



HIRKO AND ASSOCIATES LAW OFFICE

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# LEGAL UPDATE

## Draft Amendment to the Federal Value Added Tax Regulation

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Council of Ministers Decision  
No. 18/2019 E.C. | Federal Democratic  
Republic of Ethiopia | September 2026

 **Hirko and Associates Law Office**  
Addis Ababa, Ethiopia

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The background of the slide is a photograph of a wooden desk. On the desk are two black leather-bound books with gold lettering; the top one says 'TAX LAW' and the bottom one says 'ETHIOPIA'. A gold-colored balance scale sits behind the books. In the foreground, a white document with 'VAT' printed on it lies next to a black pen with gold accents. To the right, a portion of the Ethiopian flag is visible. In the background, a city skyline is seen through a window.

VAT

## **Draft Amendment to the Federal Value Added Tax Regulation**

### **1. Introduction**

In its 59th regular session, held on 18 Meskerem 2019 E.C., the Council of Ministers approved a draft regulation to amend the Federal Value Added Tax Regulation No. 570/2017 E.C. The Council's decision records that it examined the draft amendment and determined that revising the existing VAT regulation was necessary in light of the country's economic circumstances. Acting pursuant to the authority granted under the Value Added Tax Proclamation, the Council approved the draft for issuance. The draft is not yet the final promulgated regulation, and it remains subject to publication in the Federal Negarit Gazette in accordance with its effective date provision. If published in its current form, the amendment would introduce new registration triggers, restrict input tax recovery for certain cash payments, add targeted exemptions, and renumber substantial parts of the existing regulation. This is not a routine technical amendment. It is a regulatory development with direct consequences for registration, documentation, input tax claims, and sectoral exemptions.

### **2. What Does the Draft Amendment Regulate?**

The draft amendment seeks to modify the Federal Value Added Tax Regulation No. 570/2017 E.C. It adds a new registration provision, inserts a new provision on cash payments above the limit permitted under the Income Tax Proclamation, renumbers existing provisions, and expands the annex on exempt items. It also repeals the previous directive on VAT registration. The amendment therefore touches registration, input tax credits, refunds, exemptions, and the structural numbering of the regulation. The breadth of the changes means that taxpayers, tax advisers, and compliance officers should review their registration status, payment practices, and exemption claims if the draft is promulgated. The renumbering alone will require updates to contracts, internal policies, tax manuals, and correspondence that refer to specific provisions of the existing regulation.

### **3. VAT Registration Obligations Would Expand**

The new registration provision would require VAT registration for three categories of taxpayers. The first category is Category "A" taxpayers under the Income Tax Proclamation. The second category is taxpayers who are required to keep books of account, or who voluntarily keep books, under the Income Tax Proclamation, where their total annual turnover exceeds 100,000 Birr. The third category is any taxpayer whose aggregate taxable and exempt supplies exceed 2,000,000 Birr. A taxpayer registered under the third category would be required to collect VAT only on taxable transactions. These provisions would bring additional businesses into the VAT system and would require many taxpayers to assess whether their turnover, bookkeeping obligations, or supply mix

triggers registration. The registration thresholds are linked to the Income Tax Proclamation, which means that VAT registration analysis cannot be conducted in isolation from income tax classification. Taxpayers that have previously remained outside the VAT system may now need to register, charge VAT, issue tax invoices, and file returns.

#### **4. Cash Payments Above the Permitted Limit Would Lose Input Tax Benefits**

The new provision on cash payments addresses transactions settled in cash above the maximum cash payment limit allowed under the Income Tax Proclamation. Under this provision, no input tax deduction or refund would be allowed for any transaction paid in cash above that limit. Any receipt or evidence related to such a transaction would also be inadmissible for input tax deduction or refund purposes. This is a significant compliance and evidentiary rule. It would affect businesses that make or receive cash payments above the statutory ceiling, and it would require taxpayers to review their payment methods and documentation to preserve input tax claims. The rule also reinforces the broader policy of encouraging electronic payment and formal documentation. Businesses in sectors that rely heavily on cash transactions should assess the impact of this provision on their input tax recovery and should consider adjusting their payment systems and internal controls accordingly.

#### **5. New Exemptions Would Apply to Certain Goods**

The draft amendment adds new exempt items to the annex of the Regulation. These items would be exempt from VAT on import and on local supply. The exemptions cover agricultural inputs used exclusively for agricultural services, including fertilizers, veterinary drugs, pesticides, herbicides, calcium hydroxide for soil acidity, and fungicides included in a list to be issued by the Ministry of Agriculture. They also cover inputs for manufacturing agricultural soil fertilizer packaging and sacks, based on an input-product ratio to be submitted by the Ministry of Industry. The exemptions further include medicines sold in licensed drug retail facilities, water treatment chemicals supplied locally, and excise tax stamps printed or affixed on excisable goods under the Excise Tax Proclamation. Certain of these items would be handled through the refund system after tax is paid. These exemptions may reduce costs in agriculture, health, and water treatment sectors, but they would also require accurate classification and documentation. Taxpayers claiming these exemptions should maintain records that clearly identify the goods, their use, and the applicable legal basis.

#### **6. Transitional, Repealing and Renumbering Provisions**

The draft amendment contains transitional rules. Unpaid tax matters related to one of the new exemptions would be concluded under the amendment. The previous directive on VAT registration would be repealed. Existing provisions of the Regulation would be renumbered. The amendment would enter into force upon publication in the Federal

Negarit Gazette. The renumbering is not merely cosmetic. Contracts, internal policies, tax manuals, and correspondence that refer to specific provisions of the existing regulation would need to be updated if the draft is promulgated. The repeal of the previous directive also means that taxpayers and advisers should no longer rely on that directive for registration guidance once the amendment takes effect.

## **7. Interaction with the VAT Proclamation and Income Tax Proclamation**

The draft amendment operates within the framework of the VAT Proclamation and the Income Tax Proclamation. The new registration rules refer directly to income tax categories, bookkeeping obligations, and turnover thresholds. The cash payment restriction also derives from the maximum cash payment limit under the Income Tax Proclamation. This interaction means that VAT compliance cannot be assessed solely by reference to the VAT Proclamation and the VAT Regulation. Taxpayers and practitioners must consider both VAT and income tax rules when determining registration obligations, input tax eligibility, and documentation requirements. The Tax Authority may issue directives or guidelines to clarify the application of these provisions. Until such guidance is issued, taxpayers should adopt a prudent approach and document their interpretation of the amended rules.

## **8. Practical Implications for Taxpayers and Advisers**

For taxpayers, the draft amendment creates both opportunities and compliance risks. The expanded registration rules may require previously unregistered businesses to register and charge VAT. The cash payment restriction may deny input tax recovery where payments exceed the statutory limit. The new exemptions may benefit specific sectors, but they may also require taxpayers to distinguish exempt inputs from taxable inputs and to maintain supporting records. For tax advisers, the draft requires close attention to registration thresholds, the interaction between the VAT Proclamation and the Income Tax Proclamation, and the evidentiary requirements for input tax claims. Businesses should also monitor the final text, because the draft may change before publication. Practical steps include reviewing current registration status, auditing cash payment practices, updating accounting systems to capture the new exemption categories, and revising contracts that refer to provisions of the existing regulation.

## **9. Sectoral and Contractual Implications**

The draft amendment has sectoral implications. Agriculture, health, and water treatment sectors may benefit from the new exemptions, but they must ensure that their supplies and inputs meet the legal conditions. Retail, construction, and service sectors may be affected by the cash payment restriction, particularly where cash transactions above the statutory limit are common. Contracts that contain VAT clauses, price adjustment mechanisms, or references to specific provisions of the VAT Regulation should be

reviewed. The renumbering of provisions may affect the interpretation of existing agreements, and parties may need to clarify their intentions through amendments or side letters. Investors and lenders conducting due diligence should also consider whether a

target company's VAT registration, input tax claims, and cash payment practices comply with the amended framework.

## **10. Conclusion**

The draft amendment to the Federal Value Added Tax Regulation is a significant regulatory development. It would alter registration obligations, restrict input tax recovery for certain cash payments, add targeted exemptions, and renumber the existing regulation. If promulgated in its current form, it would require many taxpayers to reassess their VAT position and compliance systems. The appropriate response is not merely to wait for publication, but to begin identifying registration, payment, documentation, and exemption issues that may arise. Early legal and tax review can help taxpayers avoid unexpected liabilities and adapt to the amended framework. The final text should be monitored closely, and any material changes from the draft should be incorporated into compliance planning.

## **Disclaimer**

*This update is written on the draft regulation and not on the final promulgated regulation. It is based on the draft amendment available at the time of writing, and the final text may differ. This update is provided for general informational purposes only and does not constitute legal advice. The application of the draft amendment may depend on the specific circumstances of a taxpayer, transaction, or supply. Professional legal and tax advice should be sought before relying on this update or taking any action.*

**Hirko and Associates Law Office**

Addis Ababa, Ethiopia | September 2026