

AFGHANISTAN¹

1. Afghanistan currently has no tax treaties.
2. Afghanistan's tax policy envisages the introduction of a VAT at a future date when it possesses sufficient administrative capacity. A recent IMF tax policy mission confirmed the Government's assessment that it will not be able to introduce a VAT until at least 2011, and recommended a "manufacturing" VAT.
3. The summary of tax reforms that have been implemented, being undertaken, and to be introduced in Afghanistan.

(2004-05):

- Personal income tax rates dropped with maximum rate dropping from 60% to 20%
- Corporate tax rate dropped from 25% to 20%
- Tax holiday provisions replaced by more targeted incentives for investment (accelerated depreciation and unlimited loss carry forward)
- Increased business receipts tax rate of 10% for hotels, restaurants and providers of telecommunication and airline services
- Withholding tax on rents introduced
- PRR approvals for reformed Revenue HQ (including Large Taxpayer Office) and 7 priority provinces approved
- Customs Code passed

(2005-06):

- 2% fixed tax on imports introduced as an advance payment of income tax
- Withholding tax on wages re-introduced
- Airport departure fee collections commenced
- New Income Tax Law (2005) passed which (i) gave the tax administration basic enforcement and administrative powers, (ii) introduced a special tax regime for the mining and hydrocarbons sectors, (iii) introduced withholding taxes on interest and royalties and introduced a branch profits tax
- Commencement of MoF/business sector working parties reviewing selected tax issues
- Development of a comprehensive framework dealing with tax exemptions for donor-funded projects

(2006-07):

- Road toll collections commenced
- Customs tariff rationalized and changes which will increase customs revenues made
- Proposals to remove "nuisance" taxes, reform the business receipts tax, and simplify income tax and fixed taxes for small businesses (currently under consideration by Parliament) completed

¹ The views expressed in this paper are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank (ADB) or its Board of Directors or the governments they represent. ADB makes no representation concerning and does not guarantee the source originality, accuracy, completeness, or reliability of any statement, information, data, finding, advice, opinion, or views presented.

- Appeals and dispute resolution procedures established
- Self-assessment system for large taxpayers introduced
- Mustufiat reform work with Kabul Mustufiat commenced
- Afghanistan Tax Policy document developed

(2007-08):

- Implementation of “tax simplification” changes perhaps with “excise tax” equivalent changes to the customs tariff
- Continued work on Mustufiat reform including introduction of self-assessment
- Customization and installation of new tax administration computer software
- Review of vehicle registration processes
- Development of a “Tax Code” including fundamental “tax administration law” provisions
- Introduction of a taxpayer charter

d) Types of taxes in Afghanistan

Income Tax & Business Receipts Tax

- Income Tax
 - For natural persons -- 10 to 20%
 - For legal persons -- 20%
- Business receipts tax (from gross income)
 - Depending on business & type of income – 2% to 10%
- Withholding taxes:
 - Rent -- 20% (exceeds 15000 afs)/month
 - Wages and salary
 - exceeding 12500 afs/month -- 10%;
 - exceeding 100000 afs/month -- 20%
 - Dividends, interest and royalties -- 20%
- Sale or transfer of property:
 - Immovable -- 1% of market value
 - Movable -- 2% of market value

Fixed taxes

- Importers
 - Without business license -- 2% of total cost of imports including custom duties.
 - With interim business license but do not provide business declaration -- 3% of total cost of imports including custom duties.
- Exporters
 - Without business license -- 2% of total cost of exports including custom duties.

- With interim business license but do not provide business declaration -- 2% of total cost of exports including custom duties.
- Persons engaged in business of transporting persons or goods -- various prescribed amounts based on:
 - weight in tons,
 - passenger capacity,
 - number of cylinders of vehicles.
- Persons contracted by the government of Afghanistan
 - providing supplies, materials, or services with no license -- 7% of contract amount (amount of tax withheld by the state or entity at the time the amount is paid to contractor).
- Cinemas, theaters, exhibitions, carnivals, etc.-- 10% of receipts from sale of the admission tickets
- Grain & processing mills, cane & seed oil machinery -- 10% of estimated gross income per year (with four quarter installments).
- Physicians or medical practitioners according to years of practicing experiences:
 - Up to 10 years -- 5000 afs
 - 10 to 20 years -- 7000 afs
 - Over 20 years -- 10000 afs
- Persons providing brokering services, commission agents or those selling goods without fixed place of business are subject to tax set by the Ministry of Finance.
- Business selling goods & services from established or fixed place of business—tax rates vary depending on categories of business, location and on whether accounting documentation is available. Tax rate ranges from 2% to 6%.
- Insufficient Records. Incomplete or inaccurate record keeping are penalized. There are provisions for prosecution for deliberate tax evasion. For example, incomplete information on imports can result in a 15% charge on deemed profits.

Consumable Tax – payable by manufacturers

Various sukook taxes (usually 1 or 2% on top of other taxes)

Complete information is available at www.mof.gov.af/tax.