

# Introduction to Afghanistan Tax System

## Jurisdiction Background

Afghanistan is a landlocked country located in Central Asia, covering a total area of 647,500 square kilometers. Kabul is the capital. The country has 34 provinces. The official languages are Dari and Pashto.

## Afghanistan Revenue Department

The Afghanistan Revenue Department (ARD) is responsible for the administration and collection of tax and non-tax revenue for the Government of Afghanistan. The revenue is used to fund public infrastructure and fund Government functions.

In addition to establishing provincial tax bureaus in each province, the Afghanistan Tax Authority has also divided taxpayers into three categories based on their size: Large Taxpayers, Medium Taxpayers, and Small Taxpayers.

All three offices of the Afghan Tax Authority have established branches in provinces.

## Afghanistan Current Taxes

Afghanistan has a unified national tax system, which vary by region. The main tax categories are:

1. **Income Tax** – Levied on individuals, corporations, and other legal entities based on their taxable income.
2. **Business Receipts Tax (BRT)** – Applied to gross revenues (turnover) of businesses and service providers.
3. **Withholding Taxes** – Collected at source on payments such as salaries, wages, rents, contracts, dividends, royalties, etc...
4. **Capital Gain Tax** – Imposed on the transfer and registration of real estate and other properties.
5. **Fixed Taxes** – Applied to certain small businesses, professionals, and specific activities where simplified tax collection is required.

## Overview of tax preference policies

Afghanistan has implemented a series of tax preference policies and work on new tax preference policies to promote economic development and attract foreign investment.

## **Tax Collection and Administration**

Professionalization of the tax service is a key priority for the ARD. This includes reorganizing the organization structure based on simplified and improved business processes. In addition, it includes computerizing tax functions, which will support ARD's efforts to streamline business processes and maintain accurate tax records. As part of its computerization program, the ARD has implemented the Standard Integrated Government Tax Administration System (SIGTAS) to automate current processes.

The ARD has implemented automation, process simplification and risk-based compliance reforms to improve taxpayer services and enhance efficiency and effectiveness.

## **Taxpayer Services**

To address the complexity and lack of transparency in the payment process, the Afghanistan Tax Authority launched a computerized system to speed up the filing process and avoid time consuming procedures previously required for filing.

To use the system, taxpayers must hold a Taxpayer Identification Number (TIN) to file corporate income tax, personal income tax, withholding tax, fixed tax, business Receipt tax, and other tax types. The procedure for issuing tax clearance certificates required for obtaining a business license has also been simplified, with the time required to obtain a tax clearance certificate now significantly shorter than in previous years.

## **Taxation Framework and Process**

Afghanistan operates under a self-assessment tax system, whereby taxpayers are legally obligated to voluntarily declare their income, expenses, and calculate their corresponding tax liabilities in accordance with income tax laws.

Upon registration and issuance of a business license, the ARD assigns each taxpayer a unique Taxpayer Identification Number (TIN). This number serves as a primary reference for identifying and managing taxpayer records across all tax administrations and digital platforms.

Using the TIN, the taxpayer is granted access to the E-Filing system, where they are required to submit their tax return, including income and deductible expenses. Based on the return, the calculated tax liability is paid into the Ministry of Finance's designated bank account through the nearest branch of Da Afghanistan Bank (central bank).

Tax administration follows a clear six-step process to promote transparency and ensure effective tax compliance.

- 1. Self Assessment (Initial Assessment)**
- 2. Risk Analysis and Profiling**
- 3. Tax Audit**
- 4. Taxpayer Appeals and Complaint**
- 5. Tax Dispute Resolution Board**
- 6. Tax Court**

## **Tax Legislation Process**

To encourage taxpayers to improve tax compliance and simplify the tax filing and payment process, the Afghanistan Electronic Tax Authority has also revised the following policies and promoted legislative reforms: revisions to the Tax Administration Law and the Income Tax Law, including the establishment of a Tax Dispute Resolution Committee, an independent body composed of government and private sector experts that hears taxpayers' complaints and appeals before resorting to the courts.

## **Afghanistan Tax Treaty Network**

Afghanistan recognizes the economic value of tax treaties and builds its own Double Taxation Avoidance Agreement (DTA) in line with international standards for negotiating with partner countries. Afghanistan is currently in the final stages of concluding Double Taxation Agreements (DTAs) with countries that maintain significant economic interactions with us. Looking ahead, Afghanistan also intends to expand its (DTA) network by signing agreements with additional partner countries in the near future.