

Guide to do business in

AFGHANISTAN

Chandrawat
& Partners





ABOUT AFGHANISTAN

Afghanistan is a landlocked country located in South Asia and Central Asia. It is bordered by Pakistan to the east and south, Iran to the west, Turkmenistan, Uzbekistan, and Tajikistan to the north, and China to the northeast. Its capital and largest city is Kabul.

Afghanistan has a long and complex history, with various empires and kingdoms controlling the region over the centuries. In recent times, the country has been plagued by conflict and political instability, including the Taliban insurgency and the US-led war in Afghanistan that began in 2001. The war officially ended in August 2021, when the Taliban took control of the country after the withdrawal of US and NATO forces.

Afghanistan is ethnically diverse, with the Pashtun being the largest ethnic group, followed by Tajik, Hazara, Uzbek, and other minority groups. The official languages of Afghanistan are Pashto and Dari, which are both Indo-European languages.

The economy of Afghanistan is heavily dependent on agriculture, with opium poppy production being a significant contributor to the economy. However, the country also has significant mineral deposits, including copper, iron ore, and lithium. Despite this, Afghanistan remains one of the poorest countries in the world, with high levels of poverty and a lack of basic infrastructure.

ADVANTAGES

Afghanistan is currently facing significant political and security challenges, which may affect the business environment. However, there are some general advantages to doing business in Afghanistan:

Location and access

- Strategic location at the crossroads of South Asia, Central Asia, and the Middle East makes it a potential transit hub for trade and investment.
- Proximity to large and growing markets such as India, China, and the Middle East
- Access to abundant natural resources, including copper, iron, oil, and gas.

Economic and market potential

- Large and young population of over 38 million, with a growing middle class.
- Significant reconstruction and development needs exist, providing opportunities for investment in infrastructure, energy, and other sectors.
- Liberalised trade and investment policies with reduced barriers to entry and a simplified licencing regime
- Increasing private sector activity with a range of business opportunities across various sectors, including agriculture, construction, healthcare, and telecommunications

Natural resources

- Afghanistan is rich in natural resources, including copper, iron, oil, gas, and precious stones, providing significant opportunities for investment in the extractive industries.
- The country's agricultural sector is also a potential growth area, with fertile land and a variety of crops, including fruits, nuts, and grains.

ADVANTAGES

SIMPLE TAX REGIME

TAX SLABS

Human resources

- The Afghan labour force is young and rapidly growing, with a large pool of potential employees.
- Labour costs are relatively low compared to other countries in the region.
- The country's education system is improving, with increasing numbers of students attending university, creating a potential pool of skilled workers.

It is worth noting that Afghanistan remains a challenging and complex business environment, with various risks and uncertainties. Potential investors should carefully assess the risks and benefits before considering any business activities in the country.

Taxation authority:

The tax system in Afghanistan is managed by the Afghanistan Revenue Department (ARD), which operates under the Ministry of Finance.

The ARD is responsible for collecting taxes, processing tax returns, and conducting audits and investigations to ensure compliance with tax laws and regulations.

Types of taxes:

Income tax

Individuals and companies are subject to income tax on their income earned in Afghanistan. The tax rate for individuals ranges from 0% to 20%, while the tax rate for companies is a flat 20%.

Value-Added Tax (VAT)

A 10% VAT is levied on the supply of goods and services in Afghanistan, with some exemptions and reduced rates for certain goods and services.

Withholding tax

Certain payments made to non-residents, such as dividends, interest, and royalties, are subject to withholding tax at a rate of 20%.

Custom duties

Import and export of goods are subject to custom duties, which vary depending on the type of goods and their value.

Business receipts tax

This is a tax on the gross receipts of businesses with annual revenues exceeding AFN 10 million. The tax rate ranges from 2% to 10% depending on the industry.

Individual tax rates:

It ranges from 0% to 20%.

Corporate tax rates:

For companies engaged in the extractive industries (oil, gas, and mining), a tax rate of 20% is payable.

For other companies, a tax rate of 15% is payable.

Companies in Afghanistan are governed by the Ministry of Commerce and Industry (MoCI). The MoCI is responsible for regulating and promoting trade and commerce in the country, as well as registering and overseeing the operations of companies in Afghanistan. The Ministry is also responsible for developing policies and regulations related to business and for providing support and assistance to businesses operating in Afghanistan. The business entities that can be established in Afghanistan are:

Sole proprietorship

A sole proprietorship is the simplest form of business organization, where a single person owns and operates the business. The owner is personally responsible for all debts and liabilities of the business.

Partnership

A partnership is a business structure where two or more people share ownership of a business. The partners contribute capital, share profits and losses, and are jointly responsible for the debts and liabilities of the business.

Limited Liability Company (LLC)

An LLC is a hybrid business structure that provides the limited liability protection of a corporation and the tax benefits of a partnership. The owners of an LLC are called members, and their personal assets are protected from business debts and liabilities.

Joint Stock Company (JSC)

A JSC is a company whose capital is divided into shares and owned by shareholders. The liability of the shareholders is limited to the amount of their investment in the company. JSCs can be either public or private, and are subject to more stringent regulation and disclosure requirements.

Branch office

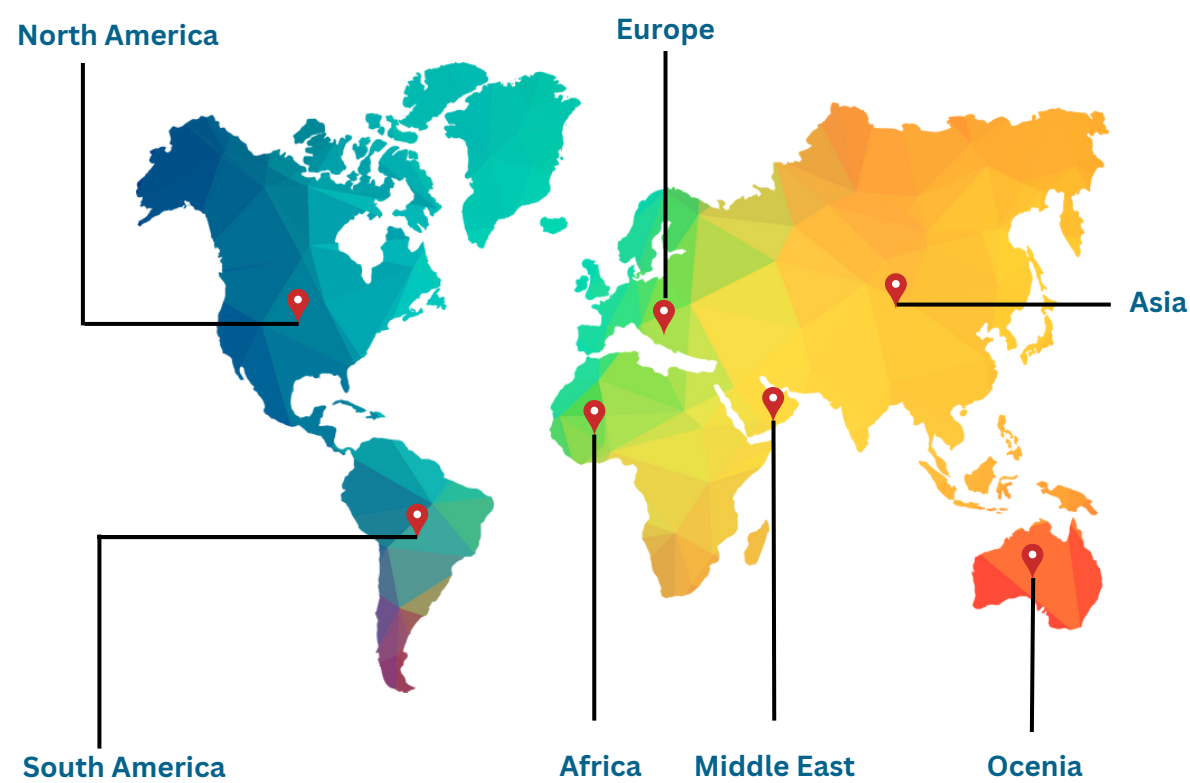
A foreign company can establish a branch office in Afghanistan to conduct business activities in the country. The branch office is considered an extension of the foreign company and is subject to the same laws and regulations as domestic companies.

Representative office

A representative office is a business entity established by a foreign company to perform non-commercial activities, such as marketing and research, in Afghanistan. Representative offices are not allowed to engage in any commercial activities.

It is important to note that the process of registering a company in Afghanistan can be complex and time-consuming and may require the assistance of a local legal advisor or business consultant.

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Key Contact



Surendra Singh Chandrawat

Managing Partner

✉ surendra@chandrawatpartners.com

Connect Surendra on

[LinkedIn](#)

[WhatsApp](#)

[WeChat](#)

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