



Iraq
Tax Guide
2016/17

FOREWORD

A country's tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions.

As you will appreciate, the production of the WWTG is a huge team effort and we would like to thank all tax experts within PKF member firms who gave up their time to contribute the vital information on their country's taxes that forms the heart of this publication.

The PKF Worldwide Tax Guide 2016/17 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world's most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 30 April 2016, while also noting imminent changes where necessary.

On a country-by-country basis, each summary such as this one, addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

Services provided by member firms include:

- Assurance & Advisory;
- Financial Planning / Wealth Management;
- Corporate Finance;
- Management Consultancy;
- IT Consultancy;
- Insolvency - Corporate and Personal;
- Taxation;
- Forensic Accounting; and,
- Hotel Consultancy.

In addition to the printed version of the WWTG, individual country taxation guides such as this are available in PDF format which can be downloaded from the PKF website at www.pkf.com

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JUNE 2016

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STRUCTURE OF COUNTRY DESCRIPTIONS

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CAPITAL GAINS TAX
BRANCH PROFITS TAX
VALUE ADDED TAX
PROPERTY, PLANT AND EQUIPMENT RENTAL

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RESIDENT PERSONAL TAX
NON- RESIDENT PERSONAL TAX

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

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BASIC FACTS

| | |
|--------------------|----------------------------|
| Full name: | Republic of Iraq |
| Capital: | Baghdad |
| Main languages: | Arabic, Kurdish |
| Population: | 36,004,552 (2014 estimate) |
| Major religion: | Islam |
| Monetary units: | Iraqi Dinar (IQD) |
| Internet domain: | .iq |
| Int. dialing code: | +964 |

KEY TAX POINTS

- Companies are broadly subject to a fixed corporation tax rate of 15%.
- Capital gains are treated as part of the ordinary income of companies and taxed at the appropriate corporation tax rate.
- There is no Value Added Tax (VAT) or Goods and Services Tax (GST) in Iraq.
- Related party transactions are required to be reported separately and should be made on a third party arm's length basis. Where prices paid for the purchase of goods or services are excessive or unreasonable, the Tax Authority can disallow a deduction for the excess portion.
- Resident and non-resident individuals are subject to personal tax at progressive tax rates up to 15%. Resident individuals can claim relevant exemptions whereas no exemptions are available to non-resident individuals.

A. TAXES PAYABLE

COMPANY TAX

An Iraqi resident company is liable to corporation tax on all its resources of income and capital gains whenever arising from the following operations:

- Trading activities;
- Manufacturing activities;
- Investments in securities and bonds;
- Interests; and,
- Rent of agricultural grounds.

Corporate tax rates are fixed for each financial year ended 31 December.

Tax rates

- Taxes on Limited Liability Companies:
Limited Liability Companies are subjected to fixed tax rate of 15%.
- Tax on Private Shareholding Companies:
Private Shareholding Companies is subjected to fixed tax rate of 15%.
- Tax on Mixed Shareholding Companies:
Mixed Shareholding Companies is subjected to fixed tax rate of 15%.
- Contracts concluded with foreign oil companies which are contracted to work in Iraq or its branches or offices and the parties sub-contracting with it in the field of the production and extraction of oil and gas and their related industries are subject to 35% income tax on income realized inside of Iraq.

Tax returns must be filed by or before the 31st of May of the year of assessment. If the returned self-assessed position is not accepted by the tax authorities they will raise an assessment based on the information available to them and payment of the tax liability is due within 21 days from the assessment date. No quarterly payments are due during a tax year.

CAPITAL GAINS TAX

Capital gains made by companies are taxed at the appropriate corporation tax rate.

BRANCH PROFITS TAX

Foreign branches in Iraq are taxable at the corporation income tax ratios, after deduction of any overseas taxation.

VALUE ADDED TAX

There is no VAT in Iraq.

PROPERTY, PLANT AND EQUIPMENT RENTAL

A 10% deduction can be made against the rental income from property, plant and equipment in respect of depreciation and maintenance expenses. The remainder (90%) is then subject to 10% income tax.

B. DETERMINATION OF TAXABLE INCOME

Any income incurred in Iraq is subject to income tax. Corporate taxable income is determined by ascertaining assessable gross income and reducing it by allowable deductions.

DEPRECIATION

Depreciation expense on machinery and equipment is deductible based on certain ratios whereas the depreciation on buildings and real estates is not deductible.

INVENTORY

All Inventory Items are valued at the lower of cost or net realisable value.

CAPITAL GAINS AND LOSSES

Capital gains and losses are included within the profit chargeable to corporation tax for the accounting period.

DIVIDENDS

Dividends paid to Iraqi companies are generally exempted from the corporation tax whereas the mentioned income was already taxed.

INTEREST DEDUCTIONS

The taxpayer generally may deduct business interests paid or incurred within the tax year. Interest must be directly related to the subject income.

LOSSES

Net operating losses may be carried forward for 5 years against the same taxable income. Moreover, it is not allowed to deduct more than half of the mentioned taxable income within the mentioned years.

FOREIGN SOURCED INCOME

Iraqi corporations are taxed on worldwide income including any foreign branches income.

INCENTIVES

In certain cases, the investor might take the benefits of tax and customs exemption for five years, this period is extended to reach 10 years.

C. FOREIGN TAX RELIEF

An Iraqi corporation or a foreign corporation engaged in a business in Iraq, may elect to claim either a credit or a deduction for income tax paid to another country, if the taxes are connected with or related to its business, or if the income is also taxed by Iraq.

D. CORPORATE GROUPS

There is no provision in Iraq for consolidation of accounts for tax purposes or provisions for group taxation.

E. RELATED PARTY TRANSACTIONS

Related party transactions are required to be reported separately and the tax authorities are given power to consider whether transactions are at an arm's length. Where prices paid for the purchase of goods or services are excessive or unreasonable, the assessing officer can disallow a deduction for the excess portion.

F. WITHHOLDING TAX

If a resident Iraqi pays an amount to a non-Iraqi (non-resident), this income will be subject to 15% withholding tax if it relates to interest on debentures, mortgages, loans, deposits and advances, as well as annual allowances, pension salaries, or other annual payments. Please note that dividends are not subject to withholding tax.

G. EXCHANGE CONTROL

There are no exchange control rules in Iraq.

H. PERSONAL INCOME TAX

RESIDENT PERSONAL TAX

- First IQD 250,000 is subject to 3% after the deduction of exemptions.
- From IQD 250,000 to 500,000 is subject to 5% after the deduction of exemptions.
- From IQD 500,000 to 1,000,000 is subject to 10%, after the deduction of exemptions.
- Any amount exceeding IQD 1 Million is subject to 15%, after the deduction of exemptions.

NON- RESIDENT PERSONAL TAX

- First IQD 250,000 is subject to 3%, no exemptions are granted to the taxpayer.
- From IQD 250,000 to 500,000 is subject to 5%, no exemptions are granted to the tax payer.
- From IQD 500,000 to 1,000,000 is subject to 10%, no exemptions are granted to the taxpayer.
- Any amount exceeding IQD 1 Million is subject to 15%, no exemptions are granted to the taxpayer.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

At present, there are no tax treaties in force in Iraq.



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