

RANKED BY



CORPORATE TAX

Guide

IRAQ

2025

About Guide

This guide provides a comprehensive overview of Iraq's taxation system, outlining various tax categories such as payroll taxes, social security contributions, indirect and direct taxes, and taxes on trading and natural resources. It also highlights key tax exemptions, allowances, and the challenges facing Iraq's tax system, including tax evasion, low awareness, and delays in collections. Recent tax reforms and the adoption of International Financial Reporting Standards "IFRS" are discussed as steps toward modernizing the tax framework and improving transparency. Additionally, the document examines the tax implications for foreign corporations and the opportunities and challenges related to trading and investing in Iraq's natural resources sector.

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- Italy([**taxitaly**](#))
- China ([**taxchina**](#))

Introduction

1. Payment to Relevant Parties

- **Payroll Tax:** Payroll taxes operate on a pay-as-you-earn (PAYE) basis, where employers deduct tax from employees' salaries. Progressive rates apply, with a maximum rate of 15% in mainland Iraq. Employers must remit these deductions to the tax authorities monthly. Late filings or payments incur penalties and interest.
- **Social Security Contributions:** Employers contribute 12% of salaries to the Social Security Fund, while employees contribute 5%. Certain industries, like oil and gas, may face higher employer contribution rates of 25%. Non-Iraqi employees may be exempt if covered by their home country's social security system. Late payments incur a 2% monthly penalty.
- **Withholding Tax:** Payments to non-residents for services, royalties, or interest are subject to a withholding tax of 15%. Dividends are generally exempt if profits have already been taxed. Payments under oil and gas contracts may have rates of 3.3% or 7%. Withholding tax must be remitted promptly to avoid penalties.

2. Indirect Tax

- **Sales Tax:** Iraq does not have a general VAT system but imposes specific sales taxes. Alcohol and Tobacco products are subject to a 300% sales tax, while cars, travel tickets, and mobile recharge cards face rates of 15% to 20%. Deluxe restaurants and first-class hotels are taxed at 10%. Businesses handling these goods and services must comply with the sales tax requirements.
- **Customs Duties:** Customs duties in Iraq range from 0% to 30% depending on the product, as outlined in the Customs Tariff Law. Specific exemptions apply to goods used in government projects or for humanitarian purposes. Importers must ensure proper documentation to clear goods without delays. Non-compliance with customs regulations may result in fines or confiscation.

3. Direct Tax

- **Corporate Income Tax:** Iraq imposes a corporate income tax at a flat rate of 15% on taxable profits for most companies. However, companies in oil and gas sector are subject to a higher rate of 35%. GCT applies either 15% of taxable profit or a deemed tax rate on total revenue, selecting the higher of the two. All income derived from Iraq is taxable regardless of the recipient's residence. Accurate record-keeping and compliance are critical to avoid penalties.

- **Foreign Oil Company Income Tax:** Foreign oil companies operating in Iraq are taxed at a flat rate of 35% on income earned from contracts related to oil and gas production. This rate applies to branches, offices, and subcontractors working in the sector. Compliance includes registering with tax authorities and adhering to filing requirements. Non-compliance may lead to significant penalties and restrictions.
- **Corporate - Corporate Residence:** A corporation is deemed resident in Iraq if it is incorporated or managed and controlled within Iraq. The distinction between "Trading In" and "Trading With" Iraq is important. Companies "trading in" Iraq must register with the GCT and are subject to corporate income tax. Non-compliance with registration requirements can lead to penalties and limitations on operations.
- **Permanent Establishment:** Iraq does not explicitly define a permanent establishment in its tax laws. However, activities such as contracts concluded in Iraq, payments into Iraqi bank accounts, or services rendered physically in Iraq can create tax obligations. Companies performing such activities must register, file tax returns, and comply with local regulations to avoid penalties.
- **Capital Gains:** are taxed as ordinary income at the corporate tax rate of 15%. Gains from depreciable assets are always taxable, while gains from shares and bonds may be exempt if not part of trading activity. Proper documentation is essential to ensure compliance and determine exemptions.
- **Additional Profit Tax:** such tax is levied on profits earned by companies exceeding a specified threshold. In some cases, it applies to entities involved in high-profit industries, like oil and gas. The tax is designed to ensure equitable distribution of wealth and prevent excessive profiteering.

4. Other Taxes

- **State Taxes:** State taxes in Iraq are levied at the federal level and apply to companies conducting business within the country. These taxes can include customs duties, excise taxes, or specific levies tied to particular sectors or activities.
- **Municipal Tax:** Municipal taxes are imposed at the local government level to fund regional services and infrastructure. Common examples include taxes on property, commercial licenses, or operational permits for businesses. Rates vary depending on the location and type of business operations.

- **Transfer Pricing:** Iraq lacks comprehensive transfer pricing regulations. However, the tax authority may adjust taxable income if transactions between related parties do not reflect arm's-length conditions. Multinational companies should maintain proper documentation to justify their pricing mechanisms.
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Key Features of Taxation for Non-local Corporations

- **Source-Based Taxation:** Tax applies to income generated within the country.
- **Permanent Establishment:** Taxation is triggered by a physical or significant economic presence in the country.
- **Withholding Taxes:** Levied on payments like dividends, interest, and royalties to nonlocal corporations.
- **Tax Treaties:** Double Taxation Agreements may reduce or eliminate tax liabilities.
- **Branch Profits Tax:** Some countries impose additional taxes on profits of nonlocal branches.
- **Transfer Pricing Rules:** Regulations ensure fair pricing for transactions between related entities to prevent profit shifting.
- **Tax Filing Requirements:** Nonlocal corporations must file tax returns or disclosures for local activities.
- **Exemptions and Incentives:** Some sectors or activities may qualify for reduced tax rates or exemptions
- **Economic Substance Rules:** Corporations must demonstrate substantial activity in the country to qualify for favorable treatment.
- **Anti-Avoidance Measures:** Regulations to prevent tax evasion, such as thin capitalization rules and beneficial ownership tests.

Tax Audit Cycle

The tax audit cycle involves procedures designed to ensure compliance with the country's tax laws and regulations. This cycle is conducted by GCT under the Ministry of Finance and includes the following key stages:

- 1. Taxpayer Registration:** Businesses and individuals engaging in taxable activities must register with the tax authorities. Taxpayer information, including income, assets, and activities, is documented and maintained in official records.
- 2. Tax Filing and Payment:** Taxpayers are required to file annual tax returns and disclose their income, deductions, and other relevant financial information. Taxes owed are calculated and paid based on the filed returns, with specific deadlines for submission.
- 3. Documentation Review:** Tax auditors examine financial records, including income statements, balance sheets, and supporting documents.
- 4. Audit Findings:** Upon completing the review, auditors prepare a report detailing their findings, including any discrepancies or violations. The taxpayer is informed of the results and any additional taxes, penalties, or adjustments.
- 5. Taxpayer Response:** Taxpayers have the opportunity to respond to the findings, provide clarifications, or dispute the results. Supporting evidence can be submitted to address issues raised during the audit.
- 6. Final Assessment:** The tax authority issues a final assessment based on the audit findings and taxpayer responses. Any outstanding taxes, interest, or penalties must be paid within a specified period.
- 7. Appeals Process:** Taxpayers have the right to appeal the final assessment if they disagree with the findings. Appeals are handled through administrative or judicial processes.
- 8. Compliance Monitoring:** After the audit, tax authorities may monitor the taxpayer's activities to ensure future compliance. Repeat audits or follow-ups may be conducted for high-risk taxpayers.

Tax Exemptions and Allowances

Iraq offers various tax exemptions and allowances to promote investment and support economic growth. Under Investment Law No. 13 of 2006, domestic and foreign investors can benefit from corporate tax exemptions for up to 10 years and customs duty waivers on equipment and materials. Specific sectors, such as agriculture and businesses in free trade zones, also enjoy exemptions to encourage development.

Personal income tax allowances include deductions for dependents and social security contributions. Businesses can claim allowances for operational expenses, depreciation, and loss carry-forwards. These measures aim to stimulate economic activity while reducing the tax burden on individuals and corporations.

Brief Overview of Tax Challenges and Reforms

Iraq's tax system faces challenges such as complex legislation, widespread tax evasion, low tax awareness, delays in collections, weak oversight, and conflicts in laws. These issues hinder efficient tax administration and compliance.

To address these problems, the government introduced tax reforms in 2024, focusing on expanding the tax base, modernizing property tax calculations, taxing new sectors like media, e-commerce, automating tax systems. Key measures include streamlined tax collection, incentives for compliance, enhanced governance through electronic systems. These reforms aim to improve revenue generation, transparency, and fairness in Iraq's tax system.

- 1. Complexities of Tax Legislation:** Iraq's tax system suffers from unclear and outdated tax laws, making compliance challenging for taxpayers. The complexity of the regulations leads to frequent misinterpretations and administrative inefficiencies. These issues create confusion among businesses and individuals, discouraging proper tax filing. Simplification of tax laws is necessary to promote compliance and reduce administrative burdens. Reforms are ongoing to align tax legislation with international standards.
- 2. Tax Evasion:** is a significant issue in Iraq, with many individuals and businesses underreporting income or concealing earnings. Weak enforcement mechanisms and limited audits contribute to this issue. Tax evasion reduces government revenue and undermines the fairness of tax system. Addressing this requires stricter penalties, better monitoring, automated systems to track income. Expanding the tax base to capture unregistered taxpayers is also critical.

3. **Poverty of Tax Awareness:** Low awareness among Iraqis leads to unintentional non-compliance and errors in tax filing. Many taxpayers are unfamiliar with their obligations and available exemptions. Educational campaigns and accessible resources are needed to improve understanding of the tax system. Increased awareness can help reduce violations and improve voluntary compliance. Government initiatives should focus on simplifying tax guidelines and educating the public.
4. **Delays in Collections:** tax collection process is often delayed due to bureaucratic hurdles and inefficient systems. These delays impact the government's ability to maintain fixed revenue streams. Streamlining administrative processes and adopting digital payment systems can improve efficiency. Timely tax collection is essential for funding public services and economic stability. Enhanced coordination between agencies is needed to address bottlenecks.
5. **Supervision and Control:** Weak oversight mechanisms in Iraq's tax system allow fraud and manipulation of tax data. Insufficient resources and outdated technology limit the ability to verify taxpayer information. Strengthening supervision and adopting modern tools like electronic filing can enhance accuracy. Transparent audits and penalties for non-compliance are critical to restoring trust. Improved monitoring will ensure fair taxation and reduce revenue losses.
6. **Conflict of Laws and Legislation:** create confusion and loopholes that taxpayers can exploit. These inconsistencies arise from differences between various government directorates and outdated frameworks. Harmonizing tax laws across jurisdictions is essential to ensure consistency and clarity. Legal reforms should focus on closing gaps and providing clear guidelines. Coordination between agencies can prevent discrepancies and improve enforcement.
7. **Tax Reforms Initiated in 2024:** Iraqi government launched reforms in 2024 to address tax challenges, forming a higher committee to oversee implementation. Key measures include expanding the tax base by including unregistered sectors like healthcare, e-commerce. Automation of systems aims to reduce corruption and delays in tax processes. Property taxes are redrafted to reflect market values, with exemptions for timely payments. These reforms aim to enhance transparency, efficiency, and revenue generation.

Adoption of IFRS

Iraq has been gradually moving toward adopting the International Financial Reporting Standards “IFRS” to enhance transparency, improve financial reporting, and attract foreign investment. The adoption of IFRS aligns Iraq with global accounting practices that helps modernize its financial system. While Iraq’s full adoption of IFRS is still in progress, it represents a critical step in enhancing financial governance, increasing investor trust, and aligning the country’s financial reporting with global practices.

Key points about Iraq’s IFRS adoption include:

- 1. Improved Financial Transparency:** IFRS adoption aims to provide standardized and transparent framework for financial reporting, enabling stakeholders to make informed decisions. This is particularly beneficial for foreign investors seeking clarity in Iraq's financial markets.
- 2. Alignment with Global Standards:** Shifting to IFRS aligns Iraq's accounting practices with international norms, fostering better integration with global financial markets. This alignment is essential for multinational companies operating in Iraq.
- 3. Challenges in Implementation:** Iraq faces challenges in fully adopting IFRS, including limited expertise, outdated systems, and a lack of training for accountants. Transitioning from local accounting standards requires significant capacity-building efforts.
- 4. Sector-Specific Focus:** The adoption of IFRS is prioritized in key sectors like banking and oil, which are vital to Iraq’s economy. Compliance with IFRS in these industries ensures accurate financial reporting and boosts investor confidence.
- 5. Support from Professional Bodies:** Professional organizations, such as the Iraqi Accountants and Auditors Syndicate, play a critical role in training and supporting accountants to adopt IFRS. Government initiatives are also underway to facilitate the transition.

Taxation on Trading in Iraq



Customs Duties

Imported goods are subject to customs duties based on its classification, value, origin. Iraq has specific rates outlined in its Customs Tariff Law, with exemptions for certain goods.



Value-Added Tax "VAT"

Iraq currently relies on sales taxes for some products, with future plans to broaden the tax base through VAT implementation.



Corporate Income Tax

Trading companies operating in Iraq are subject to corporate income tax, generally at a rate of 15%, though higher rates may apply to specific sectors like oil and gas.



Withholding Taxes

Payments to foreign traders or contractors may be subject to withholding taxes, particularly on services, dividends, or royalties.



Local Trading Regulations

Traders in Iraq must comply with licensing and registration requirements with GCT, ensuring proper tax filing and payments.

Taxation on Trading with Iraq

(International Trade):

- **Import Taxes:** Goods imported into Iraq are taxed under its Customs Tariff Law. Rates vary based on product category, with essential items often benefiting from reduced or zero rates.
- **Export Taxes:** While exports from Iraq are generally exempt from taxes, specific goods may be subject to licensing or regulatory fees, especially in oil and gas sector.
- **Double Taxation Agreements "DTA":** Iraq has signed agreements with several countries to avoid double taxation, providing tax relief for international traders and investors.
- **Tax Compliance Requirements:** Foreign traders must comply with Iraqi tax laws, including proper documentation of transactions and adherence to customs regulations. Non-compliance may result in penalties or delays.

Challenges and Opportunities

Trading in and with Iraq presents opportunities due to the country's resource wealth and market's growth. However, challenges such as bureaucratic inefficiencies, inconsistent enforcement of tax laws, lack of digital systems complicate compliance. Continued reforms and modernization efforts aim to streamline tax trading processes and attract international trade partners.

Taxes on Natural Resources

Iraq's tax system for energy sector, including oil and gas activities and renewable energy, is structured to maximize revenue while promoting sectoral development. Each sub-sector is subject to specific tax treatments as outlined below:

1. Taxes on Oil & Gas Activity

- **Corporate Income Tax:** Oil and gas companies operating in Iraq are typically taxed at rates ranging from 15% to 35%, depending on the specific contract terms and activity type.
- **Production Sharing Contracts:** foreign oil companies pay taxes on its share of production profits, often alongside royalty payments to the government.
- **Withholding Taxes:** Payments to subcontractors, including foreign companies, are subject to withholding taxes on services, often set at 7-10%.
- **Customs Duties and VAT:** Equipment and materials imported for oil and gas operations may be exempt from customs duties or VAT under investment laws, provided it's directly tied up to production or exploration activities.
- **Environmental Fees:** Some activities in oil and gas sector may incur environmental levies aimed at mitigating environmental impact of operations.

2. Taxes on General Energy Activities

- **Corporate Taxation:** Energy companies, including electricity generation and distribution corporates, are subject to standard corporate income tax rate of 15%.
- **Subsidies and Tax Incentives:** The government provides tax relief for energy projects that address critical infrastructure needs or enhance energy supply, particularly in rural or underserved areas.
- **Customs Exemptions:** Import duties may be waived on equipment and materials for energy infrastructure development.

3. Taxes on Renewable Energy

- **Tax Incentives for Renewable Energy:** Iraq encourages investment in renewable energy projects by offering tax exemptions and reductions. For example, solar, wind, and hydropower projects may enjoy exemptions from corporate income taxes for a specified period under Investment Law.

- **Customs Duty Waivers:** Renewable energy equipment, such as solar panels and wind turbines, often qualifies for duty-free import to promote clean energy development.
- **Carbon Credits and Tax Benefits:** Projects contributing to emission reductions may qualify for tax credits under emerging environmental policies aligned with global climate agreements.
- **VAT and Local Taxes:** Renewable energy projects may be exempt from VAT or local taxes during the construction and initial operational phases, reducing costs for investors.

4. Key Challenges and Opportunities

- **Oil & Gas:** While taxes on oil and gas generate significant revenue, regulatory inconsistencies and environmental concerns indicate challenges.
- **Energy Sector:** Modernizing tax policies for energy infrastructure is critical to attract private investment and meet growing electricity demand.
- **Renewable Energy:** Tax incentives for renewables are promising, but challenges such as bureaucratic inefficiencies and a lack of clear policy frameworks need to be addressed to fully realize the sector's potential.

Conclusion

Iraq's tax system is undergoing significant transformation to address challenges such as complex legislation, tax evasion, and inefficiencies in collection and enforcement. While reforms have been introduced to modernize the system, including the adoption of IFRS and the expansion of the tax base, there are still hurdles to overcome, such as bureaucratic inefficiencies and a lack of clear policies in certain sectors. The country offers attractive incentives for sectors like renewable energy and oil, yet regulatory inconsistencies remain a concern. As Iraq continues to streamline its tax processes and enhance compliance, the opportunities for both local and foreign investors are expected to grow, contributing to the nation's economic development.

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