

Assessing Afghanistan's Tax System: Legal Frameworks, Administrative Challenges, and Reform Prospects

Rohullah Sarwari¹, Dr. Shailinder Sekhon²

¹Research Scholar, School of Management Studies, Punjabi University, Patiala

Abstract

Taxes are one of Afghanistan's main sources of government revenue. Effective tax collection has become essential to the nation's economic stability as a result of the growing demand for fiscal sustainability and financial independence. In contrast to its neighbors, Afghanistan's tax-to-GDP ratio is still low despite the existence of numerous tax laws and regimes. This report offers a descriptive analysis of Afghanistan's current tax system, highlights important administrative, political, and economic issues, and makes useful policy recommendations to improve the system's effectiveness, equity, and transparency.

Keywords: Tax System, Fiscal Sustainability, Afghanistan Tax Administration, Tax Reform

1. Introduction

According to Bird and Zolt (2008), tax systems are essential tools for raising public funds and fostering economic growth. In addition to funding public spending, taxes in emerging nations improve fiscal autonomy and lessen dependency on outside assistance. Therefore, taxes are a key component of economic governance and fiscal sustainability, especially in emerging and post-conflict nations.

As Afghanistan looks to improve domestic income mobilization and lessen its reliance on foreign aid over the long run, the tax system has become more and more significant. Revenue generation is a strategic economic tool that influences public service delivery, institutional resilience, and macroeconomic stability. It is not just an administrative task. As emphasized by Arash Sahebe et al. (2020), an efficient and sustainable tax system is indispensable for economic recovery and long-term growth in Afghanistan, particularly in the aftermath of prolonged civil unrest and structural instability.

Furthermore, the growth of the private sector and financial accessibility are directly related to the efficacy of taxes. While limited access to external finance remains a major constraint, empirical findings based on ordered logistic regression show that internal sources of finance have the strongest influence on innovative activities among Afghan SMEs, with Herat firms being identified as the most innovative among the surveyed cities (Ahmad & Kaur, 2025). This demonstrates how Afghanistan's financial institutions, taxation, and economic expansion are all intertwined.

But without offering a thorough descriptive institutional examination of tax structure, governance procedures, and implementation difficulties, the majority of earlier research mostly relied on quantitative macroeconomic data. As a result, the literature lacks a systematic examination that unifies institutional, legal, economic, and reform-focused viewpoints into a unified framework.

By offering a thorough descriptive analysis of Afghanistan's tax system, pointing out structural issues, and suggesting context-specific reform options meant to improve fiscal sustainability and economic resilience, this report aims to close that gap.

2. Research Objectives

1. To investigate the primary elements, controlling legislation, and administrative procedures of the Afghan tax system's institutional and legal framework.
2. To determine and examine the main administrative, political, and economic issues affecting the Afghan tax system's effectiveness, openness, and ability to generate income.
3. To put forward workable and policy-based alternatives that will help Afghanistan's fiscal sustainability, social equality, compliance, and tax administration.

3. Methodology

This study investigates Afghanistan's tax system using a qualitative descriptive–analytical research design. The study's secondary data sources include publications from international organizations like the World Bank and IMF, reports from the Afghanistan Revenue Department and Ministry of Finance, official legal documents (such as the Income Tax Law 2009, Tax Administration Law 2015, and VAT Law 2016), and pertinent scholarly works. The legislative framework, institutional capability, administrative and political-economic difficulties, and reform potential are the four main facets of the analysis. Afghanistan's tax performance is contextualized among emerging and post-conflict economies using a narrow comparative viewpoint. Although the lack of current primary data and field-based evidence limits the study, it offers an organized institutional and policy-based evaluation based on reliable secondary sources.

4. Legal and Institutional Framework

Three main laws—the Income Tax Law (2009), the Tax Administration Law (2015), and the Value Added Tax (VAT) Law (2016)—dominate the institutional and legal architecture of Afghanistan's tax system. The legal foundation for tax assessment, collection, enforcement, and taxpayer obligations is provided by these statutes. The revenue administration has enforcement authority under the self-assessment process of the system, which requires taxpayers to disclose income and keep accurate records (Sahebe et al., 2020).

The Ministry of Finance's Afghanistan Revenue Department (ARD) is institutionally in charge of enforcing tax laws, collecting money, carrying out audits, and guaranteeing adherence. (Finance Ministry, 2023) Recent reforms, including the introduction of VAT and digital systems such as SIGTAS, aim to modernize administration and enhance transparency. However, capacity constraints, enforcement challenges, and security-related limitations continue to affect the full effectiveness of the framework (World Bank, 2020; Ahmad & Kaur, 2025).

5. Main Components of the Afghanistan Tax System

The major components include:

- Personal and Corporate Income Tax
- Business Receipts Tax
- Value Added Tax (VAT)

- Customs Duties
- Municipal and Property Taxes

6. Advantages of Income Tax

A reliable and durable source of funding for public services, infrastructure projects, and national development programs is income tax. Because higher-income people contribute a bigger portion of money, progressive income taxes encourages social justice. Since taxpayers are required to keep correct financial records, income taxes also improves financial transparency (IMF, 2021).

In addition to reducing excessive consumption, effective taxation may help manage inflation. Additionally, during recessions or expansions, governments can stabilize economic volatility by adjusting tax rates. Because it generates steady income for social services, redistributive fiscal policy, and public investment, income tax is essential to both economic growth and social fairness. By moving a larger tax burden to higher-income earners and reallocating funds toward public goods that benefit lower-income groups, progressive income taxation has been shown to improve overall social equality and minimize economic disparities (Weller, 2007). In the context of emerging economies, tax revenues—including those obtained from income taxes—are crucial for funding health, education, and infrastructure, all of which are major forces behind long-term economic growth and the creation of human capital (Sekianti & Nuraini, 2025). Furthermore, data indicates that steady domestic tax receipts promote macroeconomic stability and lessen dependency on erratic outside funding, enabling governments to implement more fair development plans (Sekianti & Nuraini, 2025).

7. Challenges Facing the Afghan Tax System

Weak enforcement mechanisms, administrative inefficiencies, corruption risks, a sizable informal sector, and inadequate institutional capacity are only a few of the structural issues facing the Afghan tax system. Compliance rates are further decreased by technological constraints and inadequate taxpayer education. The Afghan tax system's efficacy is compromised by ongoing structural and institutional issues, despite its strategic significance for revenue mobilization and economic growth. Low tax compliance and collection rates are largely caused by a lack of administrative capacity and ineffective enforcement mechanisms; studies from comparable developing and post-conflict environments demonstrate that administrative flaws severely restrict revenue performance (Bird & Zolt, 2008). Since many small enterprises and independent contractors function outside of official registration systems and evade taxes entirely, Afghanistan's sizable informal sector further shrinks the taxable base (Le, Moreno-Dodson, & Bayraktar, 2012). Effective tax administration has also been found to be hampered by corruption and a lack of transparency, which erodes public confidence and deters voluntary compliance (Gjergji, 2020). Furthermore, tax administration in rural and conflict-affected areas is complicated by ongoing security concerns and geopolitical instability, which makes it challenging for revenue officials to ensure compliance and sustain continuous operations (World Bank, 2020). All of these obstacles make it more difficult for the Afghan government to raise money, broaden the tax base, and provide necessary public services.

8. Opportunities for Reform

Digital tax record integration, taxpayer education program development, customs and tax authorities' capacity building, and enhancing public trust through open revenue use are all examples of reform

opportunities. Institutional performance can be further improved by taking note of regional best practices.

9. Policy Recommendations

The following recommendations are proposed:

- Strengthen tax administration institutions.
- Implement transparent digital tax registration and payment systems.
- Improve professional capacity through merit-based recruitment and training.
- Conduct comprehensive public tax awareness programs.
- Enhance transparency in public expenditure to build taxpayer trust.
- Adopt regional and international best practices in tax reform.

10. Conclusion

Afghanistan's macroeconomic stability, long-term economic resilience, and fiscal independence all depend on an organized and transparent tax system. In addition to producing steady domestic income, an effective tax system improves public service delivery, builds state capacity, and lessens need on outside aid. Targeted reforms can significantly increase revenue performance even while there are still many structural, administrative, and institutional obstacles to overcome, such as insufficient enforcement ability, technical limitations, and compliance gaps. Important elements of sustainable reform include, in particular, improved legal enforcement procedures, digital tax administration, strengthened institutions, and improved taxpayer education. Additionally, increasing voluntary compliance and expanding the tax base can be achieved by fostering public trust through openness and responsible use of tax monies. In the end, lasting tax reform will be critical to advancing social justice, inclusive economic growth, and Afghanistan's long-term financial independence.

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