

GOVERNMENT OF THE ISLAMIC REPUBLIC OF AFGHANISTAN
MINISTRY OF FINANCE



VALUE-ADDED TAX (VAT)
TRANSITION PLAN



NOVEMBER 2017

Table of Contents

(1). BRT paid on imports before the introduction of VAT Law	8
(2). Contracts entered into before the commencement of the VAT law where the contract does not provide for the payment of VAT	9
(3). VAT paid on trading stock before registration.....	9
Resistance to change	26
Resistance to VAT as a new tax.....	26
Customs.....	26
Skills levels.....	27
SIGTAS	27

1. Introduction

The VALUE ADDED TAX (VAT) is a broad based indirect tax assessed on imports and on the value added to goods and services consumed in Afghanistan

The introduction of a new tax, the Value Added Tax, is one of the measures the Government of the Islamic Republic of Afghanistan is introducing to improve Afghanistan's fiscal sustainability into the future. The VAT will strengthen the revenue base in order to enable the Government to provide better services to the citizens of Afghanistan.

VAT will replace domestic BRT for persons registered as a VAT taxpayer. The 4% BRT currently charged on imports will be replaced by 10% VAT on imports. The BRT paid on imports is currently treated as an advance payment of "domestic" BRT. Taxpayers who are not registered for VAT will continue to pay domestic BRT if required to do so under the law. Note that taxpayers liable for domestic BRT will no longer have made an advance payment on their imports, which will affect the calculation of their quarterly BRT payments.

Persons carrying on an economic activity, whether as an individual, partnership, company or any other legal entity, are required to register if their annual turnover is Afn.200 million or more. Generally, once registered, the person must charge VAT on their supplies of goods and services and they are entitled to claim tax credits for the VAT paid or payable on goods and services used in their business.

Following are some important advantages of a VAT compared to the current BRT or other tax possibilities.

- The VAT will raise additional revenue necessary for the Government of Afghanistan to meet the needs of the country and its people.
- VAT is a relatively stable long term revenue stream. It is not as susceptible to fluctuations within specific industries – as can happen with the BRT and income tax.
- The VAT proposed is at a single rate on a broad base, which makes this tax simpler to administer than multiple rate tax systems.
- The VAT is designed so that businesses below the registration threshold will still contribute some tax towards the nation (on their imports and local purchases) but they are not burdened with administrative tasks.
- The current BRT is calculated and paid at each stage of production and thus accumulates in the costs of a business which are then passed on to the next stage. The result is taxes on taxes. The VAT system of tax credit removes this inefficient accumulation of taxes on taxes.
- The VAT is expected to decrease the share of the grey (informal) economy as the registered businesses will have a strong incentive to obtain proper invoices from their suppliers, showing the tax paid, because their tax paid on purchases can be offset as credit against their tax liability.

- VAT encourages exports because of the application of a zero rate to exports of goods and related services. This means that the prices of exported goods will not include Afghan VAT. The existing BRT system disadvantages Afghanistan businesses when competing on world markets because the BRT flows through to higher export prices. This anomaly provides a disincentive to current and future exporters.
- As a tax on consumption, VAT encourages saving and investment for the future benefit of the Afghanistan economy.
- VAT systems are widely understood in other countries and will be familiar to international investors.

It is therefore clear that the implementation of VAT is a very important measure for the short, medium and long-term fiscal and economic future for the country. The successful implementation of VAT and the transition from BRT to VAT on imports and for businesses that exceed the VAT registration threshold is therefore critical.

The transition from VAT to BRT involves the following parties:

- ARD
- ACD
- Importers
- Import and export brokers
- Businesses exceeding the VAT registration threshold
- Accounting and auditing firms (tax practitioners)
- Consumers
- Ministry of Finance and Treasury to provide budget for VAT refunds and process the payment of refunds due to taxpayers
- Department of Justice and the office of the Attorney General to deal with cases of VAT fraud.

2. Objectives of the VAT Transition Plan

Transition plans usually cover the transition resources required, transition schedule, transition strategies and tools, reporting and communication procedures, transition impact, management control, configuration control as well as risks and contingencies. It aims to ensure a smooth and effective transition from BRT to VAT for the effected parties or stakeholders.

As detailed VAT implementation and communication plans have been developed that include tasks and timetables for the ARD and ACD transition to VAT, this transition plan will highlight the key transition issues in respect of the administration of VAT and focus more on the transition of importer, VAT taxpayers and consumers. The transition plan also covers the provisions of Art 33 of the VAT law that deals with the transitional measures from BRT to VAT for VAT registered taxpayers

The transition plan objectives are as follows:

- a. Effective transition for the ARD from BRT to VAT ensuring efficient administration of VAT
- b. Effective transition for the ACD, replacing BRT on taxable imports
- c. Effective transition for importers and customs brokers from paying BRT on imports to paying VAT on taxable imports
- d. Ensure VAT awareness amongst the general public
- e. Effective and smooth transition for VAT registered taxpayers from BRT to VAT
- f. Effective and smooth transition for tax practitioners from BRT to VAT
- g. Readiness and capacity of the other role-players to ensure optimum VAT compliance and payment of legitimate and approved VAT refunds without delay

Objective 1: Effective transition for the ARD from BRT to VAT ensuring efficient administration of VAT

The ARD is responsible for the implementation and administration of VAT. The transition of the ARD is covered by the VAT implementation plan. Special emphasis, however, has to be placed on the following key issues:

- a. Appointment of VAT implementation team
- b. Appointment of LTO VAT team headed by VAT sub-director
- c. Review, enhancement and user-testing of the SIGTAS VAT modules
- d. Training of both implementation team and LTO VAT team
- e. Review, finalisation and approval of the Muqarara and Tarzulamal VAT regulations. **Please note: The finalisation of the regulations are critical in order to finalise the taxpayer guides, manual, brochures and possibly even the policies and procedures. The awareness and VAT taxpayer education campaigns cannot start properly until the regulations, policies and procedures are approved**
- f. Review, updating and approval of VAT manual and guides
- g. Review updating and approval of the VAT policies and procedures as well as the flow-charts. Policies were developed for VAT registration, cancellation of registration, returns and refunds.
- h. Establishment of VAT help desk
- i. Development and implementation of compliance strategy, VAT risk management, analysis and case profiling, refund verification and VAT specific audit. Also development of capacity within ARD, MoF or Office of Attorney General to investigate VAT fraud and ensure successful prosecution of fraudsters.
- j. VAT awareness within ARD, MoF, other relevant Ministries and the general public
- k. Preparation and education of future VAT taxpayers
- l. Liaison with business chambers and trade unions
- m. Handover by VAT implementation team and operationalizing of VAT

- n. Continued support, enhancement and maintenance of VAT administration and systems

Objective 2: Effective transition for the ACD, replacing BRT on taxable imports

The ACD will be collecting the biggest portion of VAT revenue. The BRT charged on imports subject to BRT in terms of the Income Tax law will be replaced by VAT charged on imports taxable in terms of the VAT law. The transition from BRT to VAT should take into account the risk of increased smuggling, misclassification and under valuation of imported goods due to the increased VAT rate of 10% compared to the 4% rate for BRT on most goods. VAT also presents specific risks in terms of exports such as falsified Customs documents and schemes such as round tripping and ghost exports to generate illegitimate refunds and gain financial benefit from selling “exported” goods in domestic market and not paying over VAT charged.

Although the Customs transition is also covered briefly in the implementation plan, it is important to emphasise the following:

- a. Appointment of Customs team to support VAT implementation
- b. Identification of all exempt and zero-rated HS tariff codes
- c. Programming of ASYCUDA to replace BRT with VAT in terms of the VAT calculation and exempt as well as zero-rated items of per VAT law and identified HS tariff codes.
- d. Adjustments to the Customs value in ACYCUDA to calculate the VAT payable on imported goods
- e. User testing of changes to ASYCUDA
- f. Review of new Customs law that is in process of being drafted to ensure alignment between VAT law and new Customs law, especially in terms of temporary imports and payments as security.
- g. Review and alignment of Customs processes and procedures with VAT requirements. Strong focus should be on valuations, post clearance audits, mobile verification and assessments.
- h. Development of proposal and procedures for joint ARD and ACD special investigations to counter smuggling, ghost exports and round-tripping as well as other VAT evasion and fraud schemes.
- i. Training of Customs staff
- j. Exchange of information for risk management and profiling
- k. Higher level training and co-operation with PCA, investigation and mobile verification teams to ensure compliance

Objective 3: Effective transition for importers and customs brokers from paying BRT on imports to paying VAT on taxable imports

VAT must be paid by both registered and unregistered persons importing goods into Afghanistan that is taxable in terms of the VAT law. The payment is due when the

goods entered or released by Customs after their arrival into Afghanistan and should be paid at the same time as other Customs duties and charges. The payment must be done as usual to the Da Afghanistan Bank (MoF's official bank account). Import brokers and importers need to understand the VAT law and how to determine the value of the imported goods for VAT purposes and to calculate the VAT payable.

The following are important:

- a. Understand the obligations and requirements of the VAT law
- b. Understand and able to apply the provisions of the VAT law (Article 16) in terms of the basis for determining the value of imports for the calculation of VAT
- c. Good understanding of the VAT provisions in terms of temporary imports, goods in Customs warehouses and duty-free zones as well as security payment requirements when applicable.
- d. Good understanding of the requirements in terms of documentation on imports and exports

Objective 4: Ensure VAT awareness amongst the general public

VAT is a tax on consumers and not a tax on a business. It is important that VAT is understood by consumers, in other words the general public and also businesses not registered for VAT. As the tax is more visible than BRT from a consumer point of view on the sale of domestic goods, the tax and the benefits of introducing VAT needs to be well understood

- a. Ensure clarity amongst the general public of the implications and advantages of introducing VAT
- b. Use a mix of media tools to get positive message to consumers
- c. Provide general information and awareness pamphlets to the public
- d. Ensure that businesses (taxpayers) below the threshold for VAT registration understand the requirements for compulsory registration as well as the provisions regarding voluntary registration for VAT.

Objective 5: Effective and smooth transition for VAT registered taxpayers from BRT to VAT

The introduction of VAT presents a number of challenges and additional work and planning for taxpayers to be registered for VAT. The awareness campaign should be followed by the education and support campaign to ensure that VAT taxpayers are properly prepared and ready in time for the implementation of VAT. The preparation or transition to VAT requires important financial and organisational decisions for a company. The period required for preparation is generally regarded as at least eighteen months before date of implementation.

Key issues to be addressed in terms of the transition from BRT to VAT for taxpayers to be registered for VAT are as follows

- a. Invoicing to meet requirements of VAT law
- b. Accounting in line with requirements of the VAT law with VAT control accounts
- c. Pricing and price labels according to requirements of the VAT law
- d. Advertising and marketing material to be revised
- e. Review of current suppliers and consideration of alternative suppliers registered for VAT if current supplier not VAT registered
- f. System changes, including accounting systems, management information and any other relevant system
- g. Alignment of procedures with VAT requirements
- h. Knowledge of the VAT law and all relevant obligations and requirements
- i. Resources required for additional tasks to comply with all VAT obligations and requirement

In addition to the above, the transitional provisions as per Article 33 of the VAT law are very important. Both the ARD and VAT taxpayers must understand this well and be able to administer the provisions properly.

The operation of the Business Receipts Tax will be altered at commencement of the VAT Law. Persons registered for VAT will no longer be liable for BRT on sales after the VAT commences. The BRT will continue to apply to businesses that are not in the VAT system, according to the provisions in the Income Tax Law.

Article 33 provides transitional measures for businesses that shift from BRT to the VAT system with the introduction of VAT. It also explains transitional steps for business that are registered after the commencement of VAT Law

The provisions cover the following (as per the VAT guide):

(1). BRT paid on imports before the introduction of VAT Law

Registered persons are entitled to claim a transitional VAT tax credit for business receipt tax paid on imported trading stock prior to the operation of VAT Law. This will be available if the registered person was not entitled to claim the credit for the business receipts tax paid in their business receipts tax return.

Generally VAT registered persons would be required to file business receipts tax returns for the periods before VAT registration commenced and claim credit in those returns for BRT paid on imports during the quarter. Therefore they will not be entitled to claim a transitional VAT credit. Any VAT registered person who considers they are entitled to a transitional VAT tax credit should obtain confirmation from the taxation administration.

(2). Contracts entered into before the commencement of the VAT law where the contract does not provide for the payment of VAT

A registered person is required by law to collect the VAT payable even when there is no provision in the contract for the payment of VAT. A transitional provision in the VAT Law applies this rule to contracts that were made before the VAT commenced.

(3). VAT paid on trading stock before registration

After commencement of the VAT there will be situations where taxpayers were not required to register on commencement of the VAT Law, but are registered later. An example is a business that expands over time and reaches a level of taxable turnover that will exceed the VAT registration threshold. Another example is where a taxpayer voluntarily registers for VAT two years after commencement of the VAT Law.

In these cases the taxpayer would have been carrying on business and incurring VAT on its purchases before registration. There is a special rule that allows tax credit to a new VAT registered taxpayer for VAT paid on its trading stock on hand at the time their registration commences. The relevant trading stock is only those goods that were imported by the taxpayer during the 3 months before registration, or goods acquired domestically from another VAT registered person during the 3 months before registration.

To claim the tax credit on these imports or taxable supplies in the 3 months before registration, the taxpayer must have the required documentation. It would also be necessary for the taxpayer to do a stocktake of their trading stock on the day before their VAT registration commences and retain this record as evidence of their entitlement to the tax credit

Taxpayers will have to be educated and understand the provisions of Article 33 very well.

Objective 6: Effective and smooth transition for tax practitioners and accountants from BRT to VAT

Tax practitioners provide assistance with registration as taxpayer, filing of returns, objections and appeals. Accountants provide accounting and bookkeeping services and prepare the financial statements. They provide guidance and advice to clients (taxpayers) and often assist with financial and tax planning.

The following is important:

- a. Good knowledge and understanding of the VAT law, the taxpayer obligations and requirements and the consequences of non-compliance
- b. Good understanding of the VAT procedures and processes for registration, deregistration, filing returns, objecting to assessments raised by auditors and the appeal process.

- c. Attending VAT seminars, using the VAT guides, ARD website and VAT helpdesk
- d. Good cooperation with refund verification officials, VAT auditors and investigators
- e. Alerting ARD and reporting suspicious transactions and activities by taxpayers

Objective 7: Readiness and capacity of the other role-players to ensure optimum VAT compliance and payment of legitimate and approved VAT refunds without delay

As mentioned under objective 2, VAT has special compliance risks such as fraud that requires criminal investigation and prosecution. The Office of the Attorney General or an economic crimes investigation unit will have to investigate and prosecute cases of VAT fraud. These investigations, however, requires a good knowledge of the VAT law, the Tax Administration law, accounting and forensic audits/investigations in addition to the Criminal Procedures law and the Law of Evidence.

The timely payment of legitimate and approved VAT refunds is a critical part of any VAT system. Delays in the payment of approved refunds impact on the cash flow of businesses and can have serious consequences for Governments and Tax Administrations. VAT refunds in Afghanistan will be processed as an expense item as it is not possible to pay the refunds from the Revenue Account as is the case in most other countries. An effective system is therefore required to process approved refunds in Treasury and Ministry of Finance.

The following is important:

- a. Thorough training of relevant staff in Attorney General's Office on the VAT law, accounting, forensic audit/investigation, the Criminal Procedures law and the Law of Evidence.
- b. Review of the Criminal Procedures law and Law of Evidence to ensure that VAT fraud can be dealt with effectively.
- c. Development of a VAT refund procedure that is streamlined with reduced approval stages on the MoF side.
- d. Training of Treasury and MoF staff in the procedure
- e. Timely approval and allocation of VAT refund budget for every financial year.
- f. Development of a Revenue Account system that will allow VAT refunds to be paid directly to taxpayers from the account.
- g. Effective communication and exchange of information between the different role-players.

3. Detailed implementation schedules

#	OBJECTIVE	TASKS AND ACTIVITIES	TASK LEAD	START	FINISH	BENCHMARK/ INDICATOR	COMMENTS
1.	Effective transition for the ARD from BRT to VAT ensuring efficient administration of VAT						
1.1	Appointment of VAT implementation (project) team	Identification and appointment of VAT implementation team leader (this could be LTO VAT sub-director)		01:12:17	01.01.18		
		Identification of team members, consisting of staff from legal, audit, risk management, communications, client service, case management Customs and IT (RSSD)		01.01.18	03.09.2018		
		Developing Job Descriptions and work performance objectives and measurements for team		01.01.18	01.08.2018		
		Appointment and orientation of team members		01.09.2018	01.12.2018		
1.2	Appointment of LTO VAT team headed by VAT sub-director	Finalisation and approval of job description and structure for VAT team Recruitment		01.03.2018	01.05.2018		
		Recruitment and/or transfer of suitable candidates for each position		01.02.2018	01.03.2018		
		Appointment of LTO VAT team.		01.05.2018	01.08.2018		
1.3	Review, enhancement and user-testing of the SIGTAS VAT modules	Identification and appointment of business analysts, IT programmers and selected VAT team members (business users)		01.05.2018	01.09.2018		
		Thorough briefing of SIGTAS VAT team		01.09.2018	01.12.2018		
		Review of all SIGTAS VAT modules in line with VAT law, regulations, policies and procedures		01.05.2018	01:08:2019		

#	OBJECTIVE	TASKS AND ACTIVITIES	TASK LEAD	START	FINISH	BENCHMARK/ INDICATOR	COMMENTS
		Further development and programming of the SIGTAS VAT assessment and refund modules		01:10:2018	01:10:2019		
		Develop user testing guidelines		01:05:2019	01:12:2019		
		Load VAT modules on testing environment server		01:12:2018	01:12:2019		
		Complete testing and change request reports		01:12:2019	01:12:2020		
		Enhance modules and fix software bugs based on testing reports and change requests		01:12:2019	01:12:2020		
1.4	Training of both implementation team and LTO VAT team	Review of VAT law training material – basic and advanced as well as Customs VAT training material.		01:06:2018	01:06:2019		
		Development of test bank (formative and summative assessments) and practical exercises		01:06:2018	01:06:2019		
		Train selected VAT team members as trainers for other ARD and ACD staff		01:07:2018	01:12:2018		
		Train selected VAT team members for the awareness and taxpayer education presentations		01:12:2019	01:12:2020		
		Present pilot VAT courses and awareness/education presentations (seminars)		01:02:2019	01:01:2020		
		Scheduling of training courses		01:12:2019	01:12:2020		
		Presentation of courses		01:01:2020	01:12:2020		
		Coaching and follow up one-on-one sessions to further improve knowledge		01:01:2020	01:08:2020		

#	OBJECTIVE	TASKS AND ACTIVITIES	TASK LEAD	START	FINISH	BENCHMARK/ INDICATOR	COMMENTS
		Awareness and education initiatives to be covered by communication and stakeholder engagement plans		01:01:2019	01:01:2020		
1.5	Review, finalisation and approval of the Muqarara and Tarzulamal VAT regulations.	Review the VAT Muqarara and Tarzulamal regulations		01:01:2018	01:01:2020		
		Identify gaps and draft clear regulations to close the gaps		01:01:2018	01:01:2019		
		Finalise the regulations and submit to the ARD technical committee		01:06:2018	01:01:2019		
		After approval by technical committee, follow appropriate legislative process to obtain final approval for both regulations		01:06:2018	01:12:2018		
		Once finally approved, review and update policies and procedures, training material, , web content, and SIGTAS VAT modules to ensure that changes or additions to regulations are covered		01:06:2018	01:12:2018		
		If regulations are not approved by the time the communication, awareness and education campaigns has to start, the possibility of changes that will impact on consumers and taxpayers will have to be emphasised during the campaigns		01:06:2018	01:12:2018		
1.6	Review, updating and approval of VAT manual and guides	Review and update the VAT manual and guides to be fully aligned to the VAT law and draft regulations		01:06:2018	01:12:2018		
		Submit to ARD technical committee for approval		01:06:2018	01:12:2018		

#	OBJECTIVE	TASKS AND ACTIVITIES	TASK LEAD	START	FINISH	BENCHMARK/ INDICATOR	COMMENTS
1.7	Review updating and approval of the VAT policies and procedures as well as the flow-charts. Policies were developed for VAT registration, cancellation of registration, returns and refunds.			01:06:2018	01:12:2018		
1.8	Establishment of VAT help desk			01:12:2019	01:12:2020		
1.9	Development and implementation of compliance strategy, VAT risk management, analysis and case			01:01:2018	01:12:2018		

#	OBJECTIVE	TASKS AND ACTIVITIES	TASK LEAD	START	FINISH	BENCHMARK/ INDICATOR	COMMENTS
	profiling, refund verification and VAT specific audit. Also development of capacity within ARD, MoF or Office of Attorney General to investigate VAT fraud and ensure successful prosecution of fraudsters.						
1.10	VAT awareness within ARD, MoF, other relevant Ministries and the general public			01:01:2020	01:12:2020		
1.11	Preparation and education of future VAT taxpayers			01:01:2020	01:12:2020		

#	OBJECTIVE	TASKS AND ACTIVITIES	TASK LEAD	START	FINISH	BENCHMARK/ INDICATOR	COMMENTS
1.12	Liaison with business chambers and trade unions			01:01:2020	01:12:2020		
1.13	Handover by VAT implementation team and operationalizing of VAT			01:01:2020	01:12:2020		
1.14	Continued support, enhancement and maintenance of VAT administration and systems			01:01:2019	01:12:2020		

#	OBJECTIVE	TASKS AND ACTIVITIES	TASK LEAD	START	FINISH	BENCHMARK/ INDICATOR	COMMENTS
2	Effective transition for the ACD, replacing BRT on taxable imports						
2.1	Appointment of Customs team to support VAT implementation			01:06:2018	01:09:2018		
2.1	Identification of all exempt and zero-rated HS tariff codes			01:01:2018	01:01:2019		
2.2	Programming of ASYCUDA to replace BRT with VAT in terms of the VAT calculation and exempt as well as zero-rated items of per VAT law and identified HS tariff codes.			01:01:2019	01:08:2019		

#	OBJECTIVE	TASKS AND ACTIVITIES	TASK LEAD	START	FINISH	BENCHMARK/ INDICATOR	COMMENTS
2.3	Adjustments to the Customs value in ACYCUDA to calculate the VAT payable on imported goods			01:01:2019	01:01:2020		
2.4	User testing of changes to ASYCUDA			01:01:2020	01:06:2020		
2.5	Review of new Customs law that is in process of being drafted to ensure alignment between VAT law and new Customs law, especially in terms of temporary imports and payments as security.			01:01:2019	01:01:2020		
2.6	Review and alignment of Customs processes and procedures with VAT requirements.			01:01:2019	01:01:2020		

#	OBJECTIVE	TASKS AND ACTIVITIES	TASK LEAD	START	FINISH	BENCHMARK/ INDICATOR	COMMENTS
	Strong focus should be on valuations, post clearance audits, mobile verification and assessments.						
2.7	Development of proposal and procedures for joint ARD and ACD special investigations to counter smuggling, ghost exports and round-tripping as well as other VAT evasion and fraud schemes.			01:01:2019	01:01:2020		
2.8	Training of Customs staff			01:09:2018	01:12:2018		
2.9	Exchange of information for risk management and profiling			01:01:2019	01:08:2019		
2.10	Higher level training and co-operation with PCA, investigation and mobile verification			01:06:2019	01:01:2020		

#	OBJECTIVE	TASKS AND ACTIVITIES	TASK LEAD	START	FINISH	BENCHMARK/ INDICATOR	COMMENTS
	teams to ensure compliance						
3	Effective transition for importers and customs brokers from paying BRT on imports to paying VAT on taxable imports						
3.1	Understand the obligations and requirements of the VAT law			01:01:2020	01:12:2020		
3.2	Understand and able to apply the provisions of the VAT law (Article 16) in terms of the basis for determining the value of imports for the calculation of VAT			01:01:2020	01:12:2020		
3.3	Good understanding of the VAT provisions in terms of temporary imports, goods in Customs warehouses and duty-free zones as well as security payment requirements when applicable.			01:01:2020	01:12:2020		

#	OBJECTIVE	TASKS AND ACTIVITIES	TASK LEAD	START	FINISH	BENCHMARK/ INDICATOR	COMMENTS
3.4	Good understanding of the requirements in terms of documentation on imports and exports			01:01:2020	01:12:2020		
4	Ensure VAT awareness amongst the general public						
4.1	Ensure clarity amongst the general public of the implications and advantages of introducing VAT			01:06:2018	01:12:2020		
4.2	Use a mix of media tools to get positive message to consumers			01:01:2019	01:12:2020		
4.3	Provide general information and awareness pamphlets to the public			01:01:2019	01:12:2020		
4.4	Ensure that businesses (taxpayers) below the threshold for VAT registration understand the requirements for compulsory registration as well as the provisions regarding voluntary registration for VAT.			01:06:2019	01:12:2020		
5	Effective and smooth transition for VAT registered taxpayers from BRT to VAT						

#	OBJECTIVE	TASKS AND ACTIVITIES	TASK LEAD	START	FINISH	BENCHMARK/ INDICATOR	COMMENTS
5.1	Invoicing to meet requirements of VAT law			01:6:2019	01:06:2020		
5.2	Accounting in line with requirements of the VAT law with VAT control accounts			01:1:2019	01:12:2020		
5.3	Pricing and price labels according to requirements of the VAT law			01:1:2019	01:12:2020		
5.4	Advertising and marketing material to be revised			01:6:2019	01:12:2020		
5.5	Review of current suppliers and consideration of alternative suppliers registered for VAT if current supplier not VAT registered			01:1:2020	01:12:2020		
5.6	System changes, including accounting systems, management information and any other relevant system			01:1:2020	01:12:2020		
5.7	Alignment of procedures with VAT requirements			01:1:2020	01:12:2020		

#	OBJECTIVE	TASKS AND ACTIVITIES	TASK LEAD	START	FINISH	BENCHMARK/ INDICATOR	COMMENTS
5.8	Knowledge of the VAT law and all relevant obligations and requirements			01:1:2020	01:12:2020		
5.9	Resources required for additional tasks to comply with all VAT obligations and requirement			01:1:2020	01:12:2020		
6	Effective and smooth transition for tax practitioners and accountants from BRT to VAT						
6.1	Good knowledge and understanding of the VAT law, the taxpayer obligations and requirements and the consequences of non-compliance			01:6:2020	01:12:2020		
6.2	Good understanding of the VAT procedures and processes for registration, deregistration, filing returns, objecting to assessments raised by auditors and the appeal process.			01:6:2020	01:12:2020		
6.3	Attending VAT seminars, using the VAT guides, ARD website and VAT helpdesk			01:1:2020	01:12:2020		

#	OBJECTIVE	TASKS AND ACTIVITIES	TASK LEAD	START	FINISH	BENCHMARK/ INDICATOR	COMMENTS
6.4	Good cooperation with refund verification officials, VAT auditors and investigators			01:6:2020	01:12:2020		
6.5	Alerting ARD and reporting suspicious transactions and activities by taxpayers			01:6:2020	01:12:2020		
7	Readiness and capacity of the other role-players to ensure optimum VAT compliance and payment of legitimate and approved VAT refunds without delay						
7.1	Thorough training of relevant staff in Attorney General's Office on the VAT law, accounting, forensic audit/investigation, the Criminal Procedures law and the Law of Evidence.			01:1:2020	01:12:2020		
7.2	Review of the Criminal Procedures law and Law of Evidence to ensure that VAT fraud can be dealt with effectively.			01:1:2020	01:12:2020		
7.3	Development of a VAT refund procedure that is streamlined with reduced approval stages on the MoF side.			01:1:2019	01:12:2019		

#	OBJECTIVE	TASKS AND ACTIVITIES	TASK LEAD	START	FINISH	BENCHMARK/ INDICATOR	COMMENTS
7.4	Training of Treasury and MoF staff in the procedure			01:1:2020	01:12:2020		
7.5	Timely approval and allocation of VAT refund budget for every financial year.			01:1:2020	01:12:2020		
7.6	Development of a Revenue Account system that will allow VAT refunds to be paid directly to taxpayers from the account.			01:6:2019	01:06:2020		
7.7	Effective communication and exchange of information between the different role-players.			01:6:2019	01:06:2020		

4. Identification of risk factors

The following challenges to successful implementation require robust change management interventions.

Resistance to change

People will naturally resist change because it means breaking from habitual and familiar routines. For some employees there will be compelling reasons to actively prevent change, if for example their jobs are actually or perceived to be threatened. In such circumstances employees adopt a very egocentric position which is manifested by concerns about how change will affect them, rather than promoting change for the benefit of the organisation, and by inference their fellow employees (and in this context, the citizens of Afghanistan).

Corruption may also be a reason for resisting change and makes overcoming resistance to change especially difficult. This difficulty is compounded in organisations, such as the ARD, where salaries are low, sanctions are inadequate and good performance is not assessed or rewarded effectively.

Resistance to VAT as a new tax

Governments and their leaders must draw heavily on political capital to sponsor the implementation of VAT, and this can be particularly difficult if that capital is fragile or there are other mitigating circumstances; for example, a pending election creates political hesitation. The Presidential election in Afghanistan is scheduled for 5 April 2014 which is just after VAT is scheduled to be introduced.

Customs

The key challenges relating to Customs (ACD) lie in the rate of VAT as compared to the current BRT rate, the impact that this increase is likely to have on importer behavior (smuggling) and collection of duties and VAT, ACD responses to increased evasion, and 'ownership' of VAT.

The difference between the current BRT of 4 % on imports as opposed to VAT of 10 % on imports, is regarded as a major challenge by administrators. The majority of importers will not be able to claim credit on the VAT paid on imports due to the restrictions on taxpayers who can register for VAT at the time of implementation (i.e. must make taxable supplies of 150 million or more and voluntary registrations are not permitted for two years after the commencement date). Based on recent discussions with Customs officials, ACD believe that the introduction of VAT at a rate of 10% will increase smuggling significantly and cause great losses in revenue, both in terms of customs duties and collections of the current BRT; although this has not quantified. VAT revenue projections undertaken in 2012 factored in a 20% increase in smuggling; thus acknowledging the high likelihood of this behavior.

Apart from getting the necessary procedures and systems (including the ASYCUDA interface) in place to collect VAT charged on imports, close co-operation and joint

operations will be necessary to collect the tax correctly, educate importers, counter “ghost” exports, round tripping and “missing trader” schemes which can result in a great loss of revenue and fraudulent refund claims.

The ARD is the primary implementing agency for VAT within the Ministry of Finance. However, the role of Customs cannot be underestimated; they are an integral implementing partner because the vast majority of VAT collections will occur at the point of import. As such, collaboration and co-operation with Customs is essential to project success. To date, engagement with Customs has been sub-optimal. The engagement level needs to improve in order the likelihood of a successful VAT implementation.

Skills levels

Current skills level in all key areas such as taxpayer service, enforcement (filing and payment), audit, and the use of automated processes require significant strengthening to support VAT implementation, administration and compliance.

The administration of VAT will require a deep understanding of new tax laws (VAT and Tax Administration laws). This will place a significant burden on staff to develop high levels of expertise within required time frames. There is already a shortage of expertise in legal support, risk analysis, risk management and audit. No criminal investigations capacity exists.

The functions which manage returns, information collection, data capture and filing and administration will need additional staff who must comply with SIGTAS procedures, for which training must be provided.

SIGTAS

SIGTAS (Standard Integrated Tax Administration System) is the tax administration software system currently being implemented into the ARD. SIGTAS will support the core tax administration functions for existing taxes. These functions include registration, payments, assessments, document and filing, refunds, enforcement (payment and filing) and audit. It is proposed to procure the VAT software module from the SIGAS vendor to support the automated administration of VAT.

However, the business ownership and uptake of SIGTAS, generally, appears to be an ongoing issue, with only a few of the core modules implemented within the ARD.

There are delays in the negotiations with the software provider for the provision of the SIGATS VAT software module. This presents a risk for VAT implementation as automation is important to ensure the most effective and efficient administration of the tax and to reduce risks to revenue.

One feature of SIGTAS is the ability to interface directly with the banks receiving tax payments. The bank interface has the potential to increase the efficiency in relation to accurately recording taxpayer’s tax payments. The bank interface is not operational but the implementation of same has the potential to significantly improve VAT administration.

ISLAMIC REPUBLIC OF AFGHANISTAN
MINISTRY OF FINANCE
AFGHANISTAN REVENUE DEPARTMENT

VAT Transitional Plan Risk Assessment updated December 2017

Risk No	Risk Description	Risk Impact	Impact Rating	Likelihood Rating	Mitigation Activities	Status at November 2017	Action Plan	
<i>2017 New Risks Classified as Severe</i>								
1	Administrative readiness to issue refunds/Delaying refunds when government budgets are under pressure	<ul style="list-style-type: none"> VAT fails – Govt. policy objectives are not realized Loss of community confidence in the integrity of the tax and it's administration Increased taxpayer evasion and avoidance Not a level playing field – competitiveness of exporters is compromised; businesses with large start- up capital costs become un-competitive Constraints on business cash flow and negative impact on investment 	3	3	<ul style="list-style-type: none"> Early engagement and involvement of key stakeholders Early decisions on key refund design issues – who issues, admin. Processes etc.) Regular monitoring, review and reporting on project plan Manage political aspect; VAT collected by one depart, refunds from another's budget Manual refund process if systems cannot support refunds 	VAT refunds management concept paper has been developed to share with Steering Committee members	No	Follow up with Steering Committee members
2	ARD staff do not have the right skills (presentation)	<ul style="list-style-type: none"> Stakeholders are not adequately informed and educated 	2	2	<ul style="list-style-type: none"> Training needs identified through training needs analysis 	Technical knowledge is vested in non VAT staff (Legal)	No	Focus on core stakeholders and core needs

Risk No	Risk Description	Risk Impact	Impact Rating	Likelihood Rating	Mitigation Activities	Status at November 2017		Action Plan
	skills/subject matter knowledge)	<ul style="list-style-type: none"> Resistance to VAT implementation Lower than expected compliance Lower than expected capability and numbers to manage compliance issues 			<ul style="list-style-type: none"> Timely development of quality training packages The right training provided to the right people at the right time Advisor support provided as necessary 	<p><i>and Policy directorate staff)</i></p> <p><i>Recruitment delays impact the ability to develop technical excellence in 1397 staff</i></p> <p><i>1397 Tashkeel proposes substantial new numbers of staff; based on recruitment progress for 1397; these staff may not be recruited in time to acquire the necessary skills and knowledge to administer VAT will implement on 21 Dec 2020 start date</i></p>		<p><i>Build expertise by 'buddying' new staff with experienced ARD staff and advisors where contact with taxpayers is face to face</i></p> <p><i>Deliver information and awareness through multiple channels that do not depend on face to face contact (one to many)</i></p>
3	Failure to manage workforce planning issues properly (not timely/integrated)	<ul style="list-style-type: none"> The right staff (skills and numbers) are not available at the right time Delay or derail project 	2.5/3	1	<ul style="list-style-type: none"> Early engagement and involvement of key stakeholders 	<p><i>New VAT Sub-Directorate approved in 1397 Tashkeel with 10 positions. .</i></p>	No	<p><i>Continue to liaise with HR re recruitment</i></p>

Risk No	Risk Description	Risk Impact	Impact Rating	Likelihood Rating	Mitigation Activities	Status at November 2017	Action Plan
		<ul style="list-style-type: none"> Short time span between appointment and VAT start date (03/14) impacts time to develop adequate capability 			<ul style="list-style-type: none"> Tactical planning for increase to Tashkeel Regular monitoring, review and reporting on project plan 		<i>Escalate to DG/DM/Steering Committee</i>
2017 New Risks Classified as High							
Risks Classified as High							
	Failure for IR of Afghanistan to make provision in line budgets for Gov't departments to account for VAT	<ul style="list-style-type: none"> Impacts expenditure Does not reflect true cost of running Departments 	3	2	<ul style="list-style-type: none"> Commence discussions with Budget 		<i>Escalate to Steering Committee as issue and obtain agreement to commence discussions with Budget</i>

1	2	3	4	5	6	7	8	9
	Risk Description	Risk Impact			Mitigation Activities	Status at November 2017		Action Plan
4	System changes cannot be delivered on time	<ul style="list-style-type: none"> May delay or derail project System is inoperable on 'go live' day Reputational risks – system & administration Increased compliance costs Risk to revenue 'Work around' need to be developed Increased project costs (over budget) 	3	1	<ul style="list-style-type: none"> Development and approval of robust and complete specifications – avoid scope creep Effective change request processes Non-essential 'nice to have' features are excluded Regular monitoring, review and reporting on project plan Regular engagement between vendor and client 	<p><i>ARD working closely with SIGTAS team to customise and test the module. The module is expected to be available when required and to meet requirements of Afghanistan</i></p>	<p>Recommendation: Reduce rating to 'low/moderate'</p>	
5	Inadequate risk management strategy development	<ul style="list-style-type: none"> Major compliance risks are not identified Compliance activities are not risk based Inefficient use of ARD/ACD resources Increased costs of compliance for taxpayers Risk to revenue 	3	2	<ul style="list-style-type: none"> Early engagement and involvement with taxpayers Compliance activities are executed as planned Operational plans are in place before go-live 	This is a post implementation activity	No	Strategies will be developed and monitored as part of the VAT Compliance Strategy

1	2	3	4	5	6	7	8	9
	Risk Description	Risk Impact			Mitigation Activities	Status at November 2017		Action Plan
					<ul style="list-style-type: none"> Monitoring is conducted and reported on as planned Actual revenue generation is compared to revenue expectations 			
Risks Classified as Medium								
New	Amendment to draft VAT law to update commencement date	<ul style="list-style-type: none"> VAT commencement date does not align with revised IR of Afghanistan policy 	2	2	<ul style="list-style-type: none"> Issue has been escalated to DM & DG (verbally and in writing) 	New Risk	N/A	Continue to monitor and escalate to DG and DM as the draft law progresses through Parliament
6	Data transfer between Customs and ARD is not timely or does not work as designed	<ul style="list-style-type: none"> Work--around' required 		44	<ul style="list-style-type: none"> Data transfer between Customs and ARD is not timely or does not work as designed 	Work--around' required		44
7	Lack of clear accountability for project deliverables	<ul style="list-style-type: none"> May delay or derail project Tasks may not be completed as planned Downstream impacts resulting from failure to complete tasks as planned 	2	2	<ul style="list-style-type: none"> Robust governance structure in place Early stakeholder engagement and involvement Detailed project plan 		No	

1	2	3	4	5	6	7	8	9
	Risk Description	Risk Impact			Mitigation Activities	Status at November 2017		Action Plan
					<ul style="list-style-type: none"> Clear and documented assignment of responsibility for project deliverables Early communication of project plan and schedule to impacted people Regular monitoring, review and reporting on project plan 			
8	Lack of leadership direction; inability or deferral of decision making	<ul style="list-style-type: none"> May derail or delay project Failure to achieve critical milestones by the due date 	2	2	<ul style="list-style-type: none"> Robust governance structure in place Early stakeholder engagement and involvement Regular monitoring and reporting on project plan Develop and implement comprehensive change management strategy 		No	

1	2	3	4	5	6	7	8	9
	Risk Description	Risk Impact			Mitigation Activities	Status at November 2017		Action Plan
					<ul style="list-style-type: none"> Robust project governance structure Processes to escalate and resolve issues 			
9	Loss of key personnel	<ul style="list-style-type: none"> May derail or delay project Knowledge vacuum 	2.5/3	2	<ul style="list-style-type: none"> Regularly sharing key project information Working in teams Succession planning 		No	
10	Failure to update other technical manuals	<ul style="list-style-type: none"> Lack of guidance to impacted staff Confusion around operation of law for particular issues/groups Taxpayers with the same circumstances may receive inconsistent treatment VAT training packages incomplete Insufficient resources to undertake this work in a timely way 	2	2	<ul style="list-style-type: none"> Early engagement and involvement of key stakeholders Regular monitoring, review and reporting on project plan 	<i>Development and updating other technical manuals is expected to be delivered as planned</i>	No	
11	Lack of middle management readiness for change - blockage of progress,	<ul style="list-style-type: none"> May derail or delay project Inadequate time to properly resource ARD/ACD 	2	2	<ul style="list-style-type: none"> Development and delivery of change management strategy, including internal 		No	

1	2	3	4	5	6	7	8	9
	Risk Description	Risk Impact			Mitigation Activities	Status at November 2017		Action Plan
	resourcing problems	<ul style="list-style-type: none"> Recruitment delays will impact staff development and training 			communication strategy			
12	Knowledge/skills needs not identified on time	<ul style="list-style-type: none"> Training is not delivered to the right staff at the right time Staff may not have knowledge/skills to do their jobs effectively or efficiently 	2	2	<ul style="list-style-type: none"> Research job requirements to understand core competencies Well-designed training needs analysis that identifies: <ul style="list-style-type: none"> Target groups Training scope (Skills/ knowledge /competency) Timing (priority) Training needs analysis conducted at the right time 		No	
13	System changes cannot be delivered on budget	<ul style="list-style-type: none"> May delay or derail project Need to source additional funds May take time to source additional funds Some features may need to be excluded 	2.5/3	2	<ul style="list-style-type: none"> Development and approval of robust and complete specifications – avoid scope creep Realistic costings, not 'best case' scenario 	<i>Customisation is kept to essential modifications to reduce cost/risk</i> <i>Procurement is 'fixed price'</i>	Recommendation: Decrease rating to 'low'	

1	2	3	4	5	6	7	8	9
	Risk Description	Risk Impact			Mitigation Activities	Status at November 2017		Action Plan
					<ul style="list-style-type: none"> Regular monitoring, review and reporting on project plan (including budget) Effective change request processes Regular engagement between vendor and client 			
15	System changes are not delivered in accordance with functional specifications or to expected quality standards	<ul style="list-style-type: none"> May delay or derail project Additional costs (time and money) due to rework – over budget System may be unable to perform some/all key tasks Loss of staff confidence in the system Compliance/enforcement strategies may be impacted Risk to revenue 	2.5/3	2	<ul style="list-style-type: none"> Agreed and approved quality standards, included in functional specifications Robust testing Regular engagement between vendor and client 	<i>Customisation and testing is in progress – no significant issues or 'blockers' identified</i>	Recommendation: Reduce rating to 'low'	
16	Failure to communicate and assure collection processes	<ul style="list-style-type: none"> VAT not collected in all locations and revenue less than forecast VAT revenue is reported & accounted for incorrectly 	2.5/3	2	<ul style="list-style-type: none"> Early engagement and involvement of key stakeholders Delivery of appropriate 		No	

1	2	3	4	5	6	7	8	9
	Risk Description	Risk Impact			Mitigation Activities	Status at November 2017		Action Plan
		<ul style="list-style-type: none"> Reverse workflow to account for VAT correctly Need to introduce manual 'work-arounds' Importers classify goods incorrectly; not detected 			<ul style="list-style-type: none"> knowledge & skills development training Regular monitoring, review and reporting on project plan Post implementation review; assure processes 			
17	Failure to identify all taxpayers required to register for VAT	<ul style="list-style-type: none"> Inequitable treatment of taxpayers Risk to revenue 	3	1	<ul style="list-style-type: none"> Involvement of Fiscal Policy Unit Robust data analysis Robust registration activities Engagement of key stakeholders where taxpayers cannot be accessed e.g. Provinces 		No	
18	Advisory activities are not properly planned or implemented	<ul style="list-style-type: none"> Taxpayers are not ready for VAT Increased costs of compliance (taxpayer and administration) Risk to revenue 	2	2	<ul style="list-style-type: none"> Early engagement and involvement with taxpayers Operational plans are risk-based & 	<i>Geographic dispersal of potential client base, delays in recruitment (1397 and</i>	<i>Recommendation: Increase rating to 'high/severe'</i>	<i>Development of alternative strategies to deliver essential information to key stakeholders</i>

1	2	3	4	5	6	7	8	9
	Risk Description	Risk Impact			Mitigation Activities	Status at November 2017		Action Plan
					<p>developed well in advance</p> <ul style="list-style-type: none"> Monitoring plan in place, Documented revenue generation expectations Contingency options are developed where timeframes impact negatively on planned activities. 	<i>1398), and potential delays in law enactment impacts timing and quality of advisory activities, and quality of outcomes (i.e. ability of taxpayers to voluntarily comply with VAT obligations)</i>		<i>– e.g. alternate delivery channels, making advisory visits optional, using one to many options such as seminars</i>
Risks Classified as Low								
19	Regulations are not completed as scheduled	<ul style="list-style-type: none"> Lack of clarity around administrative aspects of the law Actual administration of law may be contrary to intent 	2	1	<ul style="list-style-type: none"> Early engagement and involvement of key stakeholders Regular monitoring, review and reporting on project plan 		No	
20	VAT interpretation manual not completed in a timely way	Lack of guidance to impacted staff		18	VAT interpretation manual not completed in a timely way	Lack of guidance to impacted staff		18

1	2	3	4	5	6	7	8	9
	Risk Description	Risk Impact			Mitigation Activities	Status at November 2017		Action Plan
21	Failure to align relevant financial systems	VAT revenue is reported and accounted for incorrectly		47	Failure to align relevant financial systems	VAT revenue is reported and accounted for incorrectly		47
22	Insufficient time allocated for staff training	Insufficient time allocated for staff training		34	Insufficient time allocated for staff training	34		34
23	Failure to identify appropriate topics for public rulings	<ul style="list-style-type: none"> Confusion around operation of law for particular issues/groups Increased work flow due to taxpayer enquiries, requests for advice, requests for private rulings and return amendment requests Taxpayers with the same circumstances may receive inconsistent treatment 	1	2	<ul style="list-style-type: none"> Early engagement and involvement of key stakeholders Regular monitoring, review and reporting on project plan 		No	
24	Failure to communicate rulings to impacted stakeholders	<ul style="list-style-type: none"> Confusion around operation of law for particular issues/groups Reverse work flow due to taxpayer enquiries, requests for advice, private rulings and amendments 	1	2	<ul style="list-style-type: none"> Preparation of a comprehensive stakeholder management plan Ensuring MOF involvement in rulings process 		No	

1	2	3	4	5	6	7	8	9
	Risk Description	Risk Impact			Mitigation Activities	Status at November 2017		Action Plan
		<ul style="list-style-type: none"> Taxpayers with the same circumstances may receive inconsistent treatment 			<ul style="list-style-type: none"> Regular monitoring, review and reporting on project plan 			
25	Inadequate stakeholder identification	<ul style="list-style-type: none"> Resistance to VAT implementation Stakeholders are not informed and educated Lower than expected compliance 	2	1	<ul style="list-style-type: none"> Development of comprehensive stakeholder management plan with input from relevant parties Regular monitoring, review and reporting on project plan 		No	
26	Future ARD/ACD accommodation and office set up requirements are not clearly defined and/or procured	<ul style="list-style-type: none"> Compromises ability to administer VAT effectively and efficiently Overcrowding in existing offices 	2	1	<ul style="list-style-type: none"> Early engagement and involvement of key stakeholders Early identification of funding requirements, including preparation of funding requests where necessary 		No	
27	Business processes are not adequately mapped out and documented	<ul style="list-style-type: none"> Staff do not know how to do their jobs Taxpayers receive inconsistent treatment for the same activity 	2	1	<ul style="list-style-type: none"> Early stakeholder engagement and involvement 		No	

1	2	3	4	5	6	7	8	9
	Risk Description	Risk Impact			Mitigation Activities	Status at November 2017		Action Plan
		<ul style="list-style-type: none"> Increased costs of compliance 			<ul style="list-style-type: none"> Processes co-designed with relevant area Processes user tested and approved Staff receive timely training 			
28	Failure to establish General ledger code in Government accounts	<ul style="list-style-type: none"> VAT collections cannot be identified easily Work arounds' required 	2	1	<ul style="list-style-type: none"> Early engagement and involvement of key stakeholders Regular monitoring, review and reporting on project plan 		No	