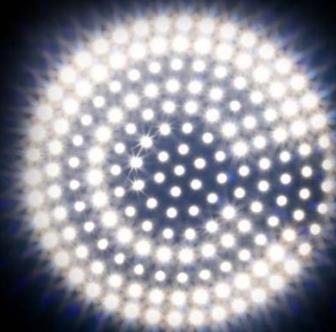


International Tax Iraq Highlights 2018



Investment basics:

Currency – Iraqi Dinar (IQD)

Foreign exchange control – Limited

Accounting principles/financial statements – Registered entities must prepare annual financial statements, with IQD as the accounting currency, in accordance with the Iraqi Uniform Accounting System, and in Arabic. The Iraqi Unified Accounting System does not match International Accounting Standards.

Kurdistan Region tax regime – As a semi-autonomous region in Northern Iraq, the Kurdistan Region has introduced certain laws and practices that differ from the position in Federal Iraq.

Principal business entities – These are the joint stock company, limited liability company, joint liability company, simple company, sole owner enterprise, representative office and branch office.

Corporate taxation:

Residence – An entity is resident if it is incorporated under the laws of Iraq or has its place of management and control in Iraq. An entity is nonresident if it does not meet the criteria for a resident entity.

Basis – A company is taxed on the basis of its net profit.

Taxable income – Tax is levied broadly on all sources of income, other than income that is specifically exempt. There is no concept of permanent establishment in Iraq tax law; all income arising in Iraq is taxable in Iraq.

Taxation of dividends – Dividends received by an Iraqi entity generally are not subject to tax, provided the profits out of which the dividends are paid have been subject to tax in Iraq.

Capital gains – Gains derived from the sale of assets should be included in ordinary income and taxed at the normal corporate tax rate.

Losses – Losses are tax deductible and may be carried forward for a maximum of five consecutive years, but no more than 50% of any year's taxable income may be offset, and any losses carried forward may be deducted only from the same source of income from which they are being offset. The carryback of losses is not permitted.

Rate – A flat rate of 15% generally applies, but a 35% rate applies to companies operating in the oil and gas sector.

A 15% rate applies to all industries in the Kurdistan Region.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – No

Participation exemption – No

Holding company regime – No

Incentives – The investment law provides tax holidays and exemptions from import/export taxes for specific approved projects. Free zones exist, but are nascent.

Withholding tax:

Dividends – Iraq does not levy withholding tax on dividends.

Interest – Interest paid to a nonresident should be subject to withholding tax of 15% of the gross payment.

Royalties – Iraq does not levy a specific withholding tax on royalties. See comments regarding "tax retentions" under "Other."

Technical service fees – No, but see comments regarding tax retentions under “Other.”

Branch remittance tax – No

Other – Iraq has an extensive tax retention system that applies in respect of payments to subcontractors under contracts that are considered to constitute “trading in” Iraq. The applicable tax retention rates can go up to 10%, depending on the nature of the contract.

Payments made under contracts that fall within the scope of the oil and gas tax law are subject to a 7% withholding tax. Payments that fall outside of the scope of the oil and gas tax law generally are subject to withholding tax at rates of 3%-3.3%. In practice, the rate may vary depending on the industry.

Tax retentions are not consistently applied in the Kurdistan Region, other than on payments made by the public sector, which often include a 5% tax retention.

Other taxes on corporations:

Capital duty – No

Payroll tax – Employers are required to calculate, withhold and remit employees’ personal income tax. See “Rates” under “Personal taxation,” below.

Real property tax – No

Social security – The employer deducts 5% from an employee’s salary and makes a 12% or 25% contribution of its own.

The social security contributions in the Kurdistan Region are 5% for employees and 12% for employers.

Stamp duty – The stamp duty law provides for de minimis payments on certain procedures and documents, and a 0.2% stamp duty on contracts of fixed value.

Anti-avoidance rules:

Transfer pricing – There are no specific transfer pricing rules, but the Iraq tax authorities reserve the right to adjust the taxable profits of an entity if they consider the amounts recorded to be unreasonable.

Thin capitalization – No

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – Calendar year

Consolidated returns – Consolidated returns are not permitted; each company must file its own return.

Filing requirements – The corporate tax return must be filed by 31 May following the end of the taxable year. In Kurdistan Region, the deadline for corporate income tax filing is 30 June following the end of the taxable year

Penalties – Penalties on unpaid or late paid tax are as follows: 5% of the amount outstanding if payment is not made within 21 days of the due date; an additional 5% penalty if the tax is outstanding after a further 21 days (i.e. 42 days in total). Interest runs from the payment due date until the date the tax is finally settled.

Penalties of up to 25% may be assessed on the income of taxpayers that fail to maintain appropriate accounting records for tax purposes.

In Kurdistan Region, late filing of the tax return may attract a penalty of 5% per month, up to a maximum of 100% of the tax liability for large taxpayers.

Penalties on unpaid or late paid tax are calculated as 10% of the tax liability. This amount is capped at IQD 75,000 per year for small companies (the cap should not apply to taxpayers considered to be “large”).

Rulings – No

Personal taxation:

Basis – Iraqi nationals who are resident in Iraq are taxable on their worldwide income. Non-Iraqi nationals are subject to tax on income arising in Iraq, irrespective of their residence status.

Residence – An Iraqi individual who is present in Iraq for at least four months during a tax year is considered a resident. A non-Iraqi individual is deemed to be resident in Iraq if he/she is present for at least four consecutive months or a total of six months during the tax year, or if he/she is employed by an Iraqi entity.

Filing status – See below under “Filing and payment.”

Taxable income – Most sources of income are taxable, unless specifically exempt.

Capital gains – Capital gains derived by individuals are treated as income and taxed at the individual’s tax rate.

Deductions and allowances – The Federal Iraq income tax law provides for various deductions and allowances in calculating taxable income.

In the Kurdistan Region, individuals are entitled to a tax-free legal allowance of IQD 1 million per month.

Rates – In Federal Iraq, employment taxes are applied at progressive rates up to 15%.

In the Kurdistan Region, a 5% tax is imposed on basic salary plus any allowances in excess of 30% of the basic salary.

Other taxes on individuals:

Capital duty – No

Stamp duty – The stamp duty law provides for de minimis payments on certain procedures and documents and a 0.2% stamp duty on fixed value contracts.

Capital acquisitions tax – No

Real property tax – No

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – The employer deducts 5% from an employee's salary and makes a 12% or 25% contribution of its own.

The social security contributions in the Kurdistan Region are 5% for employees and 12% for employers.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Employers are required to withhold taxes on behalf of employees and pay the tax to the tax authorities by the 15th day of each month, and to submit annual tax returns on behalf of their employees. The annual employment tax declaration must be made before 31 March of the year following the tax year.

In Kurdistan Region, taxes withheld from the employees should be remitted on a quarterly basis. The withheld taxes along with the quarterly employment tax returns are required to be submitted and settled within 21 days following the end of the quarter.

Employment taxes in the Kurdistan Region must be paid before 1 March of the year following the tax year.

Penalties – Penalties on unpaid or late paid employment taxes for both Federal Iraq and Kurdistan Region are as follows: 5% of the amount outstanding if payment is not made within 21 days of the due date; an additional 5% penalty if the tax still is outstanding after a further 21 days (i.e. 42 days in total).

Interest on late paid taxes is applied at a rate of 11% per annum on the amount outstanding in Federal Iraq. In Kurdistan Region, interest on late paid tax is applied at a rate of 1.5% per month.

Value added tax:

Taxable transactions – No

Rates – N/A

Registration – N/A

Filing and payment – N/A

Source of tax law:

Federal Iraq – Income Tax Law No.113 of 1982, as amended through 2003, along with supporting instructions and circulars issued by the tax authorities.

Kurdistan Region – Income Tax Law No. 5 of 1999, along with supporting instructions and circulars issued by the tax authorities.

Tax treaties: Iraq has entered into few treaties with other jurisdictions. Iraq is a signatory to the Arab Economic Union Council Agreement, although, to date, the practical application of this agreement in Iraq has been limited.

Tax authorities:

Federal Iraq – General Commission of Taxation

Kurdistan Region – Income Tax Directorate

Contact:

Alex Law (alexlaw@deloitte.com)

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see <https://www.deloitte.com/about> to learn more about our global network of member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients’ most complex business challenges. To learn more about how Deloitte’s approximately 225,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.