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PRAGMATIC ANALYSIS OF AFGHANISTAN TAXATION SYSTEM AND RECENT DEVELOPMENTS

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1. Introduction of the project

In Afghanistan tax collection and administration is managed by the ministry of the finance. The ministry of the finance is mainly divided into two main departments: a) Customs department mainly responsible for dealing all Afghanistan customs such as import and export and b) Revenue department which is responsible for collecting taxes, all inflow and outflow of money into Afghanistan. Since our concern is sole tax issues, therefore the emphasis will be on tax and tax administration, process and payment method changes in the tax office over the past years. Further, however Afghanistan has 34 provinces, Balkh is one of them. Due to limitation, scope constraint the sole purpose of this study is to focus the reforms at provincial level in Balkh hereafter called the tax office for this study. All the tax offices across the country is controlled by general ministerial level called ARD (Afghanistan Revenue Department) at the deputy ministry level and while the tax office in the provincial level is called Mustofiat. Mustofiat is an Arabic word refers to a person or for persons who manages cash (i, e receive and issue money). Over the past 10 years several initiative were taken in the tax office to promote the tax office. Most of these developments were initiated by forging project such Adam Smith International funded by British Council, USAID Initiative Good Governance etc. On the other hand the ARD employed the international experts from western country in the tax office who haven't had local, economic, political, regional, geographical knowledge, thus whatever they consulted was of less use as there are huge difference between Afghanistan and their concerned countries. In addition to this, due to high corruption and nepotism in the government office, poor and unskilled tax knowledge, public lost trust on tax administration system. Only over a single year, there were three to five times changes in the income tax law, organization structure such as establish one unit and repealing next day. These changes indicate that there is not a pre knowledge survey and serious research is missing. The rapid changes causes torrent of loses for the taxpayers and businesses community as they were not informed due to lack of proper communication and facility. In 2008, there were turbulent changes in the tax office such as establishment of small tax payer office, medium and large taxpayer office in Balkh Mustofiat. There is no research done to evaluate these changes and find out how these changes are in the favor of the economic, business, tax office, and taxpayer situation. There is no data and document in the tax office that can show that whether the taxpayers are satisfied with these changes and up to what extent these changes can sustain. In this study, a pragmatic analysis of the tax office and thesis reforms has been analysed. The report of this research is to be disseminated to local universities, tax office, civil society organizations and government tax office authorities as supplementing document for their decision, education and advocacy. The study totally targeted 150 respondents as the sample population. The tools used in this research included a convenient sampling, focus groups with businesses groups, youths, male female, and desk review of taxing

statues, conduction of tour from the tax office along observation. The research took almost 8 months that include questionnaire development, logistical arrangement, coordination, raw data collection, quantitative and qualitative analyses and development project report. The project was so daunting since there were several limitations due to lack of any published information in the field. Further lack of books, poor cooperation of tax office due to sensitivity of the research question on corruption added to the stock of the problems.

I strongly believe that the study is free from any personal bias and did my best to be neutral and impartially spelled out the situation that the respondent directly and indirectly shared with me during the research.

2. Review of Literature

It is an established fact that revenue is very important for the government of Afghanistan. As the international withdrawing continues, the country needs to finance its expenses. Like most of the countries around the globe, tax can provide great income source for the government, particularly as we witness the insecurity, ongoing conflict and increased demand for government public services delivery. As the time goes the national expense increase, the demand for health, education, safety, social security increases. On the other hand the government of Afghanistan is not in a capacity to initiate, plan and collect its due revenue from the taxable sources. As an inhabitant of this country, I feel it necessary to write my thesis on the tax collection system of Afghanistan. Before conducting this thesis, I have spent enormous amount of time to study the total economic, social, culture, government structure and government accountability, transparency, particularly the level of corruption in the government institution, level of education, security for people, business men, youth, women in the province where I live. I strongly believe there is direct connectedness between the mentioned above issues and tax payment, tax culture, public perception on tax and future trends of tax increment or diminution. Beside the formal material such as conduction of sampling, focus group, SWOT analysis, interviews and questionnaire developed to be asked from the respondents, significant amount of the studies were undertaken by me to find out how the public really react when it comes to paying tax to the government, and any research not conducted to determine that if the taxpayer voluntarily pay their taxable to the government or it is due to forcing measures and or they pay not to be fined. As the thesis requires, my intention is to make a distinguish between the two situation between those who pay tax to upkeep the country to boost security, education, health and promote the government and those who has no choice to pay since they have businesses and they fear to not penalized for additional taxes.

On the other hand, the geography, level of business activity, number of population, availability of agricultural land, existence of educational institutes and total poverty, micro economic situation of the family are considerable factors that I considered in this thesis.

According to my initial information I had with the ministry of finance, the total Afghanistan revenue from 34 provinces obtains from only five province such Balkh, Herat, Kandhar, Nangarhar and Kunduz. Balkh among the five provinces constitutes and generates the biggest tax revenue for the government. For the purpose of my thesis, I had quick look to Balkh social, economic, geography any other factors that affect revenue generation particularly tax and taxation.

Balkh Province, in the North of Afghanistan has high potential in the agriculture sector. Its famous tomb of Hazrat Ali, or "Blue Mosque", attracts many tourists and

pilgrims. Mazar is also an important trade hub because it has border with Uzbekistan and is the trade hub to central Asia. Major shares of imports from Central Asia arrive in Mazar and change hands through a diverse services sector and major revenue is collected from this province. The provincial Mustofiat and district offices have very low percentage of the national revenue and low levels of physical infrastructure, with little office, damaged buildings, while some have no electricity. Balkh Mustofiat is one of the key five provinces where Balkh Mustofiat collects 25 million AFN every day from various tax sources.

Fig 2.1: Border Share of Balkh with Uzbekistan



Source: mapsworld.com, 2016

Demographically, there are 571325 male, 552623 female and around 66 per cent of the population of Balkh lives in rural districts while 34 per cent lives in urban areas. Overall there are 344 primary and secondary schools in the province catering for 305,895 students. There are total 15 banks, 20 universities with total about 15,000 students, about 80,000 small businesses which turnover less than 3 million Afghani and about 1500 medium business above 6 million and less than 60 million AFN and about more than 100 large business with the more than 100 million Afghan turnover. Based on the above information on number of business in this province and several potential factors for revenue generation, we don't know how these tax offices collect the tax from these sources, and how the people behave towards the taxation system. When we discuss about the tax office and tax process and payment the first consideration are how these people pay tax, based on what laws, procedure. These questions will be answered by this thesis paper, but let's have quick look back on history of tax rules and regulation or law over the years.

To get the clear idea about the taxation system, a snapshot of past, current and future review of tax and taxation in Afghanistan and in specific Balkh province is considered. As I found out from several Balkh and Aria university lecture and notes, the tax history goes back to 1140 AD during the Ahmad Shah king in Afghanistan which 257 years back from today. On that time, the king had paid high focus on finance and revenue collection, thus along other government organizations he established finance administrations. It is worth to say, that the tax collection was practiced by former government of Afghanistan, but it also worth to say that during those time in point, people were paying tax to their former government based on their religious, national and social onus under various title. Most of those taxes were in the forms of goods. Based on the review the tax office establishment 257 years ago and the formal tax and finance office was established in 1125 AD during the kingdom of Ahmad Shah. In 1384 AD, a monthly exemption of 12,500 AFN for natural persons in 12 month 150,000 AFN was

introduced to be collected. In 2005 major changes such collection of business receipt tax by Mustofiat was delegated to customs department for that business who import and exports goods. The tax regime from 12,500 AFN, total 12 month 150,000 AFN exemption in monthly was decreased to 5,000 AFN total 6,000 AFN per months.

The last review I want to have is what has been undertaken by national and international organization to increase revenue for the Afghan government. Despite we have 15 universities in Balkh with total approx. number of 30000 students, there weren't any substantial survey and research on tax and taxation, the answer is no, as per my interview with Balkh tax office, I posed this question if any organization has come to you and conducted research, and the answer was seldom NO.

Finally, there are two foreign aid support organization namely Adman Smith International which brought the tax organizational reforms such small, medium and large taxpayer office as well introduction of an automated system" Afghanistan Standard Government Tax Administration System(SIGTAS) and second is Haraket an Afghan foreign aided support nongovernmental organization who has been working on capacity of small taxpayers in the capital but not in the province.

In this study a critical analysis has been done, and will be employed as an initiative and examines that to what extent these initiatives can really support taxation development and increase revenue in Balkh province and how the taxpayer are feeling the changes in law, process, payment in regard to tax office, management and officer.

3. Rationale of the study

There is not any research undertaken by the government and educational institutes on tax in Afghanistan. Tax and tax collection always considered as a superfluous topic than security. Unfortunately there were not any significant activities or researches to work on promotion of taxation system to cultivate tax among the people and educational institutes were not able to mainstream taxation in teaching curriculum as effectively as needed. The taxation topic were limited to a few introduction of tax theories which are outdated and not applicable to the current tax and tax administration. Tax is needed for the country because domestic taxation represents around 68 per cent of the current revenue stream to the central government. 9.4 billion AFN revenue of domestic taxation for the central government is collected from provincial Mustofiat, customs and its district offices. 1.4 billion AFN is only collected by Balkh Mustofiat. In other words Balkh Mustofiat constitutes 65 per cent of 9 Northern provinces of total 34 provinces revenue in the country. Our country became 111th position in the world in this year, according to statistics, gross income grew 8.3 per cent has showed.

Beside a few other sources like mine premium and loyalty collected by government enterprises, dividend and interest, profit of government enterprise, sale of government property, premium of frequencies sale, extraction of mines, revenue from the penalty, confiscation, insurance, grants of international, loan from other government international organization. Among these source tax is one of prime source with less side effect on other government activities. Therefore the government financial operations are well-nigh impossible without taxation. Traditional tax culture and of manual based office were tangible obstacles and a serious threat to future tax collection. On the other hand the overall security, corruption, and lack of good governance are limiting constraint to tax generation and collection. This study will help as a tool to tax office, media, NGOs, education institute can provide feedback and input to these stakeholder who can use these report to plan problems and challenges in tax administration and collection. As I

read, the report from Adam Smith International Institute, almost 65 per cent revenue of Afghanistan yearly not collected/wasted due to multidimensional reasons like lack of capacity, lack of office equipment and asset, unidentified unrevealed tax sources and the like. On the other hand, people don't like to pay tax on various reasons, it could be lack of knowledge about tax, or low perception, don't know where government spend collected tax. In addition, however, there are ensuring good quality of education and equitable access to education and skills but not even a signal article is not studied in schools about tax. Beside as studied the tax office does not have any unit to help the taxpayer with question as result taxpayers are not assisted with tax process.

In addition, the other barrier which limits revenue collection in Balkh province of district office. However, we have the following districts, Mazar-e-Sharif, Dehdadi, Nahr Shahi, Marmal, Hairatan, Khalam, Kaldar, Shortipa, Dolat Abad, Balkh, Chropolak, Chamtal, Sholgara, Charkont, Kashandeh and Zari they are located in Balkh but we don't know if there are office of tax administration, at what skill the tax officer are, and how is the taxpayer awareness, are they paying tax. The other area that these focused are the poor capacity, insufficient tax administration system, lack of tax enforcement police and coordination of tax office among the ministry in regard to tax process.

7.2 Gender size in the sampling

The women can be play important role in family in educating the family on tax awareness and as well they are successful businesses entrepreneurs as they have shown. Due to the significant role of women, this project has included 35 women along the men who participate in this thesis. This project include following scopes as under:

Inclusion

Phase1: Development of thesis questionnaire and undertaking of feasibility analysis of this thesis study

Phase2: Identification and coordination, appointment of activities in regard to the thesis with the Balkh Tax office, business, women, men, youth, children to undertake sampling, focus groups, SWOT analysis.

Phase3: Execution of data collection from the target respondent of Balkh tax office, youth, men, women and businesses

Phase 4: Conversation of raw data into spreadsheet and carry out qualitative and quantitative analysis on collected data raw.

Phases 5: Developing of thesis report that answers the overall objectives and specific objectives that is specified.

According to the above phases, a list of activity is generated to implement the thesis. The major activities undertaken include:

- Determination of sample size in regard to the objective of the survey and situation of the respondent
- Development of the question in the light of the overall project objective and as well expected outcome
- Execution of sampling, focus groups and SWOT analysis
- Data cleaning and transforming of questionnaire to a soft
- Conduction of quantitative and qualitative analysis with assuring the accuracy of data and validity of data collected
- Development of the thesis report as per introduced format of IGNOU.

The above high level activities are breakdown into the following WBS (Work Breakdown Structure). Through WBS, activities are better arranged, grouped and

prioritized that easy the implementation of the thesis in real situation.

Tax Research Work Breakdown Structure -Appendix-1

Deliverables-Appendix-II

Timeline -Appendix- III

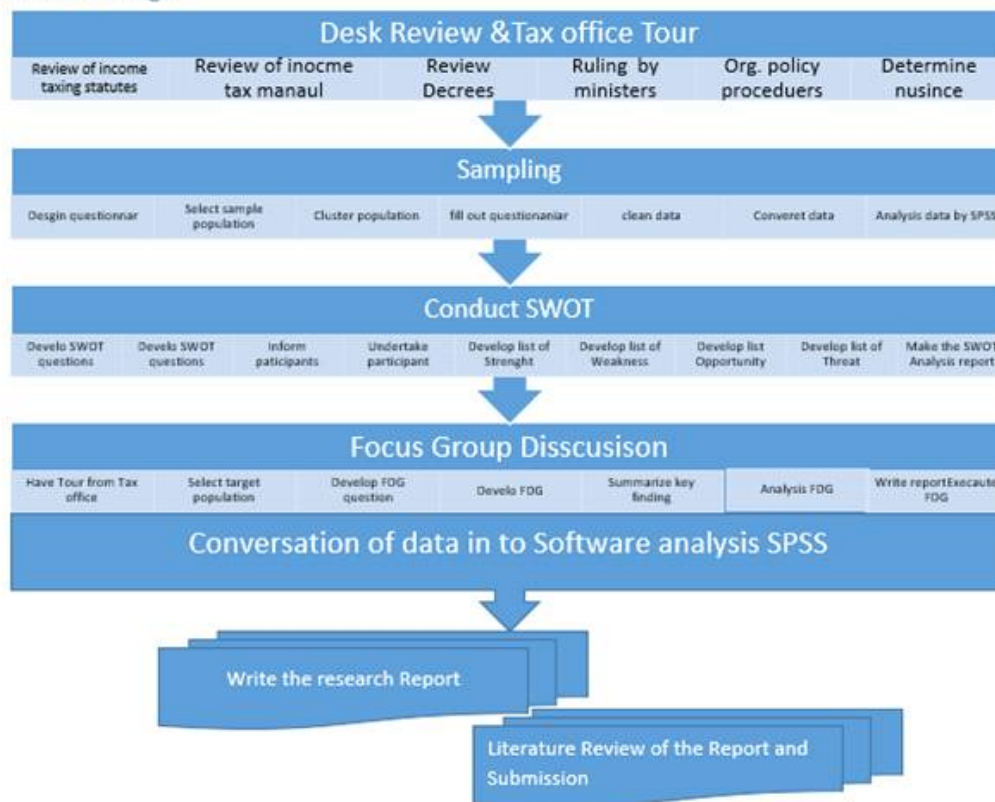
That include all activity and duration for each activity, resources, methodology and Gantt chart is Appendix- IV Exclusions of my thesis

- As part of the scope, it is worth to mention that that the sole mentioned activities are executable of this project scope. Following activities are not included

- The sole focus of the project is Balkh tax office and it doesn't include any other province tax situation

- The sampling, focus group and SWOT analysis is done in Balkh and its associated province thus other provinces are not included.

► **Research Methodology**
Research Design



Based on the nature of the thesis, above research methodology used to better identify concern issues and better analysis of the research issues and have professionalized approach. The methodology of the research is further spelled out in administration details of each tool, which contain research method used, target population, sampling procedure, research instrument, collection of data/gathering procedure and data analysis techniques and development of the report.

a) Nature of data and source of information

Primary data are collected through sampling, focus group discussion and SWOT analysis and observation obtained from the conduction of different tools that is used and undertake by this research. The primary data are obtained through posing questions from the various target population such as youth, men, women, wise, elites about tax

importance, benefit of tax for their life, find out they are ready to pay tax, what is their perception. The questions answers determined public perception, views, understanding about taxation payment, tax office, and level of satisfaction.

The data are collected respondent who are taxpayer or have paid tax at least one. The second categories are the sources that gave their opinion as ordinary citizen on tax and tax office and don't matter if they don't pay tax. During the execution of research, efforts have been made that respondent must share bias free opinion that there is political, relation, religious inferences in their data while sharing.

b) Sampling Method with Rationale

Convenient or Simple sampling method is one useful method for research and survey. This method also suit for this research which is targeting larger number of tax office taxpayers. This technique is well-situated sampling techniques for this research study. As long as there are more than 100 respondent and this method helps better to collect the quantitative data with limited resources in short period of time. However, some of the respondents were illiterate but the question were read and paraphrased when conducting the research. The concerned method was carried out through using sampling survey in the format of structured questionnaire based on discussed variable. As we have large population therefore we proposing this method owing to its specific advantages. However, there are various methods of the sampling e.g. simple random, convenient, systematic, cluster and stratified sampling methods. Either probabilistic or deterministic approaches, each of these methods necessitates it owns perquisites, pros and cons. I chiefly focused on simple random sampling. I do my best to gain advantage of the other methods and retrieve best data and response from the respondents as per our resources and situation. In any of the method I will have unbiased acts in conducting the sampling. In close cooperation with the district authorities and tax office, taxpayers, I determine the population, parameters, sampling frame, etc. The preparation of a sampling frame is usually a major practical problem. In order to have a perfect, adequate frame, I did my best to that the frame should be informed, free from errors and avoided duplicates.

Conclusion

This country experienced several decades of conflict one time by the invasion of society Russian, another time by the Mujahedeen and internal war and since 3 and half decades and several years of struggling and fighting with the Taliban and international terrorism. Over the period of these internal and external imposed wars, Afghanistan lost almost every sector infrastructure and system. One of these sector was the financial sector that as result the financial institutions were destructed, financial specialists either they were forced to flee from the country or they were killed during this war. After September 9/11 attack to US, the US step in Afghanistan and attack attracted the world attention to terrorism network and they paid greater focus to Afghanistan rehabilitation to combat international terrorism. Despite the international community continued assistance still both budget of Afghanistan are largely financed by international assistance. The entire development budget and almost per cent40 of the on-budget are still contributed by the international. Currently per cent40 of the on-budget is finance by internal revenue and tax is one chief item in on contributing the on-budget.

Afghanistan needs several amenities to create public welfare that people suffer daily such as security, road, school, hospital, bridge, water and power for almost 32 million population across the country, but as it seems international community can't support Afghanistan for good. It is Afghanistan that has to stand on his own foot and

resist surviving against these challenges. Over the last 15 years, there were several development in Afghanistan taxation system, these development covers reforms in tax administration such as introduction of self-assessment tax, application of automated technology system, outreach and campaign strategies so far adhered, and taxpayer situation and many changes in taxing statutes. Most of these changes were not so rapid without any prior study on PEST and PESTEL analysis. To large extend most of these initiative were copied from very developed countries e.g. Canada, Australia. Most of these changes carried out by international experts who have not in-depth knowledge of social, economic knowledge. Taxpayer situation and satisfaction were completed not studied throughout these changes. Due to importance of the taxation and need of income for my country, I initiated to write my dissertations on tax and taxation in the province where I leave as sample province out of 34 province in Afghanistan. Under this thesis, I had a pragmatic analysis of the all these development and critically evaluate how these development were undertaken and to which extend these development are appropriate and helpful for promotion of revenue and support of taxpayer and businesses. Tools such focus groups, SWOT analysis, convenient sampling, observation, interviews, desk reviews were used to execute in the research methodology for each group of respondent based on their nature. The respondent groups were the taxing authorities, businessmen and women, youth male and female, elite, university students and ordinary men and women. Total we have about 150 respondents 100 for sampling and 40 for focus groups and 10 for SWOT analysis. The survey took almost 10 months. Questionnaires were developed that contains 46 questions with 9 section each section has set of questions related to particular section.

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