatic, and the adequacy of any particular system will be assessed in the circumstances of each case. Nevertheless, the existence of a documented control environment is likely to be a significant factor in the assessment of officer liability, and it should be treated as a governance priority.

For financial institutions, the requirement to obtain a tax clearance certificate before permitting a foreign investor to repatriate profits, dividends, or proceeds from the sale of a business imposes a new verification obligation. Banks should integrate the requirement into their foreign exchange and remittance procedures, determine the form of certificate that will satisfy the requirement, and consider the consequences, both regulatory and civil, of permitting a transfer in the absence of a valid certificate.

For all taxpayers, the renumbering of the Proclamation requires the updating of internal precedent banks, templates, and research materials, and the verification of the numbering of every provision cited in correspondence, submissions, and filings.

VIII. CONCLUSION

Proclamation No. 1434/2026 is the most substantial amendment to the Ethiopian tax administration framework since the principal Proclamation was enacted in 2016. It introduces a statutory conciliation regime, extends the look-back period for suspected tax fraud to ten years, places the revision of assessments on a statutory footing, tightens the rules on new evidence, increases the penalty for failure to issue a tax invoice and removes the power to waive it, expands the definition of tax fraud, provides a statutory internal control defence for officers of bodies, introduces taxpayer segmentation and a Citizens' Charter, consolidates the electronic tax system, and imposes a new verification obligation on banks in respect of the repatriation of funds by foreign investors.

The amendment reflects a coherent strategy of combining stricter enforcement with procedural discipline and a measure of practical relief. The conciliation regime, the conditional tax clearance certificate, and the internal control defence are all measures that permit commercial life to continue while disputes and liabilities are resolved. The extended look-back, the expanded definition of tax fraud, the tightened rules on new evidence, and the increased penalties are measures that raise the cost of non-compliance and reduce the scope for delay.

The prudent course for taxpayers and their advisers is to treat the amendment as a prompt for a comprehensive review of tax compliance arrangements, to assess historical exposure against the new definition of tax fraud, to review the evidence on the record in any pending dispute, to consider the availability of conciliation, to document internal controls for the purposes of the statutory defence, and to update internal materials to reflect the renumbered provisions. The Ministry's implementing Directives will provide further detail in the coming months, and taxpayers should monitor their issuance closely.

Disclaimer

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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