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Revenue Collection and Management: A Challenge to the Afghan Government

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Abstract

The economy of Afghanistan is fully dependent on international assistance and foreign aid, with 43% of Afghanistan's general budget and 28% of its development budget subsidised by the international community (Afghanistan's National Budget, 2014). As a result of this dependency, social or political changes both nationally and internationally can significantly impact Afghanistan's economy. The prolonged presidential elections of 2014 and the security transition process, for example, negatively affected both the implementation of international development programmes and planned state economic activities. Afghanistan suffered a US$ 5 billion loss in 2014 as a consequence of these internal and external shocks (Afghanistan Migration Profile, 2014). This is aggravated by the fact that the government of Afghanistan has been unable to meet the country's fiscal needs for the past thirteen years, due in large part to the absence of an effective tax management mechanism. Accordingly, the government of Afghanistan should revisit its approach to revenue management and mobilise domestic revenues more effectively to limit its dependency on international support.

Problem Statement

In Afghanistan, revenue is generated at three levels: national, provincial and local. National tax revenues are theoretically derived from three major taxes: personal income tax (PIT), corporate income tax (CIT), and value-added tax (VAT), though the latter is not yet implemented in practice.

Table 1 demonstrates the total accumulated revenue for 2014 of 1.25 million Afghani (AFN), constituting 28% of the domestic budget (Department M. B., 2014). In fact, the

Ministry of Finance of Afghanistan was 62% behind the target in 2014 as it sought to collect 133,200.47 million AFA, but only managed to collect 38% of the planned amount, or 50,938.53 million AFA. The following factors have been identified as contributing to such poor revenue collection:

1. Political: Most revenue collection procedures depend on government policies, many which include exemptions for specific actors. For example: a great deal of revenue is lost due to exemptions stipulated by international agreements between donor countries and Afghanistan's revenue departments (For example, international forces and their companies receive custom exercise and revenue tax exemptions, which are also used by some multinational companies not operating within that sector and resulting in a significant loss of government revenue. Recently, the Afghan government even entered into a dialogue to consider receiving less international aid in exchange for terminating the exemptions policy on international imports.
2. Economic: Changes in taxation, economic growth, interest rates and inflation can have a negative impact on the behaviour of taxpayers. For instance the frequency of fluctuation in the Afghan currency (AFN), pegged to the U.S. dollar (USD) poses a challenge as most imports are in USD and changes in the exchange rate result in higher inflation of the AFN.
3. Social: It is difficult to introduce a tax collection system after a prolonged period of war, particularly when instability persists. In most villages the practice of paying taxes is linked to either unfamiliar or associated with informal illicit or illegal activity; without a legacy of lawful government taxation, a rigorous public awareness campaign is needed.
4. Technological: Revenue collection officers often use paper-based systems, which limit the capacity to perform their duties effectively and in a timely manner. At present, paying taxes incurs an additional logistical and financial burden on citizens, particularly residents of the most rural communities, who must organize their work schedule and travel great distances to pay their taxes. In the rest of the world, the government enables citizens to pay taxes from their homes (online) or within their own communities (sending the final documents through the mail).
5. Environmental: The security situation and lack of functioning infrastructure limits the mobility of taxpayers and tax collectors; twenty-one of Afghanistan's 34 provinces are currently in a state of conflict or partial conflict.
6. Legal: The discriminatory nature of certain government policies favours particular communities and political groups and negatively impacts the tax collection process (e.g., the parliament of Afghanistan voted against the new tariff rates on cigarettes to favour members of ruling groups who profit from their sale).

Table 1. The composition of national tax revenues of Afghanistan, 2014 (Source: Afghanistan's National Budget, 2014)

Domestic Revenue Sources	Amount in Million Afs	Percentage of contribution
Tax Revenue	91477.30	73%
Tax on income, profit, property and capital gain	32581.89	25%
Tax on International trade and transactions	31,058.47	25%
Domestic tax on goods and services	20518.35	16%
Other taxes	71318.59	6%
Non Tax Revenue	2513.00	25%
Revenue from oil transit	2388.61	2%
Revenue from Railways	1794.28	1%
Other non-tax revenues	27339.81	22%
Other Domestic Revenues	2513.00	2%
Revenue from mining and petroleum	2000.00	2%
Other domestic revenue	512.00	0%
Total Domestic Revenue	125513.00	100%

Critique of Policy Options

Since the government of Afghanistan depends on financial support from the international community, constituting more than 43% of the general budget and 28% of the development budget, mobilisation of domestic revenue is essential for the economic prosperity and sustainable growth of the country in the long term. A deteriorating economic situation, high unemployment rates, massive out-migration and "brain drain," and a worsening investment climate are hindering the country's development. To date, Afghanistan's Customs and Revenue Department has been focusing solely on visible revenue sources, such as personal income taxes and corporate income taxes. However there are opportunities to increase revenues through indirect means. For example: Tanzania set a 120% duty on plastic shopping bags, resulting in both a boost to the economy and mitigation of the harmful effects of plastic bag usage on the environment (Ikiara et al., 2007). Pakistan and Iran have focused more on implementing value-added taxation, or VAT, resulting in significant dividends for both countries.

Policy Alternatives

In order to establish efficient and sound revenue collection system, it is important to increase the overall productivity of the revenue management organisation. The following options are proposed:

- Establish a Customer Care Unit (CCU) within Afghanistan's Customs and Revenue Department to assist taxpayers and expedite the tax collection process;
- Provide specialised training to tax officers on taxation and customer service skills;
- Launch a national public campaign explicitly linking the payment of taxes to civic responsibilities;
- Introduce an online revenue collection system that included self-assessment tools, declaration forms and payment, transfer and feedback options that allow the taxpayer to conveniently assess their own tax burden and file their taxes more efficiently. This interactive platform could help the Afghanistan Revenue Department generate more revenue to meet budgetary needs of the Afghan government;
- Prioritise the collection of revenue through progressive taxation within the department;
- Increase taxes on luxury goods and products considered to be socially harmful, such as tobacco.

Policy Question

What instruments of revenue collection could help Afghanistan's Customs and Revenue Department generate enough revenue to meet the country's budgetary needs?

Short Term Recommendation

- Introduction of an online revenue collection system that moves away from the manual, paper-based system wherein the public must come to fill out forms, pay their taxes at the bank and provide receipts as proof of payment, towards the more common online submission used in other countries.

Long Term Recommendation

- Increase taxes on luxury goods and harmful products such as tobacco. Proposed increases are offered below in contrast to percentages derived from the 2014 Afghan National Budget.

New Tax Rates to be introduced:

Item	Existing Tax Percentage%[1]	Proposed Tax Percentage%
• Tax on Profit	2%	4%
• Mobile Top up Cards	0%	10%
• Tax on fuel	1 AFS	2 AFS
• Aviation Tax	400 USD/ Per flight	500 USD/per flight

1 Source: Afghanistan's National Budget, 2014

New Custom Duties to Be Imposed (as percentage to their price)

• Edible Oil	2.50%	5%
• Engine Spare Parts	5%	8%
• Fabrics	2.50%	3.50%
• Tea	2.50%	3.50%
• Electronics	8%	12%
• Cigarettes	10%	25%
(Afghanistan imposes lowest duties on cigarettes)		
• Beverage	20%	30%
• Chicken/ Eggs	5%	10%
• Furniture	20%	30%
• Beauty Cosmetics	16%	25%
• Vehicles	25%	35% - 60%

Conclusion

Afghanistan's Customs and Revenue Department is one of the country's most vital departments, with branches in 34 provinces of Afghanistan. The majority of the government's revenue is collected through this Department, and thus it is crucially important that positive change is introduced within the Department to promote the sustainable development of the country. The greater the focus on customer relations and bringing facilities to taxpayers, the easier it will be for the Government to collect revenue and build a positive public image to the Afghan people. Introducing online tax payment options and better facilitating the tax collection process would minimize opportunities for corruption, ultimately helping the Department bring greater transparency to its routine operations.

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