

# Afghanistan Revenue Department

## Afghanistan Tax System and the Impact of Tax Policies on Investment

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Title: Reform and Development of the Tax System under the Islamic Emirate of Afghanistan

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### Introduction

The Islamic Emirate of Afghanistan initiated a series of fiscal and administrative reforms to stabilize domestic revenue, improve compliance, and attract investment through a transparent and equitable tax system. The Afghanistan Revenue Department (ARD) operates under the Ministry of Finance with the responsibility of tax policy, collection, audit, and enforcement across all economic sectors.

### Overview of the Current Tax System

The current Afghan tax system functions under the Income Tax Law and related regulations. Taxes are administered centrally through the ARD, covering income tax, business receipts tax (BRT), withholding taxes, fixed taxes, and customs duties. The tax structure emphasizes fairness, compliance, and facilitation of private sector development.

### Main Tax Categories

No	Tax Type	Collection Basis	Remarks
1	Corporate Income Tax	On net profit of legal persons	Annual
	Personal Income Tax	Progressive rates based on income slabs	Annual
2	Business Receipts Tax (BRT)	On gross income of business	Quarterly
3	Withholding Tax	On salaries, contracts, rents, dividends, etc.	Monthly
4	Property Transfer Tax	On sale/transfer of properties	At time of transaction
5	Fixed Tax	On small businesses and imported goods	Annual / Customs

## Recent Tax Incentives and Exemptions for Investment

To encourage economic recovery and investment, ARD introduced broad-based tax incentives, particularly targeting the health, education, industrial, and small business sectors.

No	Sector	Previous Tax	Current Tax Exemption	Type of Tax
1	Small Businesses (Retailers)	1.5%	0.3%	Simplified regime
2	Health Sector	4%	0%–3%	Incentive for private hospitals
3	Oil & Gas Stations	4%	0.3%–0.6%	Investment promotion
4	Education	4%	2%	Encouragement for private education
5	Industrial & Production	4%	2%	Local manufacturing promotion
6	Contract Services	7%	Exempted	Withholding tax
7	Hotels & Restaurants	5%	2%	Tourism recovery support
8	Landowners	Taxed	Exempted	Land tax
9	Vehicle Tax	Fixed	50–100% exemption	Trade facilitation
10	Audit Period	5 years	1 year	Reduced compliance burden

These reforms reflect a major shift toward tax facilitation, simplification, and investor-friendly policy, aiming to support production and employment.

## **Digital Transformation and Administration**

ARD is working toward modernization of tax administration through:

- E-filing and digital payments for major taxpayers.
- Integration with Customs Systems for real-time monitoring of imports and exports.

ARD's official website (<https://ard.gov.af>) provides online access to tax forms, taxpayer guides, updates and sectoral incentives.

## **Policy Direction and Regional Cooperation**

Afghanistan, as a member of ATAIC, is committed to:

- Sharing best practices in revenue administration.
- Aligning with international standards of transparency.
- Avoiding double taxation and profit shifting.
- Enhancing digital tax compliance systems.

The ARD looks forward to deeper collaboration in areas such as cross-border tax data exchange, AI-assisted tax compliance, and capacity development programs.

## **Future, Tax Policies and Strategic Directions for Investors Attraction**

In alignment with the Islamic Emirate's vision for economic self-reliance and fiscal discipline, ARD's future reform agenda focuses on the following key areas:

### **Taxpayer Segmentation and Tailored Services**

ARD aims to classify taxpayers into small, medium, and large categories to ensure targeted and efficient service delivery.

- Small taxpayers: Simplified registration, low compliance burden, mobile tax service centers, and awareness programs.
- Medium taxpayers: Semi-digital filing systems, periodic audit facilitation, and tax clinics to resolve disputes.
- Large taxpayers: Full e-filing, digital payments, risk-based audits, and dedicated relationship management units.

This segmentation will allow ARD to deliver customized tax services that match the size, capacity, and sector of each taxpayer group, enhancing both compliance and satisfaction.

## **Enhancing Taxpayer Motivation and Trust**

ARD recognizes that a sustainable tax system requires motivated taxpayers who perceive taxation as fair and transparent.

Planned initiatives include:

- Expanding public awareness campaigns to build understanding of how taxes fund national development.
- Establishing Taxpayer Service Centers in major cities.
- Recognizing compliant taxpayers through Taxpayer Appreciation Programs.
- Introducing a Tax Ombudsman mechanism for resolving taxpayer grievances fairly and efficiently.

## **Digital and Technological Expansion**

- Nationwide rollout of e-filing, e-payment, and mobile tax services.
- Implementation of an Integrated Tax Administration System (ITAS) to unify data from income, customs, and local revenues.
- Exploring AI and data analytics to detect tax evasion and improve risk management.

## **Capacity Building and Institutional Development**

- Continuous training for ARD staff in international tax practices.
- Partnership with ATAIC, IMF, and other regional institutions for technical exchange and staff development.
- Strengthening of internal audit and compliance monitoring systems.

## **Future Tax Incentives for Investors**

In order to promote economic growth, attract both domestic and foreign investment, and support private sector development, the Afghanistan Revenue Department (ARD) plans to introduce tax incentives for investors across various sectors. These incentives aim to create a favorable business environment and encourage long-term investment in the country's reconstruction and industrial development.

Under the proposed framework, investors will benefit from income tax exemptions based on the scale of their investment, as outlined below:

1. Investors who invest from USD 100,000 up to USD 1 million in Afghanistan shall be exempt from income tax for a period of three years.
2. Investors who invest from USD 1 million up to USD 100 million in Afghanistan shall be exempt from income tax for a period of five years.
3. Investors who invest more than USD 100 million in Afghanistan shall be exempt from income tax for a period of seven years.

These measures are designed to enhance investor confidence, support job creation, and strengthen Afghanistan's domestic revenue base through sustainable private sector growth.

Investors who invest in the agriculture, industry, health, energy and water, food and raw materials, textiles, machinery, and technology inside Afghanistan shall be eligible for the following business transaction tax exemptions:

1. Investors who invest from USD 100,000 up to USD 1 million in Afghanistan shall be exempt from business transaction tax for two years.
2. Investors who invest from USD 1 million up to USD 100 million in Afghanistan shall be exempt from business transaction tax for five years.
3. Investors who invest more than USD 100 million in Afghanistan shall be exempt from business transaction tax for seven years.

## **Regional and International Cooperation**

Afghanistan remains committed to:

- Sharing best practices with ATAIC members.
- Advancing cooperation on double taxation avoidance and exchange of tax information.
- Aligning national tax policies with international transparency and anti–profit shifting standards.

## **Conclusion**

Under the leadership of the Islamic Emirate of Afghanistan, the Revenue Department has taken substantial steps toward simplifying the tax system, enhancing compliance, and promoting economic growth through incentives and exemptions. These efforts demonstrate the country's commitment to fiscal responsibility, transparency, and international cooperation.

**Respectfully**

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