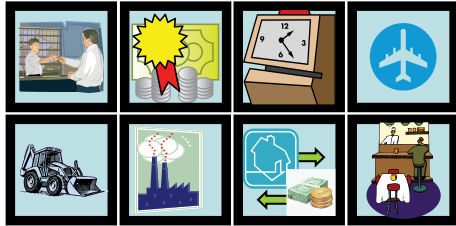


## Taxable and Non-Taxable Income



### Introduction

This guide outlines what income is taxable and what income is not taxable for residents of Afghanistan. For tax issues for non-residents, please see Guide 23, Tax Issues for Non-Residents.

#### Note

There are no fees or charges payable to the Ministry of Finance or its Revenue Department for any Tax Guides or Forms or at any stage of the tax assessment, collection or enforcement processes.

The Income Tax Law 2009 provides for a penalty if a taxpayer fails to submit a tax return. This applies even if no tax is due for the period covered by the return. To avoid being penalized taxpayers therefore should submit returns even if no tax is due and state on the return that none is due.

According to the Income Tax Law 2009, income tax is imposed on

- Income from Afghan sources of all natural persons and legal persons, whether resident of Afghanistan or not, and
- Income from non-Afghan or foreign sources of residents of Afghanistan

in accordance with the provisions of the Income Tax Law (Article 2).

### What is taxable income?

Taxable income is the total income of a natural or legal person, whether in cash, property, or services, minus any allowable exemptions

or deductions. Exemptions are amounts that are not subject to tax, such as amounts below taxation thresholds and certain non-taxable amounts by law. Deductions are amounts that can be subtracted from total income such as allowable business expenses and other expenses of producing income. For more information concerning allowable deductions, see Guide 16, Deductible and Non-Deductible Business Expenses.

### Who is a resident for tax purposes?

A natural person is considered a resident of Afghanistan in the following circumstances:

- The person has his or her principal home in Afghanistan at any time during the fiscal year; or
- The person is present in Afghanistan for a period or periods amounting to 183 days in the fiscal year; or
- The person is an employee or official of the Government of Afghanistan assigned abroad at any time during the fiscal year.

Any other entity is resident in Afghanistan for a tax year if the entity was established in Afghanistan or has the center of its administrative management in Afghanistan at any time during the year.

A natural person's "principal home" is determined using a "facts and circumstances" test. In determining whether a natural person has a "principal home" within Afghanistan, the following factors shall be taken into account:

- Whether the natural person owns or rents the home in Afghanistan
- Whether the natural person owns or rents a home in a different country
- The amount of time the natural person spends in Afghanistan and the amount of time the natural person spends in other countries
- The location of the natural person's family; and
- The length of time the natural person has owned his or her home in Afghanistan and the length of time that the natural person has owned a home in one or more other countries.

## Taxable Income

### Income of natural persons

The following types of income are subject to income tax:

- Salaries, wages, fees and commissions
- Income from business, industry, construction and other economic activity
- Income/gain from the sale of property (movable and immovable)
- Interest, dividends, rents, royalties, awards, prizes, winnings, gratuities, bonus payments
- Distributive shares of partnership income
- Any other return from labor, capital, or economic activity
- Income from other circumstances provided in the Law
- Any other income which has not been provided in the Law.

#### Salaries, wages, fees, and commissions

Salaries and wages are payment for services received by an employee. In general, these amounts will be subject to withholding tax, that is, the tax withheld by an employer from salary or wage payment and paid to the government on an employee's behalf. If your only income is from salaries or wages, taxes were correctly withheld, and you have only one job, you do not have to file an income tax return.

Fees are usually paid on a per job basis, rather than on a time worked basis, such as a doctor who is an employee of a hospital being paid on a per appointment basis rather than on an hourly or daily basis.

Commissions are amounts you receive in addition to or in place of your salary or wage. Commissions are usually paid as a percentage of your sales.

#### Income from business and industry activity

Individuals engaged in business activity, whether as an independent professional (doctor, lawyer, accountant, etc.) or a sole proprietor (individual business owner such as a shopkeeper, tailor, importer, travel agency owner, etc. who has not established a legal entity such as a corporation

or limited liability company), are required to pay income tax on the net income from the business activity. Net income is the total income minus allowable business expenses.

#### Note

If you have received income in the form of services or property (moveable or immovable), you must report the income at the fair market value of the property or service on the date you received it.

Example: Aziz is a carpenter who has done some work for a medical doctor. Instead of paying for the work in cash, the doctor has agreed to conduct medical physical examinations for Aziz's two children. A physical normally costs 5000 afghani. Aziz must report 10,000 afghani (2 x 5000 afghani) as income on his tax return.

### Income of Legal Persons

Legal persons are subject to income tax on the same types of income as for individuals except for salary or wages.

### Non-taxable income

The following receipts are not subject to income tax and not included in returns of natural and legal persons:

- Grants, gifts, and awards of the State
- Grants, gifts, and awards of foreign governments, nonprofit organizations or international organizations, for contributions to science, art, literature, social progress, and international understanding
- Scholarships, fellowships, and grants for professional and technical training
- Health, accident, and unemployment insurance benefits
- Life insurance paid on death
- Compensation or damages for personal injuries or sickness or restitution of reputation
- Proceeds of borrowing
- Proceeds of issues of stocks and bonds by companies
- Acquisition of property in connection with mergers of domestic corporations and other legal entities

- 10 Acquisition of movable or immovable property through expropriation of property of debtors by creditors
- 11 Payments on principal received from debtors
- 12 Interest on bonds issued by the State and by municipalities, and
- 13 Any other receipts according to the provisions of the Income Tax Law.

*Grants, gifts, and awards of State* do not include payments made to employees for services performed in the ordinary course of duty. Grants, gifts, and awards are given in special circumstances or in recognition of unusual service. They are associated with hardship or recognition of accomplishment and are therefore non-taxable. Annual bonuses, overtime, back pay and other benefits given on a nonselective basis are taxable income of the recipient.

**Note**

Note Income received by a person may be exempt from tax in Afghanistan because of an international treaty or agreement entered into by Afghanistan.

For more information regarding exemption from tax in these circumstances, please refer to Guide 07 Confirming an Exemption from Income Tax under a Bilateral or Multilateral Agreement, available at the Afghanistan Revenue Department or online at [www.mof.gov.af/tax](http://www.mof.gov.af/tax).

**Example 1:** A family is struck by a calamity. This family receives 5000 afghani. as a gift from the State. This 5000 afghani is not taxable income for any of the members of the family.

**Example 2:** A medical doctor devotes his life to building medical clinics, facilities, and staff in several communities. The State honors him with an intangible recognition, and also with tangible material award. Such material gain is exempt from taxation.

**Example 3:** The receipt of a Nobel prize is an award of an international, nonprofit organization that is exempt from taxation.

All of the money received in connection with a *scholarship, fellowship, or grant for professional*

*and technical training* is exempt. This includes funds for travel and living expenses, as well as reimbursement for tuition, fees, cost of books and supplies, and other miscellaneous expenses.

**Example:** A student receives a scholarship which covers his travel, hotel bills, lodging, tuition, fees, books, medical costs, etc., plus an allowance for clothing, food, and personal expenses of 5,000 afghanis per month. All of this is exempt from taxation.

If the student receives a supplement from the State, this supplement is also exempt from taxation. If, however, as an employee of the State, he receives all or part of his salary from the State, this salary is subject to taxation.

Payment received from an insurance company as a result of loss, misfortune, sickness, etc. for which the recipient was insured is not taxable.

**Example 1:** An individual insured himself against sickness and injury with an insurance company to which he paid monthly premiums. He was injured in an accident which resulted in medical expenses and caused a disability. Under terms of his insurance policy he was paid 10,000,000 afghanis in settlement of his claim. This payment is not taxable.

**Example 2:** An individual is injured while working at his job. His employer carries an insurance policy which covers all his employees. The insurance company pays the injured employee 10,000,000 afghanis in settlement of his claim. This receipt is exempt from taxation even though the injured employee did not pay the premium for the insurance coverage.

**Tax forms and information**



For tax forms, guides, other information and assistance, you can visit the Afghanistan Revenue Department, your local Mustufiat Office, or the Tax Information Page at [www.mof.gov.af/tax](http://www.mof.gov.af/tax) where you can also download the Income Tax Law 2009.

**Note**

The Taxpayer Information Page at [www.mof.gov.af/tax](http://www.mof.gov.af/tax) makes it easy for taxpayers to find and download useful information to meet their needs. Here the taxpayer can find the Income Tax Law 2009, various public announcements and rulings, forms, along with instructions for completing same, guides, archived documents, Questions & Answers regarding wage withholding tax, and more. The page also includes an Income Tax Manual. The manual discusses separately each article of the law, along with relevant regulations, often with helpful examples.

