



Tax Administration Reform In Afghanistan

16 September 2013



Tax Administration During the Taliban

- **Fully Paper Based Procedures** (with large amounts of files arbitrarily stored in rooms within the building)
- **No standardised business processes across the Country**
- **Few staff with low skill and capacity**
- **2002 revenue collections reported at close to USD 10 million**



Current Tax Administration

- **Fully Functional Tax Administration Across the Country**
 - LTOs (Not only in Kabul But other priority provinces)
 - MTOs (In all the priority Provinces)
 - STOs (In all provinces across the country)
- **Computerised Systems (SIGTAS) and standardised procedures across the country**
- **Staff capacity improved**
- **Better taxpayers education and awareness**
- **VAT on its way**



DFID Support to Revenue Reform in Afghanistan

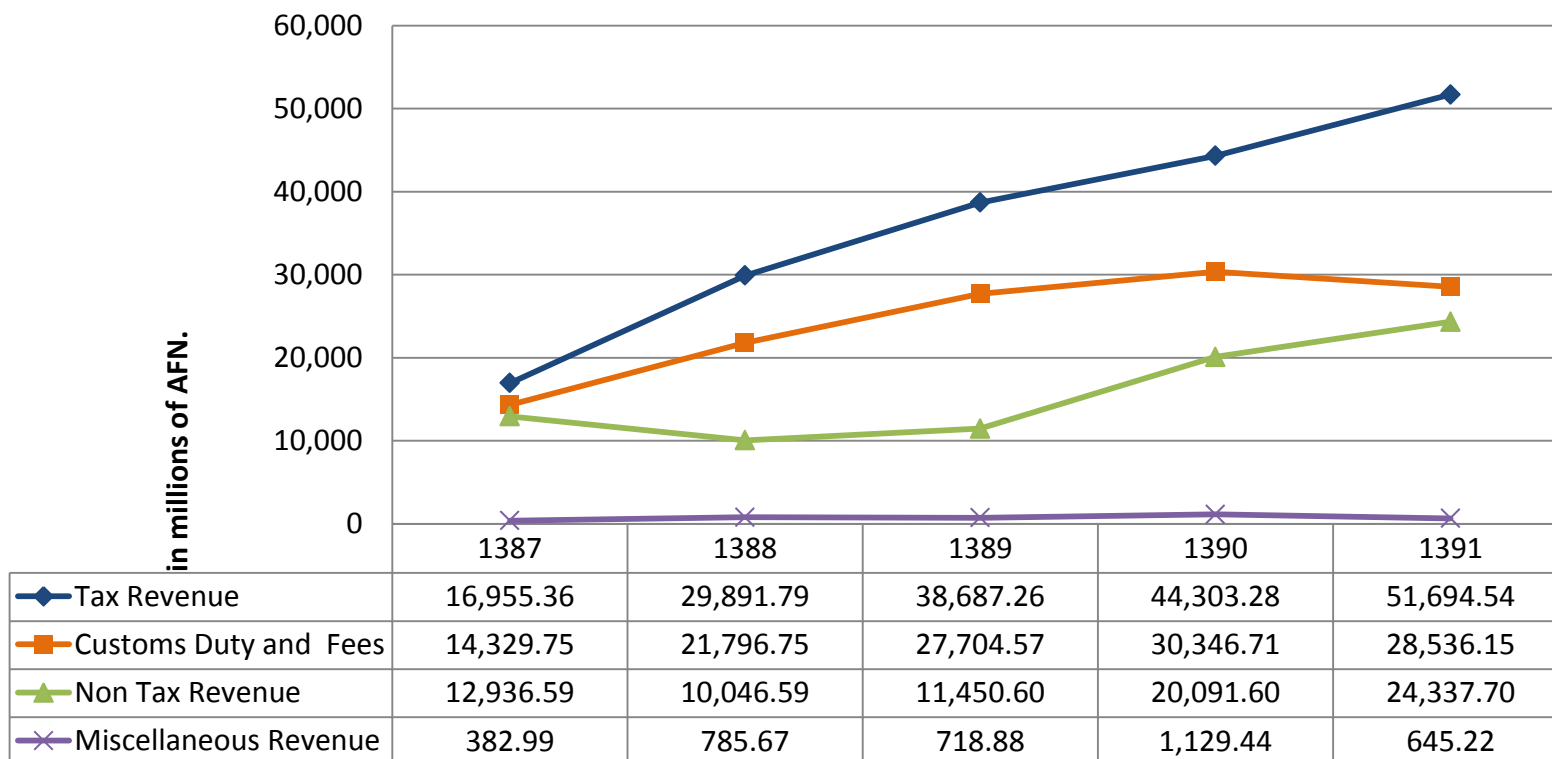
Key facts

- Key foundation for Afghanistan's future fiscal sustainability
- TAP = 3rd phase of DFID support to ARD since 2004
- Budget of £18.9m over 3 years
- A flagship DFID project in Afghanistan, and an example of successful revenue reform
- Major Consultancy Project of the Year Award by *British Expertise* in 2009 (1st phase)

Major achievements

- Developed comprehensive tax policy and law
- Developed a sustainable modern tax administration in Kabul and priority provinces through functional reorganisation; introduction of self-assessment; and modernised business processes
- Increased revenue as proportion of GDP from 4% in 2004 to approximately 10% today
- Turned non-tax revenue (raised by line ministries) into a major revenue source

Collections by Revenue Types 1387(2008) – 1391(2012) (Annualized) (AFN in millions)





Major Obstacles and Challenges

- Organisational Challenges
- Institutional challenges
- Security constraints (Affect project implementation in the provinces as well as revenue collection)
- Political instability (Economic outlook is unstable and will impact revenue collection)
- Need for approval of VAT legislation
- Informal Sector (Small Businesses)

ARD television advertisement featuring former DG Revenue Zamanzai, 2012





LTO Filing Room





Afghanistan Fiscal Sustainability

- As per the World Bank projection the government expenditure will increase to 43% of GDP in 2021/22 while the domestic revenue increase will be only to 17.5% of GDP, which leave Afghanistan with a financing gap of 25% of GDP.
- longer-term fiscal sustainability requires measures:
 - Implementation of VAT : This will bring in an additional 2.5% of GDP in revenue
 - Extractives sector: This could bring in revenues equal to an estimated 2 per cent of GDP per year.
 - Economic Growth