DRAFTING NOTE

VALUE ADDED TAX AND EXCISE TAX ACT 2026

1. Status and purpose of this note

This drafting note is explanatory and is not part of the proposed Assembly Act. It identifies the legislative need, the relationship with earlier Eritrean law, the principal matters retained, the modernization choices made and the place of the draft within the emerging constitutional statute book. The instrument remains a consultation draft and should be finalized only after legal, institutional, fiscal and public review.

2. Legislative need and prior law

The draft consolidates the sales, turnover and excise chain found in earlier tax proclamations and notices and replaces it with modern consumption-tax legislation.

3. What the draft retains

It retains taxation of domestic consumption, input-credit logic, import treatment, exemptions and targeted excises on defined goods and services.

4. What the draft updates and modernizes

It clarifies registration and invoices, supports electronic compliance and refunds, protects small enterprises through thresholds, coordinates border collection, limits exemptions and discretionary remission, modernizes excisable products and integrates objections and enforcement with the Tax Administration Act.

5. Constitutional, code and treaty fit

The draft is framed under the Constitution of Eritrea 1997 and must be read with the Civil Code, Penal Code, Civil Procedure Code and Criminal Procedure Code of Eritrea 2015 where those Codes govern. It is also coordinated with the other institutional, financial, commercial, land, labour, administrative and sectoral drafts in this collection. References to international or regional standards guide compatibility and implementation; they do not bypass the Treaty-Making Act or convert an unincorporated instrument into domestic law.

6. Scope and organization

The principal divisions address preliminary provisions; charge to value added tax; registration; time and place of supply; taxable value; zero-rated and exempt supplies; input-tax credit; invoices, records and returns; refunds; imports and cross-border supplies; and the concluding enforcement, transitional and final provisions.

7. Transition, implementation and consultation

The draft preserves lawful accrued rights, completed transactions, pending proceedings and institutional continuity where appropriate, while preventing temporary savings from preserving unconstitutional coercion or indefinite executive discretion. Before enactment or issuance, authentic predecessor instruments and amendments should be verified, cross-references and fiscal capacity confirmed, implementing regulations and digital systems prepared, and affected institutions, professions, communities and the public given a practical opportunity to comment.

CONSULTATION DRAFT — NOT ENACTED LAW

ACT NO. ___/2026

VALUE ADDED TAX AND EXCISE TAX ACT 2026

(ACT)

AN ACT TO IMPOSE VALUE ADDED TAX ON CONSUMPTION AND EXCISE TAX ON SPECIFIED GOODS AND SERVICES, MODERNIZE THE LAW FORMERLY GOVERNING SALES AND EXCISE TAXATION, AND PROVIDE FOR RELATED MATTERS.

PREAMBLE

WHEREAS under Article 32(3) of the Constitution of Eritrea, a national tax and its essential incidents must be established by an Act of the National Assembly;
WHEREAS Sales and Excise Tax Proclamation 64/1994 should be replaced by a neutral invoice-credit value added tax and a transparent selective excise system suited to modern trade, services, technology and regional economic participation;
WHEREAS consumption taxation must protect legality, equality, property, access to essential services and economic development while avoiding cascading tax on productive investment;
WHEREAS electronic invoicing, secure records and coordination between the Revenue Authority and Customs can improve compliance, provided that small enterprises, privacy, due process and nondigital access are protected;
NOW, THEREFORE, the National Assembly of Eritrea enacts as follows:

CHAPTER I
PRELIMINARY PROVISIONS

Article 1 — Short title

This Act may be cited as the Value Added Tax and Excise Tax Act 2026.

Article 2 — Objects

1. tax final consumption through a broad, neutral and administrable value added tax;
2. permit timely credit and refund so tax does not burden productive business inputs or exports;
3. impose excise transparently on selected products or activities according to revenue, health, environment and social cost;
4. facilitate lawful trade, investment and digital commerce; and
5. protect taxpayers through clear rules, proportionate compliance and independent review.

Article 3 — Application

1. This Act applies to a taxable supply, taxable import and excisable transaction occurring on or after commencement.
2. The Tax Administration Act governs registration procedure, returns, payment, audit, collection, penalty, objection and appeal except where this Act provides a necessary consumption-tax rule.
3. The Customs Act governs border declaration, valuation, control, release and enforcement of imported or exported goods.

Article 4 — Definitions

1. “consideration” means money or value given for a supply;
2. “enterprise” means an activity carried on continuously or regularly, whether or not for profit;
3. “exempt supply” means a supply listed in Schedule 2 for which output tax is not charged and related input tax is ordinarily not creditable;
4. “input tax” means VAT charged on a taxable acquisition or import;
5. “registered person” means a person registered for VAT;
6. “supply” includes sale, transfer, lease, licence, service and prescribed digital provision;
7. “taxable supply” means a supply chargeable at the standard or zero rate;
8. “tax invoice” means an invoice meeting Article 55; and
9. “zero-rated supply” means a taxable supply charged at zero percent under Schedule 1.

Article 5 — Tax only by law

1. The standard VAT rate, excise rate, registration threshold, exemption, zero rating and essential valuation rule shall be enacted in this Act or a Schedule forming part of it.
2. No ministry, authority, agreement, licence, directive or private undertaking may create, increase, waive or secretly compromise tax.

Article 6 — Constitution and other laws

1. This Act shall be interpreted consistently with the Constitution and treaties lawfully binding upon Eritrea.
2. The Civil and Commercial Codes govern transactions and persons except where this Act provides a specific tax rule.
3. The Income Tax, Tax Administration, Customs, Investment, Mining, Petroleum, Maritime, Communications, Data Protection and National Bank Acts remain applicable within their fields.

Article 7 — Destination and neutrality

1. VAT is intended to tax consumption in Eritrea under the destination principle and not to tax business merely because it participates in a supply chain.

2. Comparable domestic and imported consumption shall receive equal tax treatment, and exports shall not bear Eritrean VAT.

CHAPTER II
CHARGE TO VALUE ADDED TAX

Article 8 — Imposition of VAT

1. VAT is imposed on a taxable supply made in Eritrea by a registered person in the course of an enterprise.
2. VAT is imposed on a taxable import of goods and on an imported service or intangible to the extent provided by this Act.

Article 9 — Person liable

1. The supplier is liable for VAT on a domestic taxable supply except where reverse charge, withholding or platform liability expressly applies.
2. The importer is liable for VAT on imported goods and the recipient for a reverse-charged imported service.

Article 10 — Rates

1. The standard VAT rate is the percentage enacted in Schedule 1 and applies unless a supply is zero-rated or exempt.
2. The zero rate is zero percent and preserves the right to related input-tax credit.

Article 11 — Tax fraction

1. Where a stated price includes VAT, the tax is determined by applying the prescribed tax fraction to that price.
2. A supplier shall not add VAT to a price represented as tax-inclusive.

Article 12 — Mixed and composite supplies

1. A single economically indivisible supply receives the treatment of its principal element.
2. Genuinely distinct elements are apportioned by reasonable market value and shall not be bundled or split principally to obtain an unintended tax result.

Article 13 — Agent and principal

1. A supply made by an agent for a disclosed principal is treated as made by the principal, while the agency service is a separate supply.
2. An undisclosed agent may be treated as receiving and making the supply to ensure one complete tax chain without double taxation.

Article 14 — Employee and private activity

1. Services supplied by an employee to an employer under employment are not an enterprise supply.
2. Occasional private disposal by an individual is not taxable unless connected with an enterprise or specifically treated as taxable by this Act.

CHAPTER III
REGISTRATION

Article 15 — Mandatory registration

1. A person carrying on an enterprise shall register when taxable turnover exceeds or is reasonably expected to exceed the threshold in Schedule 1 during twelve months.
2. Related enterprises artificially separated to avoid the threshold are aggregated, but genuine independent businesses remain separate.

Article 16 — Voluntary registration

1. A person below the threshold may register where carrying on a genuine enterprise and capable of keeping reliable records.
2. Voluntary registration shall not be refused arbitrarily and ordinarily continues for at least two years.

Article 17 — Excluded persons

1. A person making only exempt supplies is not required to register unless reverse-charge or excise duties independently require registration.
2. A small subsistence producer or occasional seller is not required to register merely because goods enter a local market.

Article 18 — Group registration

1. Resident entities under common control may apply to register as a VAT group where accounting and control make consolidated compliance reliable.
2. Group members are jointly responsible, intra-group supplies are disregarded, and admission or removal operates prospectively.

Article 19 — Branch and division

1. The Revenue Authority may permit separate branch registration where records and operations are genuinely distinct.
2. The legal person remains responsible for complete accounting and shall not use branch separation to manipulate credits or threshold.

Article 20 — Effective date

1. Mandatory registration takes effect when the threshold is crossed or when liability should reasonably have been known.
2. Voluntary registration takes effect on the approved prospective date, with fair opening-stock credit as prescribed.

Article 21 — Cancellation

1. Registration may be cancelled when taxable activity has ceased or remains below the threshold for twelve months and is unlikely to exceed it.
2. Cancellation requires a final return and adjustment for taxable assets retained, without treating ordinary cash or receivables as supplies.

CHAPTER IV
TIME AND PLACE OF SUPPLY

Article 22 — Time of supply

1. A supply occurs at the earliest of invoice, payment or delivery or performance, subject to special rules in this Chapter.
2. An advance payment creates tax only to the extent received and linked to an identifiable supply.

Article 23 — Continuous supplies

1. A continuous supply occurs when each periodic payment becomes due or is received.
2. A long period without billing is treated as ending at intervals prescribed to prevent indefinite deferral.

Article 24 — Hire purchase and lease

1. A hire-purchase or finance-lease supply of goods occurs when possession is delivered under the agreement.
2. An operating lease is a continuous supply taxed by rental period.

Article 25 — Deposits and vouchers

1. A refundable security deposit is not consideration until applied to a supply or forfeited as consideration.
2. A single-purpose voucher is taxed on issue and a multipurpose voucher on redemption under regulations preventing duplication.

Article 26 — Goods supplied in Eritrea

1. Goods are supplied in Eritrea when located here upon delivery or when transport to the customer begins here, subject to import and export rules.
2. Installed or assembled goods are supplied where installation or assembly occurs.

Article 27 — Services and intangibles

1. A business-to-business service is supplied where the customer has its enterprise or relevant establishment.
2. A business-to-consumer service is supplied where the supplier is established unless a specific rule places consumption in Eritrea.

Article 28 — Specified consumer services

1. Services connected with land, events, passenger transport, restaurant activity and short-term hiring are supplied where the land, performance, transport or use occurs.
2. Digital, telecommunications, broadcasting and electronically supplied services to a consumer are supplied where the consumer ordinarily resides.

Article 29 — Evidence of customer location

1. Location may be established by billing address, payment information, network data, bank data and other reliable indicators.
2. A supplier shall collect only data reasonably necessary and shall not be liable where two consistent indicators were reasonably relied upon without fraud.

CHAPTER V
TAXABLE VALUE

Article 30 — General value

1. The taxable value is the consideration exclusive of VAT, including duties and incidental charges other than VAT itself.
2. A discount genuinely granted and recorded reduces value.

Article 31 — Nonmonetary consideration

1. Where consideration is wholly or partly nonmonetary, value is the money plus fair market value of the nonmonetary part.
2. Ordinary barter among small subsistence households is outside the enterprise threshold unless commercially organized.

Article 32 — Related persons

1. A below-market supply to a related person lacking full input-credit entitlement is valued at market value.
2. Ordinary employee benefit or family transaction shall not be revalued unless connected to an enterprise and creating material tax avoidance.

Article 33 — Grants and subsidies

1. A payment directly linked to price or quantity of a supply forms part of consideration.
2. A general public grant, capital contribution or compensation unrelated to a specific supply is not consideration.

Article 34 — Bad debts

1. A registered supplier may adjust output tax when consideration previously taxed is proved irrecoverable and written off.
2. A later recovery restores output tax to the recovered extent.

Article 35 — Credit and debit notes

1. A price change, return, cancellation, error or bad debt shall be documented by a credit or debit note.
2. Supplier and recipient shall make corresponding adjustments in the period of the note.

Article 36 — Foreign currency

1. Foreign currency is converted at a published market-consistent rate under National Bank law for the time of supply.
2. An artificial official rate shall not be used to enlarge tax or confiscate value.

CHAPTER VI
ZERO-RATED AND EXEMPT SUPPLIES

Article 37 — Zero-rated exports

1. Goods exported from Eritrea with reliable customs evidence are zero-rated.
2. Services and intangibles supplied for effective use or enjoyment outside Eritrea are zero-rated except where a specific place rule treats consumption as Eritrean.

Article 38 — International transport

1. International passenger and freight transport and directly related prescribed services are zero-rated.
2. Domestic transport forming a distinct journey is standard-rated unless Schedule 2 provides otherwise.

Article 39 — Diplomatic and treaty relief

1. Relief required by a lawfully binding treaty may be provided through zero rating or refund under published procedure.
2. Status alone creates no relief beyond the precise legal obligation.

Article 40 — Exempt supplies

1. Only supplies listed in Schedule 2 are exempt.
2. An exemption applies narrowly to the described essential or administratively impracticable activity and not to a separately supplied commercial input.

Article 41 — Health

1. Qualifying medical care, essential medicines and public-health services listed in Schedule 2 are exempt or zero-rated as specified.
2. Cosmetic, recreational and unrelated commercial services remain taxable.

Article 42 — Education

1. Recognized basic, secondary and qualifying vocational education and closely integral instruction are exempt.
2. Commercial consultancy, accommodation, merchandise and unrelated services are taxable unless separately relieved.

Article 43 — Financial services and insurance

1. Margin-based intermediation and specified life-insurance services impracticable to tax by invoice are exempt.
2. Explicit fees, advisory services, debt collection, safe custody and general insurance are taxable as Schedule 2 provides.

Article 44 — Land and housing

1. Long-term residential rent and a qualifying sale of previously occupied residential property are exempt.
2. Commercial rent, hotel accommodation, development services and sale of new commercial property are taxable.

Article 45 — Public and nonprofit activity

1. A noncommercial public service financed by appropriation is outside VAT where no supply for consideration exists.
2. A public body or nonprofit selling goods or services in competition with business is taxable on the same basis.

Article 46 — No executive expansion

1. An exemption or zero rating may be added, removed or materially changed only by Act.
2. Regulations may define evidence and boundaries but shall not alter the legislative tax treatment.

CHAPTER VII
INPUT-TAX CREDIT

Article 47 — Entitlement

1. A registered person may credit input tax on an acquisition or import used to make taxable supplies.
2. Credit arises only from VAT lawfully charged and supported by a tax invoice, customs entry or prescribed reliable evidence.

Article 48 — Business purpose

1. Full credit is allowed for exclusive taxable use and no credit for exclusive private or exempt use.
2. Mixed use is apportioned by a fair and consistent method reflecting actual use.

Article 49 — Blocked credits

1. Credit is denied for private consumption, entertainment, personal passenger vehicle and another category expressly listed in Schedule 3.
2. A denial does not apply where the item is inventory, is hired commercially or is directly necessary to the taxable business as specified.

Article 50 — Capital goods

1. Input tax on a capital good used for taxable supplies is creditable without delaying recovery through depreciation.
2. Material change of taxable or exempt use during the adjustment period produces a proportionate adjustment.

Article 51 — Pre-registration credit

1. On registration, credit may be claimed for qualifying inventory and recent capital assets held for taxable use.
2. The claim requires evidence and adjustment for prior consumption, but shall not be denied solely because acquired before registration.

Article 52 — Credit timing

1. Credit is claimed in the period when the supply occurred and required evidence is held.
2. A missed credit may be claimed within five years without reopening unrelated periods.

Article 53 — Excess credit

1. Excess input tax is carried forward or refunded under Chapter IX.
2. The Revenue Authority shall not force a permanent credit accumulation or condition credit on the supplier's payment where the recipient acted honestly and the supply occurred.

Article 54 — Fraud and due care

1. Credit may be denied where the claimant knew or deliberately participated in a fictitious supply or fraudulent chain.
2. Mere supplier default does not defeat credit when the purchaser exercised reasonable commercial care and holds reliable evidence.

CHAPTER VIII
INVOICES, RECORDS AND RETURNS

Article 55 — Tax invoice

1. A registered supplier shall issue a tax invoice showing supplier and customer identifiers, date, description, value, rate and VAT as prescribed.
2. A simplified invoice may be used for low-value retail supplies while preserving purchaser credit where appropriate.

Article 56 — Electronic invoicing

1. An electronic invoice and signature have equal effect where authenticity, integrity and accessibility are reliable.
2. The Revenue Authority may phase in standardized electronic invoicing after consultation, testing, free or low-cost access and published technical rules.

Article 57 — No mandatory technology exclusion

1. A small or remote business shall not be penalized for lacking equipment, connectivity or electricity where an accessible alternative is used.
2. Government shall provide assisted filing, offline functionality and reasonable transition before mandatory digital procedure.

Article 58 — Receipts

1. A retail supplier shall provide a receipt stating price and VAT-inclusive treatment.

2. A consumer may request an electronic or paper receipt without an additional tax-related charge.

Article 59 — Records

1. A registered person shall keep sales, purchase, import, export, credit-note, inventory and adjustment records for seven years.
2. Records may be electronic or physical and shall be protected against alteration while remaining available for lawful audit.

Article 60 — VAT return

1. A registered person shall file a VAT return for each prescribed monthly or quarterly period.
2. Small registered persons may use quarterly filing, while large or high-risk persons may be required to file monthly under published criteria.

Article 61 — Net tax

1. Net VAT is output tax plus adjustments minus allowable input tax and credits for the period.
2. A positive amount is payable and a negative amount is carried forward or refunded.

Article 62 — Correction

1. A nonfraudulent error may be corrected in a later return within published materiality limits or by amended return.
2. Voluntary correction receives the treatment provided by the Tax Administration Act.

CHAPTER IX
REFUNDS

Article 63 — Right to refund

1. A registered person is entitled to refund of excess credit arising from exports, major investment, cessation or persistent credit position as prescribed.
2. Refund is a substantive feature of VAT and shall not be replaced by indefinite administrative deferral.

Article 64 — Refund period

1. A verified exporter or compliant low-risk claimant shall receive refund within thirty days after a complete claim.
2. Another claim shall be decided within sixty days, subject to one reasoned extension of thirty days.

Article 65 — Risk-based verification

1. Refund verification shall use risk, history, amount and third-party data and shall release the undisputed portion promptly.
2. A first claim or large amount alone does not prove fraud or justify indefinite withholding.

Article 66 — Security and audit

1. A refund may be released against reasonable security where limited verification remains outstanding.
2. Post-refund audit may recover an improper amount under the Tax Administration Act with ordinary review rights.

Article 67 — Interest

1. Interest accrues when an approved or complete low-risk refund is not paid by the statutory date.
2. The rate is the overpayment rate under the Tax Administration Act.

Article 68 — Budget and account

1. VAT refunds shall be paid from gross VAT collections through a continuously available public account, not an artificially limited discretionary appropriation.
2. The Revenue Authority shall report claims, payments, delay, denial, fraud findings and interest in aggregate.

CHAPTER X
IMPORTS AND CROSS-BORDER SUPPLIES

Article 69 — Imported goods

1. VAT is due on imported goods at customs release on the customs value plus duty, excise and prescribed incidental amounts.
2. Customs shall collect and account for import VAT under this Act and the Customs Act.

Article 70 — Relief and temporary import

1. Goods exempt from customs duty are not automatically exempt from VAT unless Schedule 2 or another Act expressly provides.
2. Temporary admission, transit, warehousing and inward processing receive suspension consistent with Customs Act safeguards.

Article 71 — Returned and reimported goods

1. Qualifying returned domestic goods receive VAT relief to the extent no export refund or credit remains inconsistent with relief.

2. Repair and outward-processing goods are taxed on value added abroad as prescribed.

Article 72 — Imported services reverse charge

1. A resident business receiving a service or intangible from a nonresident accounts for VAT by reverse charge to the extent used for exempt or private purposes.
2. A fully taxable registered business may report output and equal input tax in the same return without cash disadvantage.

Article 73 — Nonresident digital supplier

1. A nonresident supplying digital or remote services to Eritrean consumers above the Schedule 1 threshold shall use simplified VAT registration.
2. The supplier charges VAT, files a simplified return and is not treated as having an income-tax permanent establishment merely by VAT registration.

Article 74 — Digital platform

1. A platform controlling key elements of a supply may be treated as receiving and making it where necessary for effective collection.
2. A platform acting only as payment processor, advertiser or communications conduit is not liable without greater control or statutory reporting duty.

Article 75 — Simplified nonresident system

1. The system shall permit remote registration, electronic payment, no input credit and minimal records necessary to verify consumer supplies.
2. Appointment of a local fiscal representative shall not be compulsory where remote compliance is reliable.

Article 76 — Customs and tax cooperation

1. Customs and the Revenue Authority shall reconcile import, export, VAT-registration and invoice information through secure lawful systems.
2. Exchange shall follow purpose limitation, access logging, correction and confidentiality safeguards.

CHAPTER XI
SPECIAL VAT RULES

Article 77 — Second-hand goods

1. A registered dealer may apply a margin scheme to eligible second-hand goods acquired without deductible VAT.
2. No separate VAT may be shown under the margin scheme, and loss on one item shall not create artificial refund.

Article 78 — Travel agents and tour operators

1. A prescribed margin scheme may apply to travel services purchased for direct benefit of a traveller.
2. Services supplied from the operator's own resources remain subject to ordinary rules.

Article 79 — Agricultural producers

1. A small unregistered agricultural producer is not required to charge VAT and may receive a simple flat-rate compensation only if enacted in Schedule 1.
2. Commercial agriculture above the threshold is subject to ordinary VAT with full credit for taxable inputs.

Article 80 — Government contracts

1. A supply to Government is taxed under ordinary rules, and an appropriation does not constitute consideration unless linked to a supply.
2. Government shall pay contractual VAT promptly and shall not require unlawful tax clearance or withholding as a substitute for payment.

Article 81 — Investment projects

1. Investment status does not itself exempt an acquisition or import from VAT.
2. A qualifying major capital project shall receive prompt input credit, deferred import accounting or refund rather than opaque exemption where administratively feasible.

Article 82 — Free zones

1. A free zone is not outside Eritrea for VAT unless an Act expressly defines its treatment.
2. Entry into domestic consumption is taxed as an import, while genuine export and transit receive destination treatment.

Article 83 — Islamic and alternative finance

1. A financing arrangement producing an economic result equivalent to conventional finance shall receive materially equivalent VAT treatment.
2. Regulations may prevent multiple taxation of asset transfers integral to the financing without creating a general exemption.

CHAPTER XII
EXCISE TAX

Article 84 — Imposition of excise

1. Excise tax is imposed on manufacture in Eritrea, importation into Eritrea and prescribed provision of an excisable good or service listed in Schedule 4.
2. Excise is imposed once at the statutory release or supply point unless this Act expressly provides an adjustment.

Article 85 — Excisable categories

1. Schedule 4 may include tobacco and nicotine products, alcoholic beverages, petroleum and specified energy products, high-emission vehicles, sugary beverages and another narrowly defined category justified by revenue or measurable social cost.
2. Essential food, basic medicine, ordinary communications, productive machinery and general services shall not be excised merely for administrative convenience.

Article 86 — Rates and units

1. Excise may be specific by quantity, ad valorem by value or a transparent combination stated in Schedule 4.
2. Specific rates shall be reviewed regularly for inflation, and rate changes require an Act.

Article 87 — Liable person and time

1. A licensed manufacturer is liable when excisable goods leave a tax warehouse or are consumed there, and an importer is liable at customs release.
2. For an excisable service, the supplier is liable when consideration becomes due or is received.

Article 88 — Excise value

1. Ad valorem excise uses the arm's-length wholesale or import value specified in Schedule 4 exclusive of VAT.
2. Related-party or nonmonetary transactions may be adjusted to market value with reasons and review.

Article 89 — Licence

1. Manufacture, storage or prescribed dealing in excisable goods requires a licence under objective, published integrity, premises, record and security criteria.
2. Licensing shall not limit competition, allocate market share or create a state or private monopoly.

Article 90 — Tax warehouse

1. A licensed tax warehouse may hold or process excisable goods under suspension before duty becomes due.
2. Movement, loss, destruction, yield and release shall be recorded through secure electronic or accessible alternative procedure.

Article 91 — Excise stamps and markings

1. An Act or regulation may require secure stamps, identifiers or markings for specified high-risk products.
2. The system shall be competitively procured, technologically neutral, auditable and not impose unreasonable cost or exclusive private control.

Article 92 — Denatured and industrial alcohol

1. Alcohol genuinely denatured or used for qualifying industrial, medical or scientific purpose may receive suspension or refund.
2. Diversion to beverage or other taxable use creates immediate liability and enforcement consequence.

Article 93 — Petroleum and energy products

1. Excise classification shall align with the customs tariff and distinguish fuel by type, use and environmental effect where Schedule 4 so provides.
2. Targeted relief for aviation, maritime, electricity generation or productive use shall use refund or controlled supply and shall be publicly reported.

Article 94 — Tobacco and nicotine products

1. Comparable cigarettes, other tobacco, heated products, vaping liquids and nicotine products shall receive coherent treatment reflecting health risk and avoidance potential.
2. Classification shall not favor a producer, origin, brand or technology without evidence-based statutory distinction.

Article 95 — Alcoholic beverages

1. Rates may reflect alcohol content and product category while avoiding arbitrary discrimination among comparable beverages.
2. Traditional household production below a prescribed noncommercial threshold is exempt, but organized commercial sale is taxable.

Article 96 — Sugary beverages

1. A sugary-beverage excise, if activated in Schedule 4, shall use measurable sugar content or another objective health-related base.

2. Plain water, unsweetened milk and medically necessary nutrition shall not be included.

Article 97 — Vehicles and environmental excise

1. A vehicle or product excise may reflect emissions, engine, value, age and environmental harm under Schedule 4.
2. A rule shall not become an undisclosed import prohibition or deny reasonable access to ordinary transport.

Article 98 — Exports and diplomatic use

1. Excisable goods proved exported unused from Eritrea are relieved or refunded.
2. Diplomatic or treaty relief applies only to the extent required by a lawfully binding obligation and under controls preventing diversion.

Article 99 — Loss and destruction

1. Unavoidable loss within published tolerance and supervised destruction may receive remission.
2. Unexplained shortage, theft or unauthorized removal creates liability for the licensee subject to proof and review.

Article 100 — Excise return

1. A licensee shall file a periodic return of production, imports, stocks, movements, releases, exports, losses and tax.
2. Customs and domestic excise records shall use compatible classification and reconciliation.

CHAPTER XIII
COMPLIANCE AND ENFORCEMENT

Article 101 — Application of Tax Administration Act

1. The Tax Administration Act governs audit, assessment, interest, civil penalty, collection, objection, appeal and confidentiality under this Act.
2. A special power under this Chapter shall be interpreted narrowly and consistently with those safeguards.

Article 102 — Invoice offences and penalties

1. Issuing, selling or knowingly using a fictitious tax invoice may attract proportionate civil penalty and criminal referral under the Penal Code.
2. An innocent formatting error or supplier default shall be corrected and shall not be treated as fraud.

Article 103 — Unauthorized collection

1. A person not registered shall not represent an amount as VAT, and a registered person shall not collect more than the lawful amount.
2. An amount unlawfully collected is held for repayment to the customer or payment to the State under an order preventing unjust enrichment.

Article 104 — Joint action

1. The Revenue Authority and Customs may conduct coordinated risk, audit and enforcement activity under written lawful protocols.
2. Joint action shall not duplicate assessment, search or penalty or evade a warrant and review requirement.

Article 105 — Excise control powers

1. An authorized officer may gauge, sample, seal and inspect excise premises, goods, meters and records during reasonable hours.
2. Forced entry, dwelling search, seizure and forfeiture require the safeguards of the Tax Administration, Customs and Criminal Procedure laws.

Article 106 — Anti-avoidance

1. An arrangement principally designed to obtain an unintended VAT or excise benefit and lacking substantial commercial purpose may be counteracted under the Tax Administration Act.
2. Ordinary business choice, genuine restructuring and statutory relief are not avoidance merely because tax is reduced.

Article 107 — Publication and rulings

1. The Revenue Authority shall publish guidance, forms, invoice specifications, classifications and binding public rulings.
2. An unpublished position or technical system rule shall not create liability or penalty.

CHAPTER XIV
TRANSITION AND FINAL PROVISIONS

Article 108 — Implementation plan

1. Government shall publish an implementation plan covering rates, threshold, registration, invoicing, refunds, Customs coordination, technology, staffing, education and transition.
2. At least six months shall separate publication of completed Schedules and general VAT commencement.

Article 109 — Opening registration

1. Existing sales-tax taxpayers shall be reviewed for VAT registration under the statutory threshold and shall not be transferred automatically without notice.
2. A person shall receive registration status, obligations, effective date and correction route before enforcement.

Article 110 — Opening stock and contracts

1. A registered person may receive verified opening-stock credit under regulations preventing duplication.
2. A contract spanning commencement shall be adjusted fairly according to supply timing, stated tax treatment and contractual allocation.

Article 111 — Existing incentives

1. An existing tax incentive continues only to the extent constitutionally enacted, published and expressly applicable to VAT or excise.
2. Government shall publish an inventory and fiscal cost of every continuing relief within six months.

Article 112 — Repeal

1. Sales and Excise Tax Proclamation 64/1994 and its implementing legal notices are repealed upon full commencement of this Act.
2. Accrued sales or excise liability, refund, credit, objection and proceeding continue under transitional rules without validating an unlawful act.

Article 113 — Regulations

1. The Minister responsible for finance may, after public consultation, make regulations on invoices, evidence, apportionment, adjustment, refunds, digital suppliers, warehouses, markings and transition.
2. Regulations shall not alter a rate, threshold, exemption, zero rating, excisable category or essential tax base and shall be published before enforcement.

Article 114 — Periodic review

1. The National Assembly shall review this Act within four years and thereafter at intervals not exceeding five years.
2. Review shall address revenue, prices, distribution, small-business burden, refunds, exports, investment, health, environment, fraud, digital access and regional trade.

Article 115 — Commencement

1. Chapters I, III, VIII and XIV commence upon publication for preparation, registration and systems development.
2. The remaining Chapters commence on 1 January following at least six months after enactment of complete Schedules 1 to 4.

SCHEDULE 1

VAT RATE, REGISTRATION THRESHOLD AND ZERO-RATED SUPPLIES

Before enactment, the National Assembly shall insert the standard rate, registration thresholds, simplified nonresident threshold and complete list of zero-rated supplies after public fiscal and distributional analysis. No omitted rate or threshold may be supplied by executive direction.

SCHEDULE 2

EXEMPT SUPPLIES

Before enactment, the National Assembly shall specify the precise boundaries of exemptions for essential health, education, financial, residential and other approved supplies. Exemption shall not be inferred merely from public ownership, nonprofit status or investment designation.

SCHEDULE 3

NONCREDITABLE INPUT TAX

Before enactment, the National Assembly shall state the limited categories of private-consumption and mixed-use expenditure for which input credit is denied, together with business-use exceptions.

SCHEDULE 4

EXCISABLE GOODS, SERVICES, BASES AND RATES

Before enactment, the National Assembly shall list each excisable category, tariff classification where applicable, taxable unit or value, rate, relief and effective date. No excise category or rate arises until Schedule 4 is completed and enacted by the National Assembly.

Made at Asmara, this ___ day of __________ 2026.

THE NATIONAL ASSEMBLY OF ERITREA