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Country Guide

Afghanistan

Information provided is current as of July 23, 2019

Bloomberg Tax & Accounting

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Bloomberg Tax Country Guides provide overviews of the tax regimes of more than 160 jurisdictions. The Country Guides are continuously updated to reflect developments as they happen. Written by local experts, each jurisdiction profile covers corporate taxation, personal taxation and social security, transfer pricing and anti-avoidance rules, important miscellaneous taxes, and any special tax regimes applicable to the oil, gas, mining, and banking sectors.

This Afghanistan Country Guide is a sample of our content. The full version of this Country Guide is available with a subscription to Bloomberg Tax. To learn more or request a demo, visit <https://pro.bloombergtax.com/international-tax-resources>.

1. Overview

1.1. Government and Tax System

The Islamic Republic of Afghanistan is a unitary state with separation of powers between the executive branch led by the President, the National Assembly consisting of an upper and lower house, and an independent judiciary.

The tax regime is established by the Income Tax Law¹ (2009) (ITL) and the Tax Administration Law² (2015) (TAL). Both laws are subject to periodic amendment.

The Legal and Policy Department of the Afghanistan Revenue Department (ARD) issues circulars and public rulings from time to time explaining its interpretation of certain provisions of the law. A private ruling also may be requested from the Legal and Policy Department.

1.2. Currency

The currency of Afghanistan is the afghani.

2. Corporate Tax

2.1. Residence

A company is considered to be resident in Afghanistan if it was formed under the laws of Afghanistan or if the center of its administrative management is in Afghanistan.³

Important factors in determining the center of the company's administrative management are whether the managers of the company are physically present in Afghanistan when making decisions on behalf of the company; the number of decisions made while the managers are physically in Afghanistan compared to the number of decisions made outside the country; and whether the managers are residents of Afghanistan.

2.2. Tax Base – Resident Corporations

Resident companies are taxed on their worldwide income.⁴

2.3. Tax Base – Nonresident Corporations

A branch of a foreign parent is taxed only on income from Afghan sources.⁵

Nonresident companies and other organizations (legal persons) not engaged in trade or business are subject to income tax on income from Afghan internal sources from interest, dividends, rent, royalties, and any other income under the ITL.⁶

2.4. Permanent Establishments – Domestic Law Definition

As a general rule, a foreign corporation or limited liability company is considered to be doing business in Afghanistan if it has a place of business or permanent establishment (PE) in Afghanistan. A foreign company is considered not to be doing business in Afghanistan if its sales are to a broker, an independent dealer, an agency of the state, etc., or if it has no PE in Afghanistan.

A PE may include: a place of management; a branch; a factory; an office; a workshop; a warehouse; a mine, quarry or other place of extraction of natural resources; a construction, installation or assembly project; a permanent sales exhibition; or a wholly or partly owned subsidiary under certain conditions.

¹ Income Tax Law, OG no. 976, 2009 (ITL).

² Tax Administration Law, OG no. 1198, 2015 (TAL).

³ ITL, Art. 2(2).

⁴ ITL, Art. 5(2).

⁵ ITL, Art. 8(5).

⁶ ITL, Art. 7(1).

2.5. Permanent Establishments – Treaty Definition

Afghanistan is not a party to any tax treaties.

2.6. Permanent Establishments – Creation via Performance of Services

Afghanistan does not have a separate definition of PE with respect to the provision of services.

2.7. Tax Year – Default Taxable Year

The year of assessment (“tax year”) in Afghanistan starts on the first day of Jadi (December 21) and ends on the last day of Qaws (December 20) the following year. It is possible for a company to make an application to the Ministry of Finance (MoF) to use a different tax year.⁷

2.8. Tax Year – Reference Year for Computation of Tax

Taxpayers are subject to income tax on income earned within the tax year. An income tax return is required to be filed with the MoF within three months after the tax year ends; so, for example, income tax returns reporting income earned in the 2019 tax year must be filed on or before March 20 of the 2020 tax year.⁸

2.9. Tax Year – Filing Deadline

The annual income tax return must be filed within three months after the end of the tax year, i.e., on or before Hoot 30 (March 20) of the following year.⁹

2.10. Tax Year – Schedule for Tax Payments or Deposits

Income tax must be paid when the tax return is filed, which must be within three months after the tax year ends, i.e., on or before Hoot 30 (March 20) of the following year.¹⁰

2.11. Statute of Limitations

The ARD may amend an assessment within five years of the due date for the tax return. However, where there has been purposeful evasion the assessment may be amended at any time.

Persons committing tax offenses may only be prosecuted within five years of the commission of the offense.¹¹

2.12. Intercompany Dividends

A dividend is any distribution of money or assets made by a corporation or a limited liability company to its shareholders or partners out of its earnings and is subject to income tax at the standard rate.

- Dividends paid in cash by a company established under the laws of Afghanistan are deductible from the income of the company which makes the payment.
- Dividends paid in the form of securities for shares or loan or of similar nature are not deductible from income of the company.
- Dividends paid in cash are taxable income of the recipient at the time of receipt, but dividends in the form of securities for shares or loan or of a similar nature are not considered as taxable income of the recipient at the time received.¹²

Afghan tax law makes no distinction between dividends received by a resident company from related or nonrelated companies, or between dividends received from resident or nonresident companies.

⁷ TAL, Art. 3(1) para 6.

⁸ ITL, Art. 88(1).

⁹ ITL, Art. 88(1).

¹⁰ TAL, Art. 88(1), (4).

¹¹ TAL, Arts. 8(3), (4), 50.

¹² ITL, Arts. 45, 46(2).

2.13. Corporate Tax Rates – Standard Rates

Resident and nonresident companies are subject to 20 percent income tax on their net taxable income for the tax year.¹³

2.14. Corporate Tax Rates – Special Reduced Rates or Regimes

There are no special reduced rates or regimes. However, Business Receipts TAX (BRT) is payable by:

- all companies providing goods and services in exchange for remuneration; and
- any individual providing the same whose quarterly revenue is 750,000 afghanis or more.

BRT, which may be deducted as an expense on taxpayers' annual income tax return, is generally payable at a rate of 4 percent of gross business receipts, but other rates (from 0 percent to 10 percent) apply to certain types of business activity or income.

BRT payers must file a BRT return, and pay BRT, on quarterly basis. The due date for payment and reporting is the 15th day of the next month after the quarter ends.¹⁴

2.15. Taxation of Corporate Capital Gains

Gains from the sale or exchange of capital assets or investment in trade or business are included in taxable income for the year in which the asset was transferred and are generally subject to income tax at the standard rate.¹⁵

Losses from the sale or exchange of such assets are generally deductible from taxable income in the year in which the transfer took place, provided that a gain from such a disposal would have been taxable. However, losses from the sale or exchange of shares are deductible only against the capital gain from other shares in the same year; in this case any excess loss over the capital gain is not deductible.¹⁶

Where gains are from the transfer of movable or immovable property acquired by inheritance, the gain is exempt.¹⁷

2.16. Treatment of Losses from Business Operations

Companies that incur a net operating loss in a tax year may carry forward the loss as a deduction from taxable income in each subsequent year until the loss is fully set off.¹⁸

2.17. Taxation of Dividends Paid to Nonresident Corporations

Dividends are subject to 20 percent withholding by the person making the payment.¹⁹

2.18. Taxation of Interest Paid to Nonresident Corporations

Interest payments are subject to 20 percent withholding by the person making the payment.²⁰

2.19. Taxation of Royalties Paid to Nonresident Corporations

Royalty payments are subject to 20 percent withholding by the person making the payment.²¹

¹³ ITL, Art. 4.

¹⁴ ITL, Arts. 64–67, 88(5).

¹⁵ ITL, Art. 21.

¹⁶ ITL, Arts. 27, 28.

¹⁷ ITL, Art. 23(2).

¹⁸ ITL, Art. 47(3).

¹⁹ ITL, Arts. 45, 46.

²⁰ ITL, Art. 46.

²¹ ITL, Art. 46.

2.20. Taxation of Payments for Services Provided by Nonresident Corporations

Payments under contracts for services are subject to withholding tax as follows:

- vendors that have an Afghan business license – 2 percent (not final); and
- vendors that do not have an Afghan business license – 7 percent (final).²²

3. Personal Taxes

3.1. Domicile and Residency Requirements

A person is considered a resident of Afghanistan if the person has his or her principal home in Afghanistan at any time during the tax year, or is present in Afghanistan for a period or periods aggregating to 183 days in the tax year.²³

3.2. Tax Base for Residents

Residents of Afghanistan are taxed on their worldwide income.²⁴

3.3. Tax Base for Nonresidents

Nonresidents not engaged in trade or business are subject to income tax on income from Afghan internal sources based on interest, dividends, rent and royalties.²⁵

Nonresidents engaged in economic, business or service activities in Afghanistan are subject to income tax on their income from sources within Afghanistan.²⁶

3.4. Individual Tax Rates

Resident and nonresident individuals are subject to progressive rates of income tax on their monthly income as follows:

- up to 5,000 afghanis – 0 percent;
- from 5,001 afghanis to 12,500 afghanis – 2 percent;
- from 12,501 afghanis to 100,000 afghanis – 10 percent + 150 afghanis (fixed amount); and
- 100,000 afghanis and above – 20 percent + 8,900 afghanis (fixed amount).²⁷

Individuals who are engaged in small business activities and are not subject to withholding tax, are subject to fixed tax in lieu of income tax on total annual sales at the following rates:

- up to 150,000 afghanis – 0 percent;
- from 150,001 afghanis to 10,000,000 afghanis – 1.5 percent; and
- over 10,000,000 afghanis – 1.5 percent.

Individuals whose total annual sales fall under the highest fixed rate band may elect instead to pay income tax at the progressive rates set out above.²⁸

²² ITL, Art. 72.

²³ ITL, Art. 2.

²⁴ ITL, Art. 5.

²⁵ ITL, Art. 7.

²⁶ ITL, Art. 8.

²⁷ ITL, Art. 4.

²⁸ ITL, Art. 74, 75.

Individuals engaged in provision of goods or services whose quarterly revenue is 750,000 afghanis or more are also subject to BRT.²⁹

3.5. Individual Returns, Filing Dates, and Payment

Income tax on employment income is withheld from salaries/wages by employers who are responsible for transferring the amount withheld to the government account.³⁰ Employees are therefore not required to file a tax return unless they have more than one employer or income from other sources.

Individuals with more than one employer and/or other income must file his or her return and pay any tax due on or before March 20 each year.³¹

Individuals paying the fixed tax for small businesses must pay their tax quarterly on the 15th day following the end of the quarter.

Individuals paying the fixed tax for small businesses must pay their tax quarterly on the 15th day following the end of the quarter.

²⁹ ITL, Art. 64(2).

³⁰ ITL, Art. 58.

³¹ ITL, Arts. 87(2), 88(1).

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Tom Kraemer is an American lawyer specializing in complex commercial matters. Tom has been practicing law since 1990, and has represented clients ranging from startups to Fortune 500 companies. He has extensive experience in contracts, intellectual property, antitrust, class actions, media, privacy, consumer protection, and employment matters. Tom has practiced in the U.S. state and federal courts at all levels, including litigating cases in the United States Supreme Court. He has been appointed as a mediator by the United States District Court for the Southern District of Ohio on multiple occasions.

Tom believes that a lawyer should be, above all, a problem solver. By combining legal advocacy with business experience and out-of-the-box thinking, Tom has assisted business clients with a wide range of legal and non-legal issues. His experience in Afghanistan includes business registrations, visas, tax exemptions and other tax matters, customs, and employment law. Additionally, he is an adjunct professor at Khurshid University. Before moving to Afghanistan, Tom used his Master of Public Health degree by working in a private hospital in Hargeisa, Somaliland.



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Helay Khwajazada joined Kakar Advocates in 2018 as an Associate Attorney. Helay's practice areas include Labor Law, Contract Law, Family Law, Company Law, Intellectual Property Law, Criminal Law, Civil Law, and International Law.

Previously, Helay lived in Pune where she was interning at Hariani & Co. Advocates and Solicitors Pune branch. During her internship, Helay has rendered assistance to the real estate as well as litigation group of Hariani & Co., by providing research inputs on various legal issues, drafting and assisting advocates in various legal matters.

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Waseem Shah Yousafzai holds B.B.A. honours (Specialization in Finance) from University of Peshawar. He has also earned several certifications such as Certified Financial Consultant-Canada (CFC), Project Management diploma, ERP Certification. Mr. Yousafzai is currently in the process of obtaining his Certificate from Association of Charter Certified Accountants (ACCA).

Mr. Yousafzai began his professional career in 2010 working with Chartered Accountant firm and conducted audit assignments for several organizations. Since 2011, Mr. Yousafzai has worked in areas of strategic management, financial management and tax advisory. Additionally, he has extensive experience in ERP implementation, Project Monitoring and Evaluation (M&E).

In-depth knowledge of finance and accounting enable Mr. Yousafzai to lead on audits of different entities such as Special Inspector of General for Reconstruction of Afghanistan (SIGAR), Earnest & Young (E&Y), Department of State (DoS), US Embassy in Afghanistan and Medium Tax-payer Office (MTO). He has worked on managerial level, and financially administered multi-million dollars projects and successfully accomplished the agreed results.

While working in Afghanistan, he has developed computerized accounting system for more than 40 organizations. Mr. Yousafzai has extensive knowledge of the Afghan Tax Law and has filled out annual income tax





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