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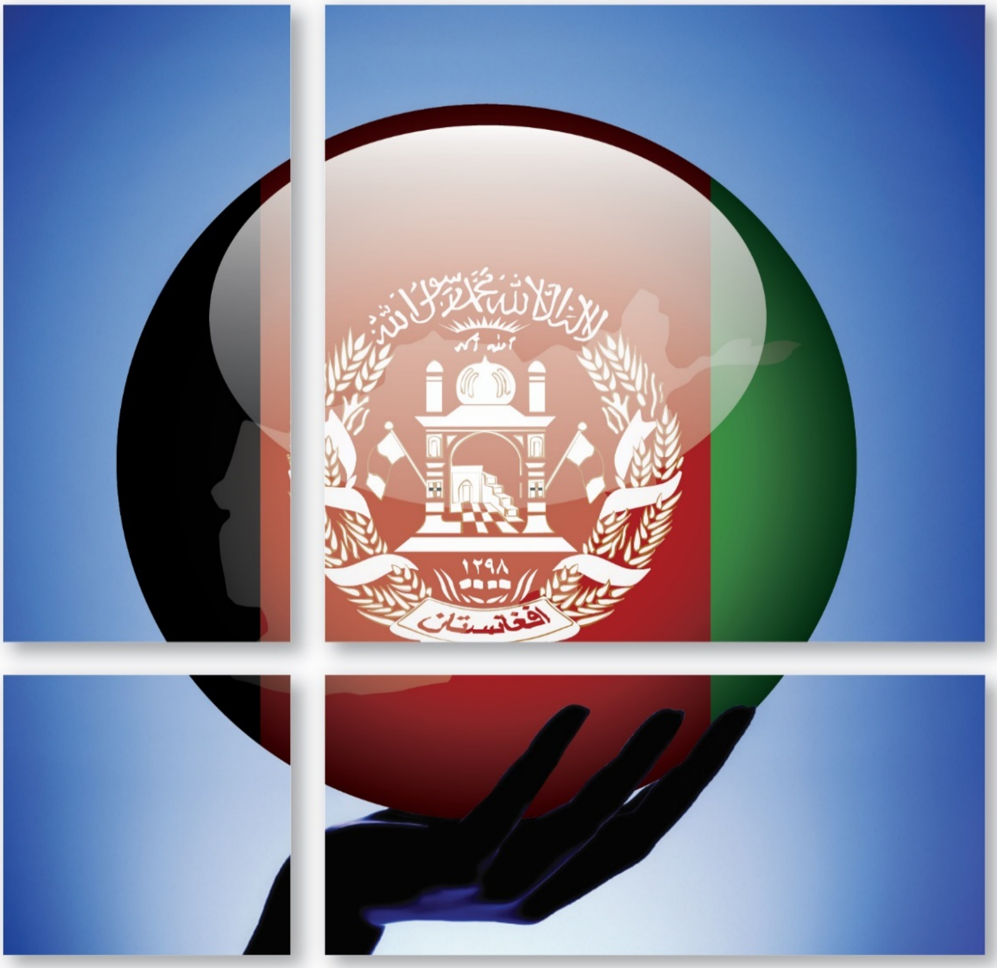

# Afghanistan

## Tax Guide

# 2016/17

## FOREWORD

A country's tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions.

As you will appreciate, the production of the WWTG is a huge team effort and we would like to thank all tax experts within PKF member firms who gave up their time to contribute the vital information on their country's taxes that forms the heart of this publication.

The PKF Worldwide Tax Guide 2016/17 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world's most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 30 April 2016, while also noting imminent changes where necessary.

On a country-by-country basis, each summary such as this one, addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

Services provided by member firms include:

- Assurance & Advisory;
- Financial Planning / Wealth Management;
- Corporate Finance;
- Management Consultancy;
- IT Consultancy;
- Insolvency - Corporate and Personal;
- Taxation;
- Forensic Accounting; and,
- Hotel Consultancy.

In addition to the printed version of the WWTG, individual country taxation guides such as this are available in PDF format which can be downloaded from the PKF website at www.pkf.com

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**PKF INTERNATIONAL LIMITED**
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# STRUCTURE OF COUNTRY DESCRIPTIONS

## A. TAXES PAYABLE

FEDERAL TAXES AND LEVIES
COMPANY TAX
CAPITAL GAINS TAX
BRANCH PROFITS TAX
VALUE ADDED TAX (VAT)
LOCAL TAXES
OTHER TAXES

## B. DETERMINATION OF TAXABLE INCOME

ADMISSIBLE DEDUCTIONS
NON- ADMISSIBLE DEDUCTIONS

## C. FOREIGN TAX RELIEF

## D. RELATED PARTY TRANSACTIONS

## E. EXCHANGE CONTROL

## F. PERSONAL TAX

## G. WITHHOLDING TAX RATES

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## BASIC FACTS

| | |
|---|---|
| Full name: | Islamic Republic of Afghanistan |
| Capital: | Kabul |
| Main languages: | Pashto, Dari |
| Population: | 32,564,342 (2015 estimate) |
| Major religion: | Islam |
| Monetary units: | Afghani (AFN) |
| Internet domain: | .af |
| Int. dialling code: | +93 |

## KEY TAX POINTS

- All businesses irrespective of the legal status of the organization are subject to 20% tax on income under Article 4 of the Income Tax law in Afghanistan.
- Capital gain from the sale, exchange, or transfer of certain assets is treated as taxable income. Capital gains include the sale of a trade or business (including goodwill), a factory (including equipment, machinery, buildings and land, or any part of such assets), equipment used in the business of transporting persons and property, and shares of stock in corporations or limited liability companies.
- Tax is calculated on the taxable profits of branch offices of international organisations is the same as other business. The tax is calculated at 20% of income after allowing all admissible expenses.
- The Government of Afghanistan is now planning to levy VAT from 2017, however, the detailed content of the said law are not yet available as of reporting date.
- Individuals are subject to tax at progressive rates. The monthly maximum limit is 20% + AFN 8,900 fixed amount.
- Any income tax paid to the government of a foreign country may be taken as credit on the principle of reciprocity.

## A. TAXES PAYABLE

### CORPORATE TAX

All businesses irrespective of the legal status of the organization are subject to 20% tax on income under Article 4 of the Income Tax law in Afghanistan. Business Receipt Tax (BRT) is also applicable on gross revenue of business at rates given below. BRT is treated as an admissible expense and is deducted from revenue.

- Automobile and the spare parts = 2% or 7%
- Travel agents = 4%
- Revenue from the public entertainment, exhibition and support events = 4%
- Sale of the merchandise and services = 4%
- Restaurant earning per quarter less than 750,000 per quarter = 4%
- Guest house, restaurant and hotel earning 750,000 per quarter = 5%
- Club hall (without any threshold) = 5%

### CAPITAL GAINS TAX

Capital gains under Article 23 of the tax legislation refers to any gain from the sale, exchange, or transfer of the following assets:

1) A trade or business, including goodwill;
2) A factory including equipment, machinery, buildings and land, or any part of such assets;
3) Equipment used in the business of transporting persons and property; and
4) Shares of stock in corporations or limited liability companies.

Chargeable capital gains are treated as is taxable income. A gain from the sale or transfer of movable or immovable property acquired by inheritance is excluded from the provisions of paragraph (1) of this Article.

### Method of calculation of Capital Gain

Gain (receipts less allowable expenses) arising from capital asset transaction, is divided by number of years of usage of the said asset. The average rate so obtained is then applied to the total income of the person (natural or legal) for the year. The rate so calculated cannot be less than 2%.

## BRANCH PROFITS TAX

The calculation of tax on the taxable profits of branch offices of international organizations is the same as other business. The tax is calculated at 20% of income after allowing all admissible expenses. The only exception to the rule is that any amount remitted outside Afghanistan to principal office or any other branch office shall be regarded as dividend and shall be subject to withholding tax at 20%

## SALES TAX / VALUE ADDED TAX (VAT)

VAT is levied on only very few items and services such as hotel services etc. and no separate comprehensive regulation exists for VAT. The Government of Afghanistan is now planning to levy VAT from 2017, however, the detailed content of the said law are not yet available as of reporting date.

## LOCAL TAXES

No local taxes are payable in respect of income of companies.

## OTHER TAXES

Other important levies in Afghanistan include customs duty and various import duties.

# B. DETERMINATION OF TAXABLE INCOME

Taxable income is calculated as revenue for the year from all sources less following admissible expenses:

1. Any expense related to the cost of production or trade and business, such as insurance and freight expenses, etc.;
2. The cost of supplies, materials, fuel, electricity, water, and ordinary and necessary expenses used in the production of income, or in a trade or business;
3. Wages, salaries, commissions, and fees paid for services rendered by employees in trade or business;
4. Interest paid on business loans;
5. Rent paid on property necessary to and used in trade or business;
6. Cost of repairs and maintenance of properties and equipment necessary to and used for purposes of the business or trade;
7. Depreciation of movable and immovable property at rates mentioned below:

| No. | Assets | Useful Life (in Years) | Annual Percentage Allowed |
|---|---|---|---|
| 1 | Bricks or stone structures | 50 | 2 |
| 2 | Loam structure | 20 | 5 |
| 3 | Wooden structures | 10 | 10 |
| 4 | Machinery and Equipment not otherwise specified below | 10 | 10 |
| 5 | Mining Equipment | 6.5 | 15 |
| 6 | Tools | 4 | 25 |
| 7 | Printing Equipment and Machines | 2 | 50 |
| 8 | Handicraft machines | 3 | 33 |
| 9 | Metallurgical machines | 10 | 10 |
| 10 | Carpets | 10 | 10 |
| 11 | Rugs and other furnishings | 4 | 25 |
| 12 | Chairs, seats, and sofas | 4 | 25 |
| 13 | Desks, Tables, and cabinets | 10 | 10 |
| 14 | Office equipment (calculators, typewriters, telephone, etc.) | 6.5 | 15 |
| 15 | Bicycles | 5 | 20 |
| 16 | Trucks | 2 | 50 |
| 17 | Cars | 2 | 25 |
| 18 | Tyres and tubes | 2 | 50 |
| 19 | Sacks | 2 | 50 |
| 20 | Impure iron stoves and pipes | 10 | 10 |
| 21 | Iron stoves | 2 | 50 |
| 22 | Carriages, animal carts, and handcarts | 3 | 33 |
| 23 | Construction machines, rollers and mixers | 5 | 20 |
| 24 | Computers and computer related equipment | 3 | 33 |
| 25 | Televisions, radios, and cellular phones | 3 | 33 |
| 26 | Telecommunication equipment/ cell towers | 7 | 14 |

8. Any tax or charge that is necessary expense of doing business, holding property for income, or of producing income, if paid or accrued during the taxable year. Taxes imposed by this Law and taxes not qualifying as necessary business expense are not deductible, except as otherwise provided by this Law;
9. Damages to movable or immovable property caused by fire, earthquake, and by casualty or disaster of any kind, over a three year period, to the extent that the cost is determined and substantiated by records and the loss was not recovered by insurance;
10. Losses in business or trade from bad debts according to the Income Tax Manual;
11. Dividends paid in money by a legal entity organized under the laws of Afghanistan; and
12. Other expenses of doing business and of holding movable or immovable property for the production of income under relevant legislative documents.

## NON-ADMISSIBLE DEDUCTIONS

The following deductions are not allowable for tax purposes:

1. Expenses incurred to provide entertainment or advertising that are not connected to economical or commercial activities;
2. Dividends, interest, royalties, rent, commissions, wages, salaries, in case the tax has not been withheld as required by the law;
3. In case of a branch in Afghanistan of a non-resident person, any expenses paid or incurred to the non-resident person or any person connected to the non-resident person;
4. Personal expenses are not deductible;

5. Capital expenditure that is subject to depreciation;
6. Taxes paid to foreign countries by non-resident persons on income from sources within Afghanistan, if the bilateral treaty is not made with the country.

## C. FOREIGN TAX RELIEF

Any income tax paid to the government of a foreign country may be taken as credit on the principle of reciprocity. The tax credit on a foreign tax payment is calculated as follows:

Afghanistan tax on global taxable income x foreign country income / total global taxable income

## D. RELATED PARTY TRANSACTIONS

Tax authorities have the power in respect of a transaction between associates to distribute, apportion, or allocate income, deductions, or tax credits between such associates to reflect the income that would have been realized in an arm's-length transaction.

## E. EXCHANGE CONTROL

For the purpose of tax calculations, official rates issued by Central Bank in Afghanistan (DAB) must be used.

## F. PERSONAL TAX

Following are the rates at which natural persons are subject to tax:

| Income slab per month | Applicable Rate |
|---|---|
| From AFN 0 to AFN 5,000 monthly | 0% |
| From AFN 5,001 to AFN 12,500 | 2% |
| From AFN 12,501 to AFN 100,000 | 10% + AFN 150 fixed amount |
| From AFN 100,000 above | 20% + AFN 8,900 fixed amount |

## G. WITHHOLDING TAX RATES

Individuals and organizations are subject to following withholding taxes:

| Type of income | Applicable Rate |
|---|---|
| Salary | At rates discussed in preceding paragraph |
| Interest | 20% |
| Dividends | 20% |
| Royalties | 20% |
| Prizes | 20% |
| Rewards | 20% |
| Lotteries | 20% |
| Bonuses | 20% |
| Service charges | 20% |
| Rent | If the monthly rent is more than Afs.10,000 and less than Afs.100000 - 10 percent. 2. If the monthly rent is more than Afs.100,000 -15 percent |
| Contractors for Supplies of Goods, Services, Contractions. | 7% for contractors without business License & 2% for contractors having business license |

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