**Investment basics:**

**Currency** – Iraqi Dinar (IQD)

**Foreign exchange control** – In practice, it is challenging to repatriate cash outside of Iraq. Practical challenges are mainly due to a general lack of foreign currency and the level of documentation required to be presented to the relevant banks.

**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:**

<table>
<thead>
<tr>
<th>Rates</th>
<th>Federal Iraq</th>
<th>Kurdistan region</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate income tax rate</strong></td>
<td>15% (in general); 35% for oil and gas industry</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Branch tax rate</strong></td>
<td>15% (in general); 35% for oil and gas industry</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Capital gains tax rate</strong></td>
<td>Taxed at ordinary income tax rates</td>
<td>Taxed at ordinary income tax rates</td>
</tr>
</tbody>
</table>

**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 its Iraq-source income. Branches in Iraq are treated as limited liability companies for tax purposes.
**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.

**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

**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 up to five consecutive years, but no more than 50% of any year’s taxable income may be offset, and any losses carried forward may be offset only against the same source of income from which the original loss arose. The carryback of losses is not permitted.

**Foreign tax relief** – 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.

**Compliance for corporations:**

**Tax year** – Calendar year

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

**Filing and payment** – The corporate tax return must be filed by 31 May following the end of the taxable year. In the 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.

In the 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 for late filing 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"). The tax authorities have discretion to assess additional penalties ranging from 10% to 25% on the assessed profit for late filing, although this is not consistently applied.

**Rulings** – No
**Individual taxation:**

### Rates

<table>
<thead>
<tr>
<th>Individual income tax rate – Federal Iraq</th>
<th>Employment income</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to IQD 250,000</td>
<td></td>
<td>3%</td>
</tr>
<tr>
<td>IQD 250,001 – 500,000</td>
<td></td>
<td>5%</td>
</tr>
<tr>
<td>IQD 500,001 – 1,000,000</td>
<td></td>
<td>10%</td>
</tr>
<tr>
<td>Over IQD 1,000,000</td>
<td></td>
<td>15%</td>
</tr>
</tbody>
</table>

**Kurdistan region** 5% (employment income)

**Residence** – Iraqi individuals who are present in Iraq for at least four months during a tax year are considered residents. Non-Iraqi individuals are deemed to be resident in Iraq if they are present for at least four consecutive months or a total of six months during the tax year, or if they are employed by an Iraqi entity.

**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.

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

**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.

**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.

**Foreign tax relief** – No

**Compliance for individuals:**

**Tax year** – Calendar year

**Filing status** – It is the employer’s responsibility to make filings on a monthly and annual basis on behalf of their employees working in federal Iraq and the Kurdistan region.

**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 the 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 within 21 days following the end of the quarter.

The annual employment tax declaration must be made before 1 March of the year following the tax year.
Penalties – Penalties on unpaid or late paid employment taxes for both federal Iraq and the 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 the Kurdistan region, interest on late paid tax is applied at a rate of 1.5% per month.

Rulings – No

Withholding tax:

<table>
<thead>
<tr>
<th>Type of payment</th>
<th>Residents Company</th>
<th>Residents Individual</th>
<th>Nonresidents Company</th>
<th>Nonresidents Individual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Interest</td>
<td>0%</td>
<td>0%</td>
<td>15%</td>
<td>0%</td>
</tr>
<tr>
<td>Royalties</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Fees for technical services</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Dividends – Iraq does not levy withholding tax on dividends, provided that the profits out of which the dividends are paid have been subject to tax.

Interest – Interest paid to a nonresident companies is subject to withholding tax of 15% of the gross payment. There is no withholding tax on interest paid to nonresident individuals or to residents.

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

Fees for technical services – 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% to 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.

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.

Interest deduction limitations – No

Controlled foreign companies – No
Hybrids – No

Economic substance requirements – No

Disclosure requirements – No

Exit tax – There are no exit taxes. However, to de-register an entity, a tax clearance generally is required, which is issued only if the company is current with its tax filing obligations.

General anti-avoidance rule – No

Value added tax:
There currently are limited VAT or sales taxes in Iraq. Instructions no. 5 provides for sales tax on a number of consumer items, specifically tobacco and alcohol, flights, and internet and mobile plans/pre-paid cards.

Other taxes on corporations and individuals:
Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the federal level.

Social security contributions – 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.

Payroll tax – There is no separate payroll tax but employers are required to calculate, withhold, and remit employees’ personal income tax.

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.

Iraq does not impose capital duty, real property tax, transfer tax, net wealth/worth tax, or inheritance/estate tax.

Tax treaties: Iraq has not entered into any material tax treaties with other jurisdictions.

Tax authorities: Federal Iraq – General Commission of Taxation; Kurdistan region – Income Tax Directorate

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