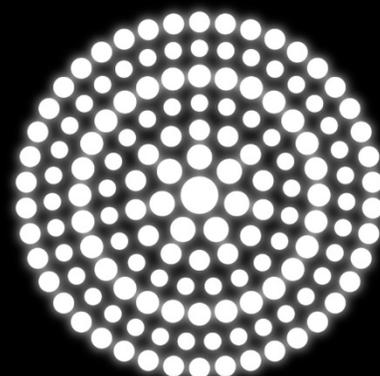


International Tax Iraq Highlights 2021

Updated January 2021



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. Iraq's domestic standards do 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, and branch office.

Corporate taxation

Rates	Federal Iraq	Kurdistan Region
Corporate income tax rate	15%	15%
Branch tax rate	15%	15%
Capital gains tax rate	Capital gains taxed as income at ordinary corporate income tax rates	Capital gains taxed as income at ordinary corporate income tax rates

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. 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: There is no surtax.

Alternative minimum tax: There is no alternative minimum tax.

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 are included in ordinary income and taxed at the applicable 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. 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: There is no relief for foreign tax.

Participation exemption: There is no participation exemption.

Holding company regime: There is no holding company regime.

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: The tax year is the calendar year.

Consolidated returns: Consolidated returns are permitted in certain cases.

Filing and payment: The corporate tax return must be filed by 31 May following the end of the taxable year (30 June in the Kurdistan Region).

Penalties: Penalties are imposed on unpaid or late paid tax of 5% of the amount outstanding if payment is not made within 21 days of the due date, plus 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. In addition, interest applies on late paid tax at a rate of 1% per month 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 does 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: Tax rulings are not available.

Individual taxation

Rates		
Individual income tax rate: Federal Iraq	Employment income	Rate
	Up to IQD 250,000	3%
	IQD 250,001–IQD 500,000	5%
	IQD 500,001–IQD 1,000,000	10%
	Over IQD 1,000,000	15%
Kurdistan Region		5% (employment income)
Capital gains tax rate		Capital gains taxed as income at individual income tax rates

Residence: Iraqi individuals who are present in Iraq for at least four months during a tax year are considered resident. 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.

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: There is no relief for foreign tax.

Compliance for individuals

Tax year: The tax year is the calendar year.

Filing status: It is the employer's responsibility to make filings on a monthly or quarterly 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 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 are imposed on unpaid or late paid employment taxes, for both Federal Iraq and the Kurdistan Region, of 5% of the amount outstanding if payment is not made within 21 days of the due date, plus 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: Tax rulings are not available.

Withholding tax

Rates				
Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	0%	0%	0%	0%
Interest	0%	0%	15%	0%
Royalties	0%	0%	0%	0%
Fees for technical services	0%	0%	0%	0%

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

Interest: Interest paid to 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 impose a specific withholding tax on royalties but see “Other,” below.

Fees for technical services: Iraq does not impose withholding tax on fees for technical services but see “Other,” below.

Branch remittance tax: There is no branch remittance tax.

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 rate may reach 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: There are no limitations on the deductibility of interest.

Controlled foreign companies: There is no controlled foreign company legislation.

Hybrids: There is no anti-hybrid legislation.

Economic substance requirements: There are no economic substance requirements.

Disclosure requirements: There are no disclosure requirements.

Exit tax: There are no exit taxes. However, to deregister 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: There is no general anti-avoidance rule.

Value added tax

There currently are limited VAT or sales taxes in Iraq. Sales tax applies on a number of consumer items, specifically tobacco and alcohol, flights, and internet and mobile plans/prepaid 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.

Capital duty: There is no capital duty.

Real property tax: A 12% real estate income tax applies on the annual revenue derived from all real estate in Iraq discounted by 10%, to allow a notional deduction for assumed maintenance and depreciation, resulting in an effective tax rate of 10.8%.

Transfer tax: There is no transfer 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.

Net wealth/worth tax: There is no net wealth or net worth tax.

Inheritance/estate tax: There is no inheritance tax or estate tax.

Tax treaties: Iraq has entered into a number of tax treaties but none are yet in effect.

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

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