TSA | TSEGAMLAK SOLOMON & ASSOCIATES

MONTHLY LEGAL UPDATE

JULY 2026 | *Tsegamlak Solomon & Associates*

www.tsegasolomon.com | tsolomon@tsegasolomon.com | +251-926 354 220

IN THIS EDITION

Construction Minerals · Accommodation Tax · Monetary Policy · Tax Administration · Federal Budget

Ethiopian Legal Intelligence

Keeping you informed. Keeping you ahead.

WHAT'S COVERED THIS MONTH

1	**Construction Minerals Licensing Directive No. 191/2026** Addis Ababa City Environmental Protection Authority licensing regime for extracting and selling construction minerals within the city
2	**Accommodation Municipal Tax Regulation No. 204/2026** A 5 percent municipal tax on hotel and similar accommodation in Addis Ababa, effective 19 June 2026
3	**NBE Monetary Policy Committee, Meeting No. 7** Credit cap removed, policy rate raised, and the FX commission and export surrender requirement reduced
4	**Amendment to Federal Tax Administration Proclamation No. 983/2016** Parliament approves tax dispute reconciliation, conditional tax clearance, tighter evidence rules and doubled invoicing penalties
5	**FY 2026/27 Federal Budget** Parliament ratifies the largest federal budget to date, ETB 2.34 trillion, two-thirds financed by domestic tax revenue

EXECUTIVE SUMMARY: IF YOU READ NOTHING ELSE, READ THIS

ACTION NOW	Hotels and similar establishments in Addis Ababa should confirm registration for the 5 percent Accommodation Municipal Tax under Regulation No. 204/2026, in force since 19 June 2026. Businesses with live or anticipated tax disputes should assemble their evidence now, since the amendment to Proclamation No. 983/2016 bars most new evidence on appeal. Exporters and banks should reprice for the NBE policy rate increase, the removal of the credit cap and the lower FX commission and surrender requirement.
MONITOR	Banks should track loan-to-deposit ratios against the NBE's new targeted reserve requirement. Construction mineral operators should follow the licensing and buffer-zone rules of Directive No. 191/2026. All businesses should watch for the Gazette publication of the Proclamation No. 983/2016 amendment, which fixes when its stricter enforcement and evidence rules take effect.
OPPORTUNITY	Tax Dispute Reconciliation offers a faster, confidential alternative to adversarial appeals. Conditional tax clearance certificates allow businesses with pending disputes to renew licences and bid for tenders. The lower FX commission and surrender requirement reduce foreign exchange costs for exporters.
NOTE	The Construction Minerals Directive and the Accommodation Tax Regulation are Addis Ababa City instruments, not federal law. The ETB 2.34 trillion budget for FY 2026/27, two-thirds financed by domestic tax, puts the stricter enforcement under the Proclamation No. 983/2016 amendment at the centre of the Government's revenue targets.

COMPLIANCE DEADLINE CALENDAR

Effective 19 June 2026	Accommodation Municipal Tax Regulation No. 204/2026 in force. Hotels and similar establishments must be registered and charging the 5 percent tax.
Monthly, within 30 days of month end	Category A accommodation taxpayers declare and remit the tax collected.
Monthly	Construction mineral licensees submit income reports under Directive No. 191/2026.
Quarterly	Category B accommodation taxpayers declare and remit the tax. Construction mineral licensees submit performance reports.
Effective 13 July 2026	NBE policy rate increase, removal of the credit cap and revised FX commission and surrender requirements apply.
End of September 2026 (or earlier)	Next scheduled meeting of the NBE Monetary Policy Committee.
Approved July 2026, pending Gazette publication	Amendment to Federal Tax Administration Proclamation No. 983/2016. Entry into force follows publication in the Federal Negarit Gazette.
Within 60 days of initiation	A Tax Dispute Reconciliation process must produce a binding outcome.

1 Addis Ababa Regulates Its Quarries: Construction Minerals Licensing Directive No. 191/2026

Addis Ababa City Environmental Protection Authority | Issued July 2026

The Addis Ababa City Environmental Protection Authority has issued Construction Minerals Licensing Directive No. 191/2026 under Article 16(2)(e) of the Addis Ababa City Administration Reestablishment of the Executive and Municipal Service Organs Proclamation No. 84/2016. The Directive regulates the extraction, production and sale of construction minerals within the city: black stone, gravel, red sand, red soil, white masonry stone, and river sand or gravel. It sits beneath the federal Mining Operations Proclamation No. 678/2010 (as amended) and Council of Ministers Regulation No. 423/2010, and applies to any individual, association, or private or government entity holding or seeking a licence to produce construction minerals in Addis Ababa.

Licence Types and Prohibited Zones

Five licence types are available: production and sale; production and use for government development; product lifting; machinery installation; and other related licences. Licensing is barred outright in defined sensitive zones (cemeteries and religious sites, heritage and national monument areas, infrastructure reservations, and environmental protection or national park land) and within fixed buffer distances: 500 metres from residential areas, industrial parks and infrastructure, 25 metres from power lines and 30 metres from riverbanks.

Duration, Applications and Continuing Obligations

Licence duration varies by mineral: up to five years for black stone and up to two years for aggregate, sand and white stone, both renewable annually, and up to three months for product lifting. New applicants must apply through the Authority's portal with proof of landholding or a time-bound contract with the legal landholder, a feasibility study prepared by a licensed consultant, an approved environmental impact assessment, and a financial guarantee deposited against potential environmental damage.

Licensees must submit quarterly performance reports, monthly income reports and an annual rehabilitation plan. A licence may be cancelled for government need, unsuitable remaining reserves, lease expiry, repeated unlawful conduct, breach of licence terms or exhaustion of the mineral resource. Other offences are dealt with under the federal Mining Proclamation and Regulation.

Licensees and Applicants	Confirm which of the five licence categories applies, check the site against the prohibited-zone list and buffer distances before applying, and budget for the environmental guarantee deposit and the recurring reporting obligations.
Landholders and Developers	Where extraction is proposed on land you hold but do not operate yourself, ensure that any contract with an operator is time-bound and verified by the relevant authority before licensing proceeds.

TSA VIEW

Directive No. 191/2026 brings Addis Ababa's construction minerals sector within a formal licensing perimeter that many operators have worked outside until now. The buffer-zone and prohibited-area rules do the real screening: a site's eligibility is often decided by its location before any feasibility study is read. Operators should map their sites against the 500, 25 and 30 metre buffers and the sensitive-zone list before committing capital, and treat the environmental guarantee, rehabilitation plan and quarterly reporting as continuing obligations. Because this is a city instrument sitting beneath the federal Mining Proclamation, enforcement will run on two tracks, and federal compliance must be kept current as well.

2 A New Line on the Hotel Bill: Accommodation Municipal Tax Regulation No. 204/2026

Addis Ababa City Council | Effective 19 June 2026

The Addis Ababa City Council has issued Regulation No. 204/2026, imposing a municipal tax on accommodation services provided by hotels, resorts, motels, guest houses, lodges and pensions operating in the city, with effect from 19 June 2026. The tax is 5 percent of the daily room price, calculated before VAT and excluding food and other personal services, and must be itemised on every invoice under the heading “Accommodation Municipal Tax”.

Registration and Filing

Commercial establishments register at the large or medium taxpayer branch where they already pay employment and rental income tax, while individual owners register where they declare business profit tax. All must declare their room inventory and daily price list to the revenue bureau. Category A taxpayers declare and remit monthly, transferring the tax collected within 30 days of month end; Category B taxpayers declare and remit quarterly.

Penalties and Complaints

Late declaration attracts a penalty of 5 percent per month, capped at 50 percent of the tax due. Late transfer attracts interest at the commercial lending rate plus 15 percent, and concealment or fraudulent declaration carries criminal liability. A taxpayer or customer may lodge a complaint with the revenue branch’s complaint committee within 21 days of a tax decision, with a further appeal to the city’s tax appeal commission within 30 days of the committee’s ruling.

Hotels and Similar Establishments	Confirm registration, update invoicing systems to show the Accommodation Municipal Tax line, and align the declaration frequency with your taxpayer category: monthly for Category A, quarterly for Category B.
Guests and Corporate Bookers	Expect a 5 percent municipal tax on room rates. It sits outside VAT and outside food and service charges.

TSA VIEW

The tax is already in force, so the question for hotels is not whether to prepare but whether their invoicing and taxpayer registration are correct today. The tax is deliberately narrow (5 percent of the room price only, before VAT and outside food and service charges), which makes accurate line-item separation on invoices the main source of error and audit exposure. Operators should also confirm that their taxpayer category drives the right filing rhythm, since the penalty for late declaration accrues monthly up to half the tax due.

3 NBE Tightens With One Hand, Loosens With the Other: MPC Meeting No. 7 Decisions

National Bank of Ethiopia | 13 July 2026

The National Bank of Ethiopia's Monetary Policy Committee held its seventh regular meeting under Article 23 of the National Bank of Ethiopia Establishment Proclamation No. 1359/2025. Headline inflation had rebounded to 13.4 percent in May 2026, up from 9.7 percent in December 2025, reportedly driven by fuel supply disruptions linked to the Middle East conflict. Real GDP growth is nonetheless projected at 10.2 percent for FY 2025/26, the fiscal deficit has narrowed to 0.9 percent of GDP, and the current account deficit has fallen from USD 6.2 billion to USD 1.8 billion since the July 2024 reforms. Against that background, the Committee recommended, and the NBE Board approved, five measures.

The Five Measures

- **Credit cap removed.** The 24 percent credit cap is fully removed, completing the NBE's transition to an interest-rate-based, indirect monetary policy framework. The NBE describes this as an operational change rather than a loosening of its tight policy stance.
- **Policy rate raised.** To offset the removal, the NBE policy rate rises by 1.0 percentage point. The band of plus or minus 3 percentage points is unchanged.
- **Targeted reserve requirement.** The NBE will apply an additional reserve requirement to individual banks, based on their loan-to-deposit ratios, where credit expansion threatens the inflation outlook.
- **FX commission reduced.** The NBE's own foreign exchange commission falls from 2.5 percent to 1.5 percent.
- **Export surrender requirement reduced.** The foreign exchange surrender requirement on goods exports falls from 50 percent to 30 percent.

The Committee's next meeting is scheduled for the end of September 2026, or earlier if warranted.

Banks	Reprice lending and treasury positions for the higher policy rate and the end of the credit cap, and monitor the loan-to-deposit ratio against the new targeted reserve requirement.
Exporters and FX Market Participants	Factor the 1.5 percent FX commission and the 30 percent surrender requirement into export proceeds planning and the timing of FX conversion.

TSA VIEW

The headline is not the rate rise but the removal of the credit cap: the NBE has completed its shift to an interest-rate-based framework, and lending will now be priced rather than rationed. Banks should read the targeted, loan-to-deposit-linked reserve requirement as the new brake in the system and model its effect on their balance sheets before expanding credit. For exporters, the lower commission and the cut in the surrender requirement are a real easing of foreign exchange costs, but they sit against inflation that has climbed back to 13.4 percent, so the direction of the next move is far from settled.

4 Ethiopia Overhauls Tax Dispute Resolution: Amendment to Proclamation No. 983/2016 Approved

House of Peoples' Representatives | Approved July 2026, pending Gazette publication

The House of Peoples' Representatives has approved a wide-ranging amendment to the Federal Tax Administration Proclamation No. 983/2016, the reform TSA has followed since its public consultation draft (see our May 2026 update).

Tax Dispute Reconciliation and Conditional Clearance

The centrepiece is a formal Tax Dispute Reconciliation mechanism: a confidential, mediator-led process that must produce a binding outcome within 60 days, a marked departure from the protracted, adversarial administrative appeals that have long characterised Ethiopian tax disputes. The amendment also introduces conditional tax clearance certificates. Taxpayers with a pending dispute or an approved structured payment plan may obtain clearance sufficient to renew licences, access credit and participate in public tenders, rather than being excluded from ordinary commercial life while the dispute is resolved. Banks must verify tax clearance before allowing foreign investors to repatriate profits, dividends or sale proceeds, which extends the compliance chain into the banking sector.

Evidence, Fraud and Invoicing

The amendment also tightens the evidentiary and time limits of tax disputes. New evidence is generally barred on appeal unless it was genuinely unavailable earlier, and critical evidence submitted late attracts a 10 percent surcharge. The reassessment period extends to ten years wherever fraud is established, under a broadened definition that expressly covers fake invoices, concealed income, falsified records and dual bookkeeping. A formal error rectification procedure is introduced for correcting administrative or assessment mistakes outside the dispute process. Penalties for failing to issue an invoice are doubled, with closer oversight of electronic invoicing and QR-coded receipts, alongside the Ministry of Revenues' Electronic Invoicing System Administration Directive No. 1142/2026 covered in our June 2026 update.

Directors and CFOs	Review sign-off procedures for tax filings now. The broader fraud definition and the doubled invoicing penalties raise the stakes of administrative error.
Businesses in Dispute	Assess whether a live or anticipated dispute suits the reconciliation process, and present the full evidence at assessment rather than assuming it can be added on appeal.

TSA VIEW

The amendment rebalances Ethiopian tax disputes in two directions at once. It offers a faster, confidential exit through reconciliation while making the evidence rules materially less forgiving for anyone who reaches appeal. The practical consequence is front-loading: evidence and argument must be complete at assessment, because the door to new evidence largely closes afterwards and late critical evidence carries a 10 percent surcharge. With a ten-year reassessment window for fraud and doubled invoicing penalties, boards should treat filing accuracy and invoice discipline as a governance matter and watch for the Gazette publication date that fixes when these rules apply.

5 Parliament Ratifies the Largest Federal Budget to Date: ETB 2.34 Trillion for 2026/27

House of Peoples' Representatives | Fiscal year opened 8 July 2026

The House of Peoples' Representatives has ratified a federal budget of ETB 2.34 trillion, roughly USD 14.6 billion, for the 2026/27 fiscal year. The figure is ETB 411.6 billion (21.3 percent) higher than the previous year's budget, the largest single-year increase in the country's history, and closely tracks the 21.2 percent rise over the ETB 1.93 trillion budget for 2025/26 projected at the Council of Ministers' 56th regular session.

Roughly two-thirds of the budget, ETB 1.49 trillion, is projected to come from domestic tax revenue, with loans and grants covering only ETB 93.7 billion, about 4 percent. This unusually tax-reliant financing mix reflects Ethiopia's continuing effort to widen its tax base following its December 2023 sovereign default and the IMF-supported reform programme that followed.

Allocations and Growth Assumptions

Regional states receive ETB 187.3 billion in subsidies, funding basic services in a federation where regional governments depend heavily on federal transfers. Spending priorities span education, health care, agriculture, road infrastructure, energy expansion and urban development. The Council of Ministers projected real GDP growth of 10.1 percent for the year, with industry expanding by 12.6 percent, services by 9.9 percent and agriculture by 7.6 percent, attributing the growth to stronger exports, rising foreign direct investment and productivity gains. Delivery risk sits with the revenue authorities: the budget's credibility depends on tax collection reaching its projected share against persistent inflation.

Businesses and Investors	Expect a sustained emphasis on domestic revenue mobilisation. Tax administration is now central to budget delivery, reinforcing the compliance direction set by the Proclamation No. 983/2016 amendment.
Government Contractors and Suppliers	Track sector allocations in education, health, agriculture, roads, energy and urban development, and regional subsidy flows, for tender and procurement opportunities through the fiscal year.

TSA VIEW

A budget financed roughly two-thirds from domestic tax, with loans and grants at about 4 percent, shows where the pressure will fall: collection targets, not borrowing, now carry the fiscal plan, and that is what the Proclamation No. 983/2016 amendment is built to deliver. Businesses should expect audit intensity and enforcement to follow the revenue ambition and plan their compliance for the year accordingly. For contractors and suppliers, the allocations to education, health, agriculture, roads, energy and urban development, together with the ETB 187.3 billion in regional subsidies, are where the procurement opportunities sit, provided collection holds up.

CONTACT TSA

For advice on any matter covered in this edition, please contact our team.

tsolomon@tsegasolomon.com | +251-926 354 220

Africa Avenue, Getu Commercial Center, 6th Floor, Addis Ababa

www.tsegasolomon.com

This publication is prepared by Tsegamlak Solomon & Associates for general information only. It does not constitute legal advice. Readers should obtain specific legal advice on matters affecting their interests.