

Value-Added Tax Frequently Asked Questions (FAQs)

1. What is Value Added Tax?

Value Added Tax (VAT) is an indirect tax on the consumption of goods and services within the territory of Afghanistan. VAT on domestic business transactions is collected by the businesses, acting on behalf of the VAT authorities, at each stage of the business cycle. In addition, VAT is collected by the Customs on imports of goods. Ultimately, VAT is paid by the end-consumer.

In other words, VAT is an indirect multi-stage tax borne by the final consumer. Many stakeholders are involved in the process; between producer/ importer and final consumer, all stakeholders are intermediary in the process of paying VAT on their inputs, collecting VAT on their outputs and passing on the difference to the VAT authorities until the goods and the services reach the final consumer.

2. Is VAT an additional tax?

No, VAT will replace Business Receipt Tax.

3. Why does the Afghan government want to implement VAT?

For the following six main reasons:

1. Reduction of international aid year by year.
2. More than 50% of Afghanistan's budget is financed by donors, which must be fully funded from domestic revenues in the future.
3. To enter into international protocols and agreements
4. Value added tax is a modern and appropriate tax compared to BRT.
5. With the implementation of this tax, the country will move towards financial and economic stability.
6. Increase domestic revenues and reduce reliance on foreign aid.

4. What is the difference between Value-added Tax and Business Receipt Tax?

There are many differences between VAT and BRT, but the main difference is that VAT is paid on goods, services, and imports at only one standard rate of 10%, with a zero-rate and exemptions for basic food and basic household materials. By contrast, BRT is levied on goods, services, and imports at three different rates 4%, 5%, and 10%, with no exemption for basic food and household materials. Unlike BRT, VAT has no cascading effects, because VAT on business inputs can be credited against VAT charged on business outputs. VAT is not a tax on the enterprise, but is paid at each stage of the production and supply chain, and it is ultimately paid in full by the final consumer, not by the businesses. Lastly, VAT is way more transparent than BRT and is likely to raise the compliance rate as well.

5. What is threshold for VAT mandatory registration?

A total turnover exceeding 150 million AFN in the past 12 months or the next 12 months.

6. How will VAT be useful for Afghanistan's economy?

VAT will formalize the economy, increase government revenues, contribute to the economic and social development of the country.

7. Is VAT implemented in other countries?

Yes, most (more than 160) countries in the world implement a Value Added Tax (sometimes named GST: Goods and Services Tax), including all of our neighbors, such as Tajikistan, Uzbekistan and Pakistan.

8. What is the difference between goods and services in VAT law?

Goods are movable and immovable property; money is not included in this definition while services are physical or mental activities or a combination of both.

9. What is a VAT invoice?

A Value-Added Tax (VAT) invoice is a document notifying an obligation to make a payment that must be issued by a registered VAT Taxpayer each time he makes a taxable supply of goods or services to another registered VAT Taxpayer. A VAT invoice sets out the details of a taxable supply and all related information as prescribed by VAT law.

10. How does VAT support poor groups in society?

Society's vulnerable or poor groups are protected with zero-rates for basic food & basic household materials and VAT exemptions for health and education services.

11. Is VAT more transparent than BRT?

Yes, VAT is less vulnerable for tax evasion, avoidance and fraud, because VAT can be followed through the production, distribution and supply chain, where the VAT paid on a supply can be credited against VAT charged on the next supply in the chain. Thanks to that mechanism, ARD can track and trace the VAT and detect more easily where evasion, fraud or any other tax violations will happen. Moreover, the experience of more than 160 countries around the world shows that VAT supports the modern and stronger tax culture and has higher transparency compared to other indirect taxes.

12. What Afghanistan Revenue Department has done for VAT implementation so far?

ARD has finalized and approved the VAT law and the VAT regulation and has developed VAT procedures and guidelines. Moreover, ARD made progress on the development VAT module in SIGTAS (Standard Integrated Government Tax Administration System). ARD also already conducted many public awareness programs and carried out many other required tasks to prepare for VAT implementation. ARD is ready to introduce VAT in 1400 (beginning of FY 1401) and is taking all the necessary and practical measures to introduce it.

13. Once VAT is successfully implemented, will the non-VAT registered taxpayers still pay BRT?

No, VAT will fully replace BRT.

14. Will the implementation of VAT increase the inflation rate?

International experience shows that VAT implementation with a high standard rate will raise inflation slightly. So, since in Afghanistan standard VAT rate is 10%, which is way below the rates applied in other countries, introduction of the VAT is not likely to significantly increase the inflation rate.

15. Is export subjected to Value Added Tax?

No, one of the advantages of the VAT is that the system supports domestic production for export, strengthening the private sector. All exported goods and services are subject to VAT at the rate of zero percent (this is an exemption with the right to deduct the VAT paid on inputs to the exports).

16. Are there any exemptions in VAT?

In order to make VAT a more progressive tax, ARD has provided exemptions for products and services that are mostly used by poorer people. The following goods and services are exempted:

- Health services
- Education Services
- Financial and insurance services
- Religious services
- Humanitarian aid
- Goods and services for the purpose of post-disaster natural disasters
- Sport Services
- Transfer of property for personal residency

17. Are there any goods and services which are subject to zero-rate in the VAT law?

Yes, the VAT Law provides exemptions and zero-rates for basic necessities, in order to avoid price increases for goods and services most used by the poorer segment of society. VAT provides a zero-rate for the following goods and services:

- International land transport of goods or passengers including the supply of goods and services related to such transport
- Supply and import of basic food stuff (wheat, flour, rice, sugar, cooking oil, tea, onion, potato and salt)
- Supply of basic materials used for household purposes (coal, fire wood, liquid gas and soap)

18. What is difference between exemptions and zero-rate?

The main difference is that zero-rated supplies are supplies of goods on which the supplier must charge VAT at the rate of zero % and for which the supplier can still claim back the VAT paid on inputs for such supplies.

Exempt supplies are supplies of goods and services on which the supplier cannot charge VAT and cannot claim back the VAT paid on inputs for such supplies.

19. How does the refund process works?

VAT refunds occur when in the course of a tax period (a quarter of a year or a month) a Taxpayer registered for VAT has paid more VAT on inputs to his business than the amount he has charged during that period on supplies to his customers. This will normally be the case if the taxpayer mainly exports goods because export supplies are zero-rated while credit is allowed for the VAT paid on inputs to export supplies. When a VAT refund claim is received, ARD will use advanced risk analysis to select a number of refund claims which will be examined by reviewing the supporting documents (such as import, export, purchase, sale, liability and stock documents) the Taxpayer is required to submit to ARD upon request. The refund will be paid according to article 25 of VAT law and according to article 53, 54, 55 and 56 articles of VAT regulation by direct deposit into the Taxpayer's bank account within 45 days after the claim was received by the ARD, unless an examination shows that the claim is not justified. In any event, the ARD can still audit claims that were not specifically examined at a later date.

20. Which taxpayers should pay VAT?

Any person, whether it is a private individual, a group of persons, an enterprise, a business, a Government institution or a registered VAT Taxpayer who imports goods will have to pay VAT on that import, except if that import is zero-rated or exempt. Only Taxpayers registered for VAT with the ARD will charge VAT on all their sales of goods and services made within Afghanistan, no matter who their customer is (except, again if the sale is zero-rated or exempt from VAT). Any person who carries out one or more economic activities and has made a total turnover equal or exceeding 150 million Afs during a 12-month period or who estimates that in the coming period of 12 months (s)he will make such turnover is obliged to register for VAT with the ARD. However, if a person has a turnover which consists exclusively of supplies of goods and services that are exempt from VAT, that person does not have to register for VAT.

To be fully clear, the VAT is ultimately always paid by the final consumer; a registered VAT Taxpayer only collects the VAT from his customers and passes on that VAT to the ARD every quarter or month, after first deducting the VAT he has paid to his own suppliers on inputs to his business. The registered VAT Taxpayer therefore does not 'pay' VAT, except on his own consumption of goods and services.

20. What is the VAT rate?

Afghanistan has only a single standard rate of 10% and the zero-rate will be used for exports and other basic life necessities. The VAT rate in neighboring countries is much higher than in Afghanistan.

1. Pakistan: 17%
2. Kyrgyzstan: 12%
3. Turkmenistan: 15%
4. Tajikistan: 18%
5. Uzbekistan: 15%

21. What will happen if a whole enterprise or part of a the business is transferred?

According to Article 6 of the VAT Law, the supply of goods for the purpose of the transfer of part or the whole of a business as a going concern by a registered person to another registered person is subject to the zero-rate, on condition that the parties to the transaction have agreed in writing to this transfer and have notified the Ministry of Finance in writing in advance of the transfer.

22. What are VAT accounting documents?

Your VAT records should include the VAT invoices you have been given for purchases - with details of the input tax you have paid - and copies of your sales invoices. Your records will also need to include a VAT account, showing how total input tax and output tax has been worked out to be included in your VAT returns. Moreover, VAT import documents should be kept as well and for each item subject to VAT, a tax invoice must be issued, from one registered person to another.

23. What are other necessary documents should be kept for VAT taxpayers?

VAT registered taxpayers must keep the following documents:

- VAT Registration Certificate
- VAT Invoices and receipts from suppliers
- Orders and Delivery Notes
- VAT Debit Notes received
- VAT Credit Notes received
- Import Documents
- Export Documents
- Legal documents, including contracts

- Journals and Ledgers
- Value Added Tax accounts
- Bank statements, information and financial transaction
- Income statements
- Asset registration documents and inventory and stock take records
- Copies of (to be kept in in chronological order):
 - VAT invoices issued
 - VAT Debit Notes issued
 - VAT Credit Notes issued
 - The VAT Returns submitted.

24. How long should VAT records be kept?

Registered persons are required to keep the documents relative to VAT implementation for a period of five years after the due date for filing the return for the tax period during which these documents were issued or received. If the registered person is late in filing the tax return, the five-year period doesn't begin until the person submits his VAT return.

25. What is a VAT audit and how a case will select for VAT audit?

VAT Audit is the process where the Afghanistan Revenue Department will assess the general compliance level of a registered VAT Taxpayer with the VAT legislation and verify if the amounts entered in (selected) VAT Returns submitted by that Taxpayer truthfully, completely and accurately reflect the VAT consequences of the Taxpayer's actual transactions during the respective tax periods covered by these VAT Returns. ARD will use various indicators and information from various sources to select Taxpayers to be audited, based on risk levels.

26. What is input VAT?

Input VAT is the VAT that has been charged by a supplier to his customer when (s)he supplied goods or services to that customer. If that customer is a registered VAT Taxpayer and (s)he purchased these goods or services for use in his business (for example for resale or for use in the production or distribution of other goods or services), then (s)he can credit the input tax against the VAT he collects from his own customers on the supplies he makes.

27. What is output VAT?

Output VAT is VAT which you must calculate and collect from your customer when you sell/supply goods and services, provided that you are a registered VAT Taxpayer.

28. Can a taxpayer claim for refund if s/he provides an exempt supply?

No, if a registered VAT Taxpayer provides an exempt supply, (s)he cannot charge VAT on that supply and (s)he is also not allowed to claim any credit for input tax (s)he might have paid on the purchase or import of goods or services relative to, for example the production of the exempt good or service (S)he supplies. As no credit is allowed for input VAT, there cannot be a refund of that input VAT.

29. Can a taxpayer claim for refund if s/he provides zero-rate supply?

Yes, zero-rate generally means that no output tax is charged, but input tax is creditable and refundable under specified conditions.

30. Generally, when can a person claim for refund?

Only a registered VAT Taxpayer can claim a refund if, for a particular VAT period (a quarter of a year or a month) the total VAT (s)he paid on business inputs is higher than the VAT he charged to his/her customers on outputs (supplies of goods and services) during that period and provided (s)he was not able to exhaust the excess credit by carrying it forward to the next 2 VAT periods for off-setting against VAT charged on supplies made during these periods. The remaining amount of excess credit will be refunded by the Ministry of Finance within 45 days of submitting the request by taxpayer.

However, where the regular features of the economic activity of the Taxpayer are such that the credit VAT for a tax period cannot be offset against the VAT charged during that period (for example because the Taxpayer exports most or all of his/her output and therefore has no or very little output VAT because exports are taxable but the VAT rate is zero %), upon the taxpayer's application in writing, the (remaining) amount of excess credit will be refunded by the Ministry of Finance within 45 days from the date of the lodgment of the Value Added Tax return.

31. Are there any specific programs for taxpayers' awareness related to VAT?

The Afghanistan Revenue Department has planned some awareness programs to all taxpayers. Also, for more information about VAT, taxpayers and others can visit ard.gov.af or can contact the ARD VAT department through an official email at the address vat2022@mof.gov.af or they can call 1000.

32. Which Departments are responsible for VAT collection?

That are the following two Departments:

1. Afghanistan Customs Department (ACD) for imports.
2. Afghanistan Revenue Department (ARD) for domestic supplies of goods and services.

33. Are there any penalties for VAT violators? Please explain.

All penalties and fines for VAT violators and non-compliance are stated in the Chapters 9 and 10 of the Tax Administration Law (Articles 34 to 48).

34. Can businesses register themselves if they have a turnover in previous and coming 12 months of less than 150 million?

Businesses with an annual turnover of less than 150 million cannot apply for mandatory registration, but they can register themselves as volunteer VAT taxpayers, if they meet the requirements of article 8 of the VAT Law and article 23 of the VAT Regulation.

The most important requirements are:

1. The businesses making taxable supplies;
2. At least 75% of the business's taxable supplies are to registered VAT taxpayers or at least 25% of the supplies made are for export;
3. The business has a fixed place of economic activity;
4. The business has complied with all tax laws.

However, Article 23 (6) of the VAT Regulation states that voluntary registration shall take effect only after two years from the entry into force of the VAT Law.

35. Which documents are needed for VAT registration?

The following documents are needed for VAT mandatory registration:

1. The filled-in and signed VAT registration form
2. A copy of valid license
3. Copies of electronic IDs of the President, the Vice president and other shareholders.

4. In case of a non-resident, copies of valid passports of the President, the Vice president and other shareholders.
5. If the company's affairs are carried out by the representative, a copy of the authorization letter from the company.

36. How is VAT collected by ARD?

VAT is an indirect tax, meaning that businesses collect it in the name and on behalf of the ARD: companies add a VAT charge on the price of their goods and services, then pay the VAT collected from their customers to ARD. VAT is charged on supplies of most goods and services made by registered VAT Taxpayers in Afghanistan, as well as on the importation of goods by anyone.

37. What is a VAT Credit note?

A VAT Credit note is a document that must be issued by a supplier to a customer when, as a result of a post-sale adjustment the VAT payable on a taxable supply has decreased. A post-sale adjustment for which a Credit note must be issued by the supplier arises if a taxable supply is cancelled, if the goods (or part thereof) that were the subject of a taxable supply are returned to the supplier and if, for whatever reason, the price of a taxable supply is reduced (for example, a discount was granted, a lower quality of goods had been supplied then was agreed, etc.). Credit notes must contain the data and information required in Article 21 (4) of the VAT Law. The supplier who issues the Credit note must include the adjustment of the amount of VAT due in his VAT Return for the period during which the Credit note is issued. The receiver of the Credit note must include the adjustment in his VAT Return for the period during which he received the Credit note.

38. What is a VAT Debit note?

A VAT Debit note is a document that must be issued by a supplier to his customer when, as a result of a post-sale adjustment the VAT payable on a taxable supply has increased. A post-sale adjustment for which a Debit note must be issued by the supplier arises if, for whatever reason, the price of a taxable supply is increased (for example, the price mentioned in original the invoice for the supply was (by mistake) lower than the price agreed upon, a higher quantity or quality of goods had been supplied then was agreed, etc.). Debit notes must contain the data and information required in Article 21 (2) of the VAT Law. The supplier who issues the Debit note must include the adjustment of the amount of VAT due in his VAT Return for the period during which the Debit note is issued. The receiver of the Debit note must include the adjustment in his VAT Return for the period during which he received the Debit note.

39. What is difference between debit note and credit note?

A credit note must be issued when a supply is cancelled, when goods are returned to the supplier or when the price of the goods supplied has been lowered, while a debit note must be issued when there is an increase in the price of the goods or services supplied or when by mistake the price of the goods or services mentioned in the invoice was too low.

40. When debit and credit notes should be issued?

A debit or credit note must be issued when a change occurs to the original transaction, as proof of the changes in that transaction.

41. What information is required on a VAT debit note and credit note?

AVAT Debit note must show:

1. the title ("VALUE ADDED TAX DEBIT NOTE") on the top of it;
2. the name, address, and Taxpayer Identification Number (TIN) of the supplier and the recipient;

3. a unique serial number and the date of issuance of the debit note;
4. the reason for issuing the debit note, including information to identify the taxable supply to which the VAT debit note relates;
5. the consideration shown on the invoice for the supply, the correct amount of the consideration, the difference between the two considerations, and the amount of VAT that relates to the difference.

A VAT Credit note must show:

1. the title (“VALUE ADDED TAX CREDIT NOTE”) on the top of it;
2. the name, address, and Taxpayer Identification Number (TIN) of the supplier and the recipient;
3. a unique serial number and the date of issuance of the credit note;
4. the reason for issuing of the credit note, including the information to identify the taxable supply to which the VAT credit note relates;
5. the consideration shown on the invoice for the supply, the correct consideration for the supply, the difference between the two considerations, and the amount of VAT that relates to the difference.

42. What will be the VAT return filing requirement? Will it be monthly/quarterly?

The VAT law determines that a VAT tax period is a quarter of a fiscal year or a month. However, the VAT Regulation specifies that the tax period is (normally) a quarter of a fiscal year, but that, at the request of the taxpayer, the Ministry of Finance may determine it to be one month.

43. What documents are required to claim a VAT refund?

A refund of VAT can be obtained in two cases, as follows:

1. a registered VAT taxpayer can claim a refund when for a tax period, the creditable input VAT is higher than the VAT charged/collected on supplies and the excess credit has already been carried forward to the next period two times, without being exhausted. In order to obtain the refund of the remaining excess credit, the taxpayer must submit a written application supported by documents to the ARD; the Ministry of Finance will then refund the amount within 45 days of the date of receipt of the application.
2. if a registered VAT taxpayer supplies mainly goods and services that are taxable at the rate of zero % (because he exports most of his outputs or all or most of his domestic supplies are zero-rated), it is likely that for every tax period the creditable input VAT will be higher than the VAT charged/collected on supplies. In that case, the excess credit cannot be carried forward for deduction in the next VAT period, but the taxpayer can obtain the refund of that excess credit by submitting a written application supported by documents to the ARD; the Ministry of Finance will then refund the amount within 45 days of the date of lodgment of the VAT return.

Note that in case a taxpayer entitled to a refund has not paid due tax liabilities for VAT or any other tax, then the ARD may withhold the refund and offset it against the unpaid tax liabilities, with respect to either VAT or any other tax.

In addition, a taxpayer who has erroneously overpaid tax for a VAT period may apply, within 5 years from the date of overpayment, to the Ministry of Finance for a credit equal to the overpayment to be allowed in the VAT period specified by the Ministry of Finance.

In all cases where a VAT taxpayer applies for a refund of VAT, the application must be supported by documents, which essentially must prove that:

- the excess (input) VAT to be refunded is real, not related to exempt supplies and creditable in accordance with the VAT legislation, and
- the supplies made by the Taxpayer took place abroad or were zero-rated because the goods supplied were effectively exported or were zero-rated by the legislation for another reason.

Such documents may include (but not limited to) invoices received and issued, contracts, Customs and other documents related to imports and exports, shipping bills, transportation documents, bank statements, etc.

44. Does VAT have specific return form?

Yes, the taxpayers are required to use the approved VAT return and submit the form at the latest 30 days after the end of each tax period.

45. How many forms are there for VAT administration?

The following forms for VAT administration have been prepared but only the registration form was finalized. The other forms are in draft version and will be finalized before VAT implementation

1. VAT Registration Form
2. VAT Form for registration, change of information, and cancelation of a branch
3. VAT Registration Certificate
4. VAT Form for cancelation of registration
5. VAT Form for group creation and registration
6. VAT Form for group changes
7. Quarterly/Monthly VAT Return Form
8. Summary of VAT Credits Form
9. Summary of Output VAT Form
10. VAT Offset and Refund Claim Form
11. Application for Deferral of VAT on import of capital goods
12. Application for the status of a regular refund claimant.

46. Does VAT apply to imports?

Yes, the VAT will be applied to the import of all goods and services, no matter who is importing, except if the import is zero-rated or exempt.

47. Are the importers eligible for a VAT credit?

Importers are eligible for a VAT credit if they are registered with the ARD as VAT taxpayers.

48. How much is the VAT rate for imports?

The standard rate of 10% is applicable to domestic supplies as well as to imports, unless the supplies or the imports of goods or services are exempt or zero-rated.

49. How Customs Department collect VAT?

The Customs Department collects VAT at the same time as it collects Customs duties, which is normally on the date the goods enter the country and, in any other case, the date they enter the domestic market (for example, in case of temporary importation, in case goods are placed into Customs warehouses, in case of importation of goods for re-export by the same person, etc.).

50. What impact does VAT have on my business?

Businesses who are required to register as VAT taxpayers are expected to update their systems, processes and procedures in order to ensure that they are able to comply with the VAT legislation. In particular, VAT registered taxpayers must be able to charge VAT at the correct rate and to issue a VAT invoice each time they make a supply of goods and/or services, to pay VAT to their suppliers on their domestic purchases or to Customs on their imports, to update their accounts with the relevant data of their purchases, imports and supplies, to correctly and completely fill out their monthly or quarterly VAT Return, calculating total VAT charged and total deductible, and the overall net amount of VAT to be paid, carried forward or refunded, submitting the correctly-filled out VAT returns and paying the net amount of VAT due within the required deadlines, submitting an application for refund if needed, and maintaining the appropriate VAT documentation and records.

51. How do I prepare for VAT to avoid penalties?

If you are registered for VAT, in order to avoid penalties once the VAT is operational, you will need to ensure that – as much as possible - you understand how VAT fits into your operational model. In particular, you will need to identify all your business transactions where VAT applies and assess whether your existing procedures and systems are capable of accommodating the VAT requirements with respect to these business transactions. You should then identify any shortcomings of your systems, determine what needs to be done about these and make the necessary arrangements to ensure that your systems are ready for VAT implementation when the new tax comes into effect.

Plan carefully. Errors, such as late submission of VAT, incorrect VAT charges, or invalid claim documentation, may be subject to penalty. Make every effort to ensure that you have the appropriate systems and procedures in place to limit your exposure.

52. VAT Implementation will rise the retail prices and untimely increase poverty, it's not a good tax for Afghanistan where more the 50% people are already poor.

VAT Implementation may indeed slightly increase the retail prices of some goods. However, the BRT which is currently in place is a cascading tax, adding 4, 5 or 10 percent of tax on every sale. A study by the World Bank of the impact of VAT on effective tax rates shows that the VAT will only marginally increase effective tax rates on some goods, and in fact, due to exemptions, will be lower on most essential goods. The VAT law provides that wheat, flour, rice, sugar, cooking oil, tea, onions, potatoes and salt are subject to VAT at zero %, which means that these basic goods are not taxed with VAT at all. The Law also provides for health, educational, financial and sports services to be exempt from VAT. Moreover, the VAT system allows registered taxpayers to get back the VAT they pay on goods and services purchased domestically or imported as inputs for their business (goods for resale, goods for use in manufacturing, goods and services used for business purposes, including utilities, spare parts, computers and computer services, machinery and other investment goods, etc.). This credit (by way of deduction from VAT charged) means that in most cases the cost-price of the goods and services sold by the taxpayer will be reduced as compared to the situation under the BRT because the VAT is not part of that cost-price. Consequently, the VAT can then be implemented on a lower cost-price without the taxpayer losing profits (especially in the case of goods now subject to 10 % BRT, because BRT cannot be deducted and may have accumulated in the cost-price).

On the other hand, World Bank has calculated that the impact of VAT on poverty should be minimal: see Working Paper '*Distributional Impacts of VAT in Afghanistan: Microsimulation Analysis*'.

53. It's not an appropriate time to implement Value Added Tax because of insecurity (insurgency and crime), and the country is in political uncertainty due to ongoing peace talk with Taliban and Government.

The VAT introduction has been a long-standing tax reform goal to simplify the tax system of Afghanistan. Although the primary objective of the VAT is to help Afghanistan to increase tax collection, the VAT has other important advantages such as being a less distortionary tax and it is simpler to comply with compared to truncated taxes like the BRT. The main challenge for Afghanistan is to increase its self-reliance on own domestic resources, as international grants supporting the budget is decreasing year by year. Therefore, a comprehensive tax reform needs to be introduced to support the budget and especially public expenditures for poverty reduction. That is critical now.

In addition, VAT (in some countries known as GST – Goods and Services Tax) is currently implemented successfully in more than 160 countries worldwide and is considered generally as the tax on consumption that produces the highest yield.

54. Why is government charging us different kinds of taxes such as, income tax, fix tax, WWT (Wages Withholding Tax) tax, custom duties, license renewal fees, municipality fees. Now, you are charging us VAT, Why?

Raising revenue to fund government expenditures on public goods and services is a fundamental purpose of taxation. In all countries, a mix of different kinds of taxes are implemented. In general, this is done for a variety of reasons, such as the need to balance a regressive tax with progressive taxes, the need to take into account the capacity of the people who must pay the tax to properly implement it, sometimes even health and social considerations (for example high taxes on tobacco in order to discourage smoking, higher taxes on luxury products, etc.). Some taxes are also imposed by International legislation or treaties: for example, almost all countries apply Customs duties on imports. Also, some levies commonly perceived as taxes are in fact a contribution collected to cover (part of) the cost of a service: for example, license fees and a number of municipality fees. Finally, WWT is not a separate tax but a mechanism to collect income tax on wages in parts to avoid that the worker would have to pay a relatively large amount of income tax each year.

The exact mix a particular country wants to apply is a purely political issue but any tax system will support the government expenditures where expenditures for development and poverty reduction should be a priority.

55. How can a registered VAT business compete with non-registered VAT business with same business nature in same market?

When buying goods or services domestically or when importing goods as inputs into its business (including investment goods such as machinery, etc.) and services, a non-registered business will often have to pay VAT to his suppliers or to Customs and will have to include that VAT in its selling price (as that VAT cannot be deducted). As a result, the cost-price will be higher for the non-registered business. On the other hand, of course, a non-registered business does not have to comply with the VAT requirements, such as issuing invoices, keeping certain books and documents, filing returns, etc. and will therefore have a lower compliance cost. As a result, the non-registered business may have a certain advantage, especially if it mainly or exclusively sells to final consumers.

However, the following needs to be considered:

- if a business realises an annual turnover of one hundred fifty million Afghani, it is obliged to register for VAT
- Under conditions listed in Article 8 of the VAT Law, other businesses can also register for VAT, if their annual turnover in the last twelve months was or in the next twelve months will be 100 million AFN or more.

The option to register for VAT voluntarily will normally be useful if the business sells exclusively or mainly to registered taxpayers, so it can charge VAT to these customers (which these customers can then recuperate by deduction from the VAT charged on their own outputs) and it can deduct its own input VAT. In addition, if the VAT debit-credit mechanism works properly, it is expected that VAT registered businesses buying goods or services from a non-registered business will ask for an invoice to claim the input VAT credit. Non-registered businesses might therefore have the incentive to become VAT registered taxpayers using the possibility of voluntary registration. This in turn will help the economy to formalize.

However, Article 23 (6) of the VAT Regulation states that voluntary registration shall take effect only after two years from the entry into force of the VAT Law.

55. Can a business get VAT refund, if they use two licenses whether one is register for VAT and another is not, and, out of those two use one for import and another for export?

Qualifying as a taxpayer for VAT does not depend on having or using any kind of licenses; it only depends on conducting at least one economic activity as a going concern (in other words, regularly supplying goods and/or services to others for a price). AVAT registration and the rights and obligations

attached to such registration therefore cover all the business activities, whether under separate licenses or not.

It should be noted that export of goods implies the supply of these goods which are subsequently transported to a place abroad or the supply of a service which is consumed abroad. Such 'export supplies' are taxable with VAT, but at the rate of zero % and, consequently, the registered VAT taxpayer who makes such supplies has the right to claim back the VAT he paid on the inputs (purchases and/or imports of goods and/or services) to the goods or services exported. On the other hand, the import of goods is always taxable with VAT, no matter who does the importation (unless exemption or zero-rate applies, of course). So, to the extent that the business is registered for VAT, it can recuperate the input VAT relative to the exported goods or services, by way of deduction if the taxpayer also makes taxable sales and by way of refund to the extent that output tax collected during the tax period is lower than the input tax. Registered taxpayers who exclusively export goods or services, will be able to claim a refund of their input VAT for each tax period, but of course always under the conditions set out in Article 25 of the VAT Law.

56. Why is Afghanistan using 10% VAT rate while Iran uses 9% and UAE 5% and they are in better economic condition compare to Afghanistan?

Country conditions vary in terms of self-reliance and therefore, the tax policy needs to consider the local conditions to advance in this regard. In addition, the tax policy needs to consider the simplification of the tax system to promote compliance. The 10 % rate is obviously easy to calculate and to implement and it is used in many countries. Also this should be considered: prices for the same goods or services in the neighboring countries may be lower and they may apply – in addition to the VAT - other taxes on the consumption of certain types of goods and services. So, it is difficult to compare statutory tax rates across countries as such.

57. How VAT does work for construction sector? If, a company get a contract from government?

The VAT Law does not provide for any exemption or zero-rating with respect to construction work or any other supply of goods and/or services to the Government. Article 5 of the Law only provides a VAT exemption for *humanitarian aid* and for *goods and services provided to a government entity for the purposes of rehabilitation after natural disasters, industrial incidents and catastrophes*. Consequently, to the extent that the supplier is a registered VAT taxpayer, VAT must be charged to the Government for any goods or services supplied in the framework of a contract between the supplier and the Government for any construction work undertaken under such contract. In fact, if the supplier is a registered VAT taxpayer, VAT must be charged to the Government for any supplies of goods or services to the Government, with or without a contract (unless, of course, the exemption established under Article 5 of the Law applies).

58. What if I don't submit VAT return on time?

If you don't get the correct data sent to the ARD in time, the ARD can issue penalties or fines that you will have to pay in addition to any VAT you owe.

59. Are there any penalties for late payment?

According to tax laws yes, you have to pay an additional tax for late payment.

60. Why VAT is considered an indirect tax?

Because, VAT is a tax on consumption that is collected not by the ARD directly from the consumers but by intermediaries: the VAT registered taxpayers (businesses) collect VAT on domestic supplies of goods and services and the Customs Department collects VAT on imports. The registered VAT taxpayer is the person who has the obligation to pay the tax collected to the ARD.

61. What are the main purposes of the VAT awareness program?

The main purposes of the VAT awareness program are the following;

1. Inform taxpayers regarding VAT implementation
2. Encourage businesses to make the necessary preparations for VAT implementation
3. Involvement of the businesses in the implementation process
4. Raise the level of compliance of taxpayers
5. Listening to taxpayers' opinions and suggestions.

62. What are the advantages of VAT for society and businesses?

VAT has many advantages. The main ones are the following:

- Because of input VAT credits, there is no cascading of tax when VAT is applied at each stage of production and distribution of goods and services.
- In contrast to BRT, VAT is not imposed on total turnover.
- VAT allows tax on inputs (including investment goods) to be credited (and refunded in specified cases)
- Single Standard Rate of 10 % which makes the tax system less complex
- Reduces the price of basic need items due to exemptions
- Exemptions for goods and services related to Education and Health sectors.
- Exports are subjected to zero-rate.

63. That's fine we are paying taxes so, what are our rights?

All taxpayers have the following main rights:

1. Receive Tax Forms
2. Receive technical assistance
3. Receive written information about the tax situation
4. Correction of the tax return
5. Introducing the representative
6. Receive an explanation regarding the documents collected by the tax office
7. The right to objection

A registered VAT Taxpayer has the right to:

1. Claim a VAT credit for tax paid or payable on purchases and imports of business inputs except where such credit is not allowed by the VAT Law or the VAT Regulation
2. Claim a VAT refund if for any VAT period the tax credit exceeds the taxpayer's total tax payable for the period and the excess credit cannot be carried forward to the next tax period because of the features of the taxpayer's economic activity (subject to conditions)
3. Claim a VAT credit for goods held as trading stock on the date of registration under conditions established by the VAT Law and the VAT Regulation
4. In the first VAT period after the start of the VAT, claim a credit for BRT paid on goods held as trading stock at the end of the last business day before the beginning of the first VAT period, provided these goods were acquired not more than 4 months before the beginning of that first VAT period and that documentary evidence can be given.

64. What are the obligations of taxpayers?

All taxpayers have the following obligations:

- Obtain a TIN Number

- Provide information on changes to any tax and business related
- Provide accurate documents and information to the tax office on time
- Accurate tax calculation
- Maintenance of documents
- Responsive during the Audit process or when

A registered VAT Taxpayer is obliged to:

- Charge VAT on each and every domestic supply of goods and services he makes as a VAT Taxpayer, unless the supply is explicitly designated by the VAT Legislation as exempt
- Issue a VAT invoice on each such supply to another registered VAT Taxpayer
- Issue a credit or debit note when the VAT due on a supply has to be adjusted post-sale
- Pay the VAT due on purchases of goods and services to the suppliers and on imports to the Customs
- File a complete VAT Return for each VAT period within 30 days after the end of the period. A tax period is a quarter of a tax year, or a month upon request of the taxpayer.
- Pay the VAT in respect of a VAT period to the ARD within 30 days after the end of that period
- Maintain VAT documentation as prescribed in the VAT Law and the VAT Regulation during 5 years
- Quote his Taxpayer Identification Number (TIN) in any tax return, notice, correspondence and other document relating to any tax law.

65. Will insurance be taxable?

No, insurance and financial services are exempted in VAT law.

66. If you have a Customs duty exemption, will there be VAT on import?

In accordance with the VAT law, some lists certain customs duty exemptions (e.g. diplomatic exemption, goods for personal usage, Afghan immigrant's goods while the returning home back for permanent settlement) which allow for a VAT exemption on import.

67. What does VAT exempted mean?

If a transaction is exempt from VAT, it means that no VAT must be charged or paid on that transaction, even when that transaction is a supply of goods or services made by a VAT registered taxpayer, but it also means that no deduction or refund can be allowed from any VAT paid or payable on any inputs to the goods or services supplied. Certain essential goods or services are thus exempt from VAT.

68. When will VAT be implemented?

VAT will be implemented coming fiscal year (1401) 22 Dec 2021.

69. Will businesses not registered for VAT pay BRT?

No, once VAT successfully implemented, the BRT will be fully eliminated.

70. Will VAT bring more revenue than BRT?

Yes, it will. Recent analysis by the World Bank and IMF shows that the VAT is estimated to generate between 0.6-1.2 percent of GDP of additional revenue. International experience shows that the VAT is a strong revenue lever for the government which can be used for pro-poor public service delivery. The VAT will provide additional revenues which the government can use to reduce poverty. Ultimately, the VAT caused economic growth in many countries by improving the tax system and economic efficiency, enabling private sector growth which might have positive employment impacts for the poor.

