TSA | TSEGAMLAK SOLOMON & ASSOCIATES

MONTHLY LEGAL UPDATE

MAY 2026 | *Tsegamlak Solomon & Associates*

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Ethiopian Legal Intelligence

Keeping you informed. Keeping you ahead.

WHAT'S COVERED THIS MONTH

1	**Council of Ministers: 55th Regular Session** Key policy resolutions across finance, trade, energy, cooperatives and insurance
2	**NBE Directive FXD/05/2026: Trade Finance Liberalisation** Commercial banks given wider authority over LC and CAD transactions
3	**NBE Public Notice: Export Permits to China** All licensed banks now authorised to process export permits for China
4	**MoH Directive No. 1134/2026: Health Service Advertising** New binding standards and penalties for health service advertisements
5	**Investment Board: Freight Forwarding Opened to Foreign Investors** 100 percent foreign ownership now permitted in freight forwarding
6	**Cooperative Societies Amendment Proclamation No. 1416/2026** Mergers, external capital and private-sector joint ventures introduced
7	**Directive No. 1131/2026: Advance Rulings on Rules of Origin** Ethiopia's first binding pre-export origin determination framework
8	**Franco Valuta Directive FVD/01/2026** A comprehensive standalone regime for Franco Valuta imports
9	**VAT Refund Directive No. 1132/2026** Stricter compliance, wider verification and a contentious legal question
10	**ESX OTC Market Rules Amended** Banks and pension funds gain direct access; disclosure obligations tightened
11	**Draft Tax Administration Reform** Stronger enforcement, digital compliance and tax conciliation proposed

EXECUTIVE SUMMARY: IF YOU READ NOTHING ELSE, READ THIS

ACTION NOW	Category A taxpayers should reassess VAT documentation, payment channels and supplier due diligence under VAT Refund Directive No. 1132/2026. The requirement to obtain a court judgment before claiming interest on delayed refunds raises serious questions of administrative legality that merit legal advice now.
MONITOR	The draft amendment to the Federal Tax Administration Proclamation significantly expands personal liability for directors and finance officers. Governance frameworks and internal audit controls should be reviewed before the draft is enacted.
OPPORTUNITY	Foreign investors may now wholly own Ethiopian freight forwarding enterprises following the Investment Board decision of 25 May 2026, opening a structurally important logistics sector previously limited to 49 percent foreign shareholding.
NOTE	The Council of Ministers has approved draft Insurance Business and Carbon Trading Proclamations and forwarded both to Parliament. Legal and compliance teams in the affected sectors should follow both closely.

COMPLIANCE DEADLINE CALENDAR

Effective 29 May 2026	Franco Valuta importers must comply with Directive FVD/01/2026: digital traceability, documentation and audit records. Affected: all eligible Franco Valuta importers.
Effective 26 May 2026	All commercial banks may issue export permits for trade with China; the single-bank restriction is removed. Affected: banks and exporters to China.
Decision of 25 May 2026	Freight forwarding open to 100 percent foreign ownership, with no joint venture requirement. Affected: foreign logistics investors.
Within 180 days of financial year end	OTC market issuers must submit audited annual financial statements under the revised ESX rules.
Within 30 days of half-year end	OTC market issuers must submit half-year financial reports.
Within one calendar day	Issuers must disclose material events to the OTC market.
Within one month of invoice date	Privileged organisations must file VAT refund claims (six months with justification). Affected: embassies, NGOs and other privileged VAT entities.
Pending enactment	Draft Tax Administration Amendment: monitor its progress and assess the evidentiary and governance implications. Affected: Category A taxpayers, directors and CFOs.

1 Council of Ministers: 55th Regular Session

26 May 2026

On 26 May 2026, the Council of Ministers held its 55th regular session and approved a broad set of policy and legislative measures spanning financial governance, trade regulation, energy policy, insurance reform, women's empowerment and agricultural transformation. The breadth of the session signals a sustained acceleration of Ethiopia's structural reform agenda, with several instruments carrying immediate commercial and compliance significance.

Legislative and Policy Resolutions

Two loan agreements were confirmed as consistent with national debt policy and forwarded to Parliament for ratification: one from the African Development Bank for pastoralist livelihoods, and one from the International Development Association for a development safety net. These are primarily sovereign financing arrangements, but they signal continued international confidence in Ethiopia's fiscal management and carry implications for rural development and social protection programmes.

A draft Agribusiness Companies Proclamation was approved, aiming to shift agriculture from subsistence-oriented to business-oriented models. It is designed to strengthen smallholder bargaining power, improve food security and stimulate job creation, and will reshape the legal and commercial framework for agribusiness investment, commodity trading and rural finance.

A draft Carbon Trading Proclamation was approved and forwarded to Parliament. If enacted, it will establish Ethiopia's domestic carbon market framework, with a regulated pathway for generating, selling and verifying carbon credits. This is directly relevant to renewable energy developers, forest-sector businesses and multinationals with environmental, social and governance commitments in Ethiopia.

A National Energy Policy was approved in line with the Home-Grown Economic Reform and the Green Economy Strategy, targeting an affordable and reliable energy supply. A draft regulation defining the powers and duties of the Petroleum and Energy Authority was also approved, with implications for licensing, compliance and sector governance for energy investors.

A draft Insurance Business Proclamation was approved and forwarded to Parliament. It is expected to establish a dedicated insurance regulator with stronger resolution tools and an inclusive insurance framework, a significant development for insurers, reinsurance relationships and large businesses that currently self-insure or rely on offshore cover.

A National Trade Policy and a draft Statistics Proclamation, the latter aimed at securing the professional independence of national statistical services, complete a session whose legislative output reflects the most active reform calendar in several years.

TSA VIEW

The Insurance, Carbon Trading and Agribusiness Proclamations each carry significant compliance and commercial implications that will crystallise on enactment. Businesses in the relevant sectors should not wait for final passage: engaging with the drafts now allows time for structural preparation, regulatory advocacy and informed transaction planning.

2 NBE Directive FXD/05/2026: Further Liberalisation of Trade Finance

Amendment to Directive FXD/01/2024

The National Bank of Ethiopia has issued Foreign Exchange Amendment Directive FXD/05/2026, amending FXD/01/2024. The Directive is a further step in Ethiopia's transition to a bank-intermediated foreign exchange system, in which commercial banks exercise real underwriting and approval authority rather than acting as administrative channels for NBE decisions. The amendment is targeted but commercially important.

Expanded Commercial Bank Authority

Commercial banks may now approve LC-Acceptance and Cash Against Documents transactions for any entity holding a foreign currency or FX retention account, without prior NBE approval. The NBE thus moves from transaction-level gatekeeper to post-execution supervisor, a structural shift that shortens approval times in trade finance cycles and allows businesses to manage working capital more dynamically.

Businesses may also place goods orders before final bank approval, provided that FX settlement remains conditional on the submission of compliant trade documents. This is particularly valuable where supplier lead times are tight (capital goods procurement, pharmaceuticals and fast-moving consumer goods distribution), where ordering against delayed FX approvals previously caused supply chain friction.

Standardisation of LC Pricing

The Directive introduces a uniform annualised, pro rata method for LC-related fees and imposes a binding ceiling on the annualised fee rate. LC pricing thus moves from a discretionary commercial term, which varied widely across banking relationships, to a regulated corridor that improves cost predictability and comparability for importers. Businesses with high LC volumes should review their fee arrangements with their banks for any excess over the new ceiling.

Importers	Approval times in trade finance cycles shorten, and pre-shipment ordering improves supply chain responsiveness, particularly for capital goods, pharmaceuticals and FMCG. Review LC fee structures with your main bank now.
Banks	Greater underwriting authority carries greater compliance responsibility. Banks must assess documentary validity, counterparty exposure and FX settlement risk without an NBE backstop at transaction level.
CFOs	Update treasury policies for the expanded LC and CAD capabilities, confirm the applicable fee cap with your bank and renegotiate pricing where current arrangements exceed the ceiling.

3 NBE Public Notice: Export Permits to China, All Banks Authorised

Effective 26 May 2026

With effect from 26 May 2026, the National Bank of Ethiopia has lifted the long-standing requirement that all export permits for goods destined for the People's Republic of China be processed through a single designated financial institution. All licensed commercial banks may now issue export permits, handle documentary credits and execute all related banking transactions for exports to China.

The reform removes a structural bottleneck that concentrated trade finance for Ethiopia's largest bilateral trading partner in one institution. The previous arrangement created a single point of failure, imposed costs on exporters unable to use competitive banking relationships, and prevented exporters from managing China-facing trade finance alongside their wider cross-border treasury operations.

The change is well timed given Ethiopia's deepening trade with China in commodities, manufacturing inputs and infrastructure financing. Exporters whose banking relationships span domestic and international operations will benefit most: they can now consolidate China trade finance with their principal bank rather than maintain a separate channel for it.

TSA VIEW

Exporters should review their banking arrangements and consider whether consolidating China-related trade finance with a primary bank offers operational and cost advantages. The reform also reduces concentration risk and should improve pricing in export finance. Exporters to China should open discussions with their banks now.

4 Ministry of Health Directive No. 1134/2026: Health Service Advertising

Replaces Directive No. 387/2013

The Ministry of Health has issued Directive No. 1134/2026, replacing Directive No. 387/2013 and establishing a substantially stronger framework for the production and dissemination of health service advertisements across all media. The Directive applies to health institutions, advertising producers and disseminators alike, pairing new conduct standards with meaningful financial penalties.

What Is Now Prohibited

Health institutions may not claim superiority over competing providers, suggest that their professionals have uniquely superior skills or knowledge, or imply the use of special substances or miraculous healing. They may not use language that creates fear of harm if patients do not choose their services, a practice common in private hospital advertising, and must remove phrases such as "Prior Choice" or "Everyone's Choice", which the Directive treats as inherently misleading.

On the positive side, every health service advertisement must state the name and service level of the institution, the categories of services offered at that level, and accurate contact and address details. Where a prize or accreditation is advertised, the advertisement must state the awarding body, the criteria and the date of the award, addressing a long-standing problem of unverifiable quality claims in the sector.

Testimonials, Consent and Vulnerable Persons

Any person appearing as a witness must have given prior written consent and must have genuinely received the services advertised. Testimonials may not relate to clinical treatment outcomes. Where the participant is a minor, has a mental health condition or lacks decision-making capacity, written consent from a parent, guardian or legally authorised caregiver is required. These rules target the exploitation of patient experiences in promotional material.

Administrative Penalties and Enforcement

Health institutions that produce or disseminate non-compliant advertisements face fines of ETB 15,000 to ETB 50,000. Institutions that feature testimonials from persons who did not give written consent face fines of ETB 20,000 to ETB 50,000. The most serious category, featuring minors or incapacitated persons without authorised consent, attracts fines of ETB 50,000 to ETB 100,000. Disseminators that broadcast non-compliant content face fines of ETB 10,000 to ETB 30,000.

An institution that fails to pay a penalty within three months faces automatic suspension of its certificate of competence until the penalty is paid. Since the certificate is a prerequisite for lawful operation, non-compliance becomes an operational rather than merely financial risk, and private hospitals and diagnostic centres should treat the enforcement structure accordingly.

Health Institutions	Audit all current advertising across print, digital, social media, billboards and promotional materials, remove prohibited language and unsupported quality claims, and set up a pre-publication approval process that includes a compliance review.
Disseminators	Media houses, social media platforms and outdoor advertising operators are independently liable. Put advertiser compliance checks in place before accepting health advertising.
Legal and Compliance	Review patient testimonial agreements for written consent, archive consent records against each advertisement, and set up ongoing monitoring of digital channels.

5 Investment Board: Freight Forwarding Opened to Foreign Investors

Decision of 25 May 2026

On 25 May 2026, the Ethiopian Investment Board opened the freight forwarding sector to full foreign participation. The decision removes both the joint venture requirement and the 49 percent foreign shareholding ceiling that applied under Investment Regulation No. 474/2020, so wholly foreign-owned enterprises may now operate in Ethiopia's freight forwarding market without a domestic equity partner.

This is one of the most commercially significant liberalisation decisions in logistics in 2026. Freight forwarding has historically been a gatekeeping function in Ethiopian trade, controlling access to customs clearance expertise, bonded warehousing relationships and inland transport coordination. International logistics operators that previously worked through local partnerships may now establish wholly owned subsidiaries with operational independence.

The decision reflects Ethiopia's ambition to position Addis Ababa and the Djibouti corridor as a regional logistics hub. Greater foreign participation is expected to bring capital, technology and service standards, particularly for export-oriented manufacturing, which has grown under the industrial parks programme. High logistics costs and unreliable service have long constrained Ethiopia's export competitiveness.

For domestic operators, the competitive landscape will change materially. Ethiopian logistics companies that have operated in a protected market will face well-capitalised international players with global networks. They should assess their service capability, technology and capitalisation against likely entrants, and consider whether partnerships, recapitalisation or specialisation offer a defensible position.

Foreign Investors	Wholly foreign-owned freight forwarding enterprises are now permitted. Assess licensing requirements, infrastructure needs and market-entry structures with Ethiopian counsel before committing.
Domestic Operators	Assess service capability, pricing and technology against likely international entrants, and consider whether consolidation, recapitalisation or specialisation offers the strongest response.
Export Manufacturers	Greater competition among logistics providers should reduce costs and improve service. Review logistics relationships and test market pricing, particularly for high-volume exports.

6 Cooperative Societies Amendment Proclamation No. 1416/2026

The most significant cooperative reform in decades

Ethiopia has enacted the Cooperative Societies Amendment Proclamation No. 1416/2026, the most consequential structural reform of the cooperative sector in recent decades. The sector spans more than 99,000 registered societies with about 21 million members, concentrated in agriculture, finance, transport and consumer distribution. The Proclamation responds to long-standing weaknesses: fragmented balance sheets, limited access to external capital and governance structures that have held back professional management and growth.

Mergers and Consolidation

The most important reform is express authorisation for cooperative mergers. Cooperatives with similar objectives may now combine, addressing chronic fragmentation, particularly among agricultural cooperatives, where small societies have lacked the scale to negotiate with commodity buyers, access institutional finance or invest in post-harvest infrastructure. Larger, better-capitalised cooperatives matter for rural value chains and for commercial counterparties seeking more reliable supply partners.

External Capital and Private Sector Participation

The Proclamation introduces two mechanisms that partly open cooperatives to external finance. First, cooperatives may issue up to 10 percent of their shares to non-members to raise capital. Non-members receive dividends in proportion to their holdings but have no voting or governance rights, which preserves member control while creating a new passive capital instrument. Whether the model attracts private investors at scale will depend on the implementing directives on share transfer, redemption and returns.

Second, cooperatives may make joint investments with private-sector partners in agriculture, transport, finance, energy, mining, construction and tourism, a notable departure from the historically insular cooperative model. Private counterparties considering cooperative joint ventures should assess governance risk carefully: cooperative decision-making, member voting rights and liability structures differ materially from those of conventional companies.

Financial Governance

Annual audits are now mandatory, conducted either by cooperative audit structures or by licensed external auditors. This strengthens financial governance in a sector with a history of weak accountability and gives lenders and counterparties a more reliable basis for assessing a cooperative's financial condition. Institutional members, including NGOs, cooperative unions and federations, are now expressly eligible for membership.

TSA VIEW

Private investors and banks active in agricultural finance, rural logistics, SACCO operations and agro-processing should assess the partnership and lending opportunities under this framework. Much will depend on the implementing directives on private-sector participation, joint venture structures and governance safeguards, so these secondary instruments should be followed closely.

7 Advance Rulings on Rules of Origin: Directive No. 1131/2026

Ethiopia's first binding pre-export origin framework

The Ministry of Revenues has issued Directive No. 1131/2026, establishing Ethiopia's first formal system of advance rulings on rules of origin. Manufacturers and exporters may obtain a binding determination from the Ethiopian Customs Commission on whether their products meet the origin criteria under Ethiopia's preferential trade arrangements before the export process begins. The mechanism mirrors Article 3 of the WTO Trade Facilitation Agreement, relevant to Ethiopia's WTO accession, and is significant given Ethiopia's expanding preferential trade under AfCFTA, COMESA and bilateral schemes.

The Advance Ruling Mechanism

A manufacturer or exporter applies to the Tariff Classification and Rules of Origin Directorate before any export transaction. The application must disclose the product's tariff classification, the full list of raw materials and their countries of origin, the manufacturing process in detail, input cost structures and the specific origin criterion claimed, typically a change in tariff heading or a qualifying value-content threshold. Where satisfied, the Commission issues a binding written ruling within 30 days, extendable by 15 working days in complex cases.

A ruling binds the Commission for three years and can be relied on when requesting Certificates of Origin for each later shipment of the same product. The Commission may revoke or annul a ruling where it was based on incorrect or incomplete information, where the applicable rules of origin have changed, or where it was issued in error.

Disclosure and Confidentiality

The disclosure required, including production formulas, cost structures and input sourcing, is substantial. Applicants may designate elements of their submission as confidential, and the Commission may not publish those elements. However, the general content of rulings is published on the Commission's website, creating a public reference that competitors may also consult.

The Commission may also inspect factories, particularly where documents alone are insufficient to assess a value-content or transformation-based rule. Applicants must cooperate fully with inspections, which exporters should build into their planning timelines.

Exporters	The three-year validity improves planning certainty for recurring exports and should reduce Certificate of Origin disputes under AfCFTA and COMESA. Prioritise applications for your highest-volume export products.
Manufacturers	The disclosure standard is technically demanding. Check readiness, including cost accounting systems and production records, before applying: a deficient application may result in an adverse ruling that closes preferential access.
Action Item	Consider engaging TSA to prepare technically defensible advance ruling applications for priority export products before enforcement intensifies as the system matures.

8 Franco Valuta Directive FVD/01/2026: Comprehensive Regulatory Framework

Effective 29 May 2026

With effect from 29 May 2026, the National Bank of Ethiopia has issued Directive No. FVD/01/2026, a standalone regime for Franco Valuta imports, that is, goods imported without drawing foreign exchange from the domestic banking system. The Directive replaces the previous treatment of Franco Valuta under Article 8 (8.1.3) of FXD/01/2024. Franco Valuta is no longer a loosely administered exception to foreign exchange controls but a formal import regime with defined eligibility, documentation, digital traceability and enforcement.

Eligible Users and Permitted Goods

Eligible users now include licensed domestic investors in economic zones, diaspora and foreign investors, FDI and diaspora traders, strategic development projects, the diplomatic corps, international NGOs and owners of personal effects. This is materially wider than before, and operators who have relied informally on Franco Valuta arrangements should check whether they now qualify under the Directive's express categories.

Permitted imports cover investment capital goods, machinery, raw materials for manufacturing, technology and software, energy and infrastructure inputs, personal effects, donated goods, warranty replacements, trade fair items and, for qualifying FDI and diaspora traders, goods for wholesale or retail trade. The extension to trading goods is new and significant: Franco Valuta becomes a broad-based import mechanism, not merely an investment-focused one.

Digital Monitoring and Compliance

All Franco Valuta transactions must be recorded electronically and be traceable through the Foreign Exchange Monitoring and Orchestration Unified System (FEMoUS), which the Customs Commission must use or integrate with for recording and reporting. Enforcement of documentation requirements will therefore be systematically verifiable rather than dependent on periodic audits.

Importers must hold valid licences, submit the required documents to the Customs Commission, keep auditable records and comply with applicable laws. Mandatory documents include proforma or commercial invoices, shipping documents and, where applicable, investment or trade licences. The annexes set out a 24-category procedures table with permitted quantities, FOB value limits and supporting documents for each import type.

Enforcement and Penalties

Violations include misuse of Franco Valuta arrangements, false declarations and circumvention of foreign exchange controls. Penalties range from fines to confiscation of goods and, at the upper end, criminal liability under the National Bank of Ethiopia Establishment Proclamation No. 1359/2025, which shows that the NBE treats circumvention of FX controls as a regulatory priority rather than an administrative irregularity.

TSA VIEW

Franco Valuta is no longer an informally administered exception. Businesses importing under Franco Valuta arrangements, whether investment goods, trading goods or personal effects, should review their position against the Directive's documentation and traceability requirements now. With FEMoUS integration, non-compliant transactions will be identifiable, and a compliance review costs far less than enforcement.

9 VAT Refund Directive No. 1132/2026: Stricter Compliance and a Legal Controversy

Replaces Directive No. 148/2011

The Ministry of Revenues has issued VAT Refund Implementation Directive No. 1132/2026, replacing Directive No. 148/2011. The new Directive restructures VAT refunds around a risk-tiered framework, with processing times and audit requirements that depend on the taxpayer's risk classification, and significantly expands the documents applicants must provide. One provision raises a question of administrative legality that warrants immediate attention from affected taxpayers and their advisers.

The Risk-Based Refund Architecture

The Tax Authority assigns each VAT-registered person a risk level (low, medium or high) based on compliance indicators including filing history, payment records, audit outcomes and transaction patterns. The risk level determines both the processing time and the audit applied. Low-risk taxpayers may receive refunds within 30 days without audit, medium-risk taxpayers within 45 days with a limited audit, and high-risk taxpayers face a comprehensive audit before any refund is released. Sustained compliance now has a tangible value, and businesses with imperfect records should prioritise improving their standing.

Documentary Requirements

Applicants must submit original compliant VAT invoices, proof of payment through banking channels for each transaction, supplier bank statements or bank advice confirming receipt of payment, customs declarations for exports and, for exporters, an input-output ratio certified by a competent authority. Transactions settled in cash above ETB 50,000 are ineligible for refund, which in effect requires banking-channel settlement of all significant VAT-bearing transactions for businesses that wish to preserve refund eligibility.

For real estate and construction, VAT paid on building construction inputs may not be refunded during construction. Eligibility arises only once construction is complete and the building generates taxable revenue, a cash-flow deferral that may last years on large projects and should be reflected in project finance and working capital planning.

A Legally Contentious Provision

The Directive makes a taxpayer's right to interest on delayed VAT refunds conditional on first obtaining a court judgment confirming the entitlement and submitting it within six months. This condition is legally problematic. VAT Proclamation No. 1341/2024 grants a direct statutory right to interest on delayed refunds, without any requirement for a prior judicial determination, and a ministerial directive, which ranks lower in the hierarchy of laws, cannot validly restrict a right established by an Act of Parliament. Taxpayers who have experienced or expect refund delays should take advice on challenging this condition.

Exporters	Audit documentation now. Every VAT-bearing transaction must be supported by compliant invoices, banking-channel payment records and supplier compliance evidence, and a single gap can disqualify an entire refund claim.
Real Estate and Construction	Reflect the deferral of VAT refunds until completion in project financing. Large projects may carry significant VAT receivables that cannot be recovered until operating income begins.
Tax Counsel	The court-judgment condition on delayed-refund interest is open to challenge under the hierarchy of laws. Prepare client guidance and consider whether a test case or administrative challenge is appropriate given client exposure.

10

ESX OTC Market Rules Revised: Institutional Integration and Tighter Disclosure

About one year after the market's launch

The Ethiopian Securities Exchange has amended its OTC Market Rules about one year after the market began operating. The revisions mark a move from a nascent, lightly regulated market towards a more institutionally integrated and closely regulated one. Two sets of changes stand out: the admission of banks and pension funds as direct participants, and a more demanding disclosure and enforcement framework for issuers.

Banks and Pension Funds

Banks and pension funds may now participate directly in the OTC debt market as Dealing Participants without a separate Capital Market Service Provider licence, subject to authorisation by the Ethiopian Capital Market Authority. They are the natural anchor investors in a domestic debt market: their long-duration liabilities can be matched against fixed-income instruments, and their participation brings depth, pricing discipline and secondary market liquidity.

OTC issuers therefore gain access to a broader and more sophisticated investor base, with more appetite for larger debt issues and potentially more competitive pricing. For banks, domestic fixed-income securities become a viable alternative to government treasury holdings for yield within regulatory asset allocation limits.

Disclosure and Enforcement

Audited annual financial statements must be submitted to the Exchange within 180 days of the financial year end, and half-year reports within 30 days of the half-year period, deadlines that require investment in reporting and audit relationships for issuers new to capital market disclosure. Material events must be disclosed within one calendar day, a near real-time standard that requires monitoring, legal review and communication systems.

The Exchange may place non-compliant issuers on a public watchlist, suspend trading in their instruments or remove them from the market. Watchlist placement matters most for issuers whose business depends on reputation, such as financial institutions, major companies and regulated businesses, where the cost extends well beyond the immediate regulatory consequence.

TSA VIEW

For banks and pension funds, the amendments create real investment and intermediation opportunities in a fast-developing debt market. For OTC issuers, the compliance burden has risen substantially: near real-time disclosure and the prospect of public watchlist placement require investment in reporting systems, legal monitoring and governance. Issuers should treat the 180-day annual reporting deadline as an outer limit and aim to report well ahead of it.

11 Draft Tax Administration Reform: Enforcement, Digital Compliance and Conciliation

Draft amendment to Federal Tax Administration Proclamation No. 983/2016

A draft amendment to the Federal Tax Administration Proclamation No. 983/2016 has been released for public consultation, partly in response to a prolonged decline in Ethiopia's tax-to-GDP ratio. It combines substantially stricter enforcement with a modernised dispute resolution structure, including tax conciliation as a formal alternative to adversarial appeals. If enacted in or near its current form, it will materially change the risk environment for corporate taxpayers, the obligations of directors and finance officers, and the procedure for tax disputes.

Tax Conciliation

The central proposal is tax conciliation, a facilitated settlement process available after a formal objection has been filed but before an appeal to the Tax Appeals Commission. Either the taxpayer or the Tax Authority may initiate conciliation, and cases involving fraud or wilful evasion are excluded. A neutral conciliator facilitates discussion, may make non-binding settlement proposals and may give a professional opinion on the likely outcome of an appeal.

Conciliation addresses a real weakness: protracted administrative appeals that prolong uncertainty for businesses, tie up enforcement resources and damage the compliance relationship. Public consultation, however, raised a significant concern about appointment: a conciliator appointed by the Tax Authority cannot credibly be described as neutral, and international practice places appointment with an independent body. Whether the final text addresses this will determine whether the mechanism has real commercial value or simply reproduces the existing imbalance in a different form.

Evidence and Assessment Periods

The draft restricts new evidence in objection and appeal proceedings. A taxpayer who files a complaint, appeal or error-correction request may not introduce evidence that was not presented during the original assessment, unless it became available only afterwards, could not be submitted because of force majeure, or its exclusion would impose a disproportionate burden on the taxpayer. Taxpayers will therefore need to present the fullest possible record at the assessment stage.

The amendment also extends the assessment period to ten years where fraud is established, up from the ordinary five years, and introduces a tighter definition of tax fraud covering false records, hidden transactions, false invoices, destruction of documents and misrepresentation. The longer period substantially increases the exposure of businesses taking aggressive tax positions.

Personal Liability, Digital Compliance and Foreign Investors

Company directors, managers, chief finance officers and chief accountants may be held personally liable for tax violations committed by the entity where they permitted, directed or assisted the conduct. The penalty for failing to issue a receipt rises to ETB 100,000 per invoice. Mandatory electronic tax systems, QR-code receipts and risk-based taxpayer classification are introduced, and banks must verify tax clearance before processing outward remittances of profits, dividends or sale proceeds by foreign investors.

Directors and CFOs	The expansion of personal liability is the most important governance change in the draft. Review internal controls over invoicing, VAT and withholding tax at board level before enactment, and set documented sign-off procedures for tax filings and for remediating identified errors.
Foreign Investors	The tax clearance requirement for dividends, profit remittances and exits adds procedural steps. Build additional lead time into exit planning and distribution decisions.
Tax Practitioners	Conciliation, if enacted with real independence safeguards, could be a commercially valuable route. Follow the legislative process and engage with the draft, particularly on conciliator appointment.

TSA VIEW

The draft is at public consultation stage and may change before enactment, but the direction is clear: stricter enforcement, narrower evidentiary latitude, wider personal liability and greater digital oversight. Businesses should review their compliance position now rather than wait for final enactment; remediation costs far less than enforcement under the stricter framework that will follow.

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