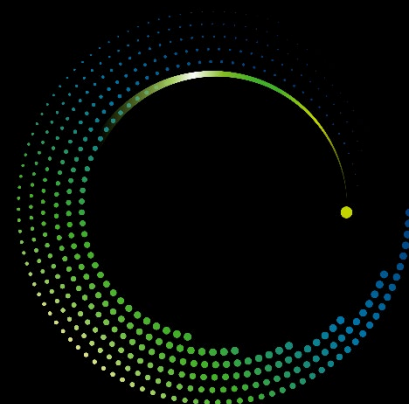


International Tax Iraq Highlights 2023

Updated January 2023



Investment basics

Currency: Iraqi Dinar (IQD)

Foreign exchange control: In practice, it is challenging to repatriate cash outside of Iraq, primarily owing 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 in Arabic, with IQD as the accounting currency, in accordance with the Iraqi Uniform Accounting System. Iraq's domestic standards are not aligned with 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 applicable corporate income tax rate	Capital gains taxed as income at corporate income tax rate

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. There are no material differences in the tax treatment of branches of foreign companies and limited liability companies in Iraq.

Taxable income: Tax is imposed 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 in Federal Iraq, with a higher rate of 35% applicable 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 treated as 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 specific 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, subject to obtaining the required approval from the Companies Registrar.

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

Penalties: In Federal Iraq, the late filing penalty for an LLC is calculated as 10% of the tax liability, capped at IQD 500,000 per year, and for a branch of a foreign company, the late filing penalty is IQD 10,000.

In the Kurdistan Region, for large taxpayers, the late filing penalty is 5% of the tax due for each month of delay, capped at 100% of the tax liability. For small companies, the penalty for late filing is calculated as 10% of the tax liability, capped at IQD 75,000 per year. Further, the tax authorities have the discretion to refer noncompliant taxpayers to a court, which may assess additional penalties ranging from 10% to 25% on the assessed profit for late filing, although this is not consistently applied.

In both Federal Iraq and the Kurdistan Region, penalties are imposed on late or unpaid tax at a rate 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 an additional 21 days (i.e., 42 days in total). Further, late payment interest of 11% per annum applies in Federal Iraq and to small taxpayers in the Kurdistan Region. For large taxpayers in the Kurdistan Region, interest applies on tax that is paid late at a rate of 1% per month. Interest accrues from the payment due date until the date the tax is finally settled.

Rulings: Tax rulings are not available.

Individual taxation

Rates		
Individual income tax rate	Taxable income (IQD)	Rate
Federal Iraq	Up to 250,000	3%
	250,001–500,000	5%
	500,001–1,000,000	10%
	Over 1,000,000	15%
Kurdistan Region		5%
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, personal income tax is applied at progressive rates up to 15%. In the Kurdistan Region, a 5% employment tax is imposed on all taxable income.

Taxable employment income comprises basic salary plus any allowances and benefits 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 marginal 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. In Federal Iraq, taxes withheld from employees must be remitted by the 15th day of the following month, and employers are required to submit annual tax returns on behalf of their employees. The annual personal income 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 income tax returns are required to be submitted within 21 days following the end of the quarter. The annual income tax declaration must be made before 1 March of the year following the tax year.

Penalties: Penalties are imposed on late or unpaid employment taxes, for both Federal Iraq and the Kurdistan Region, at a rate 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 still outstanding after an additional 21 days (i.e., 42 days in total).

Interest on taxes paid late is applied at a rate of 11% per annum on the amount outstanding in Federal Iraq. In the Kurdistan Region, interest 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, unless the rate is reduced under an applicable tax treaty. 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: Federal 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.

Instruction No. 7 of 2022, issued by the tax authority in the Kurdistan Region, provides the basis for the taxation of some contracts that are entered into between residents and nonresidents of the Kurdistan Region for “trading in” the region.

The tax liability is assessed on a deemed profit basis by applying a fixed percentage to the revenue generated from the contract to get to a deemed profit. This amount is then subject to corporate income tax at a rate of 15%, which is considered a final tax.

The deemed profit rates applicable are based on the nature of the contract and range between 20% and 75%, resulting in a range of withholding tax rates between 3% and 11.25% depending on the nature of the contract.

In addition, tax retentions are applied in the Kurdistan Region 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, internet and mobile plans/prepaid cards, and services provided by five-star hotels and restaurants.

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 also makes a 12% or 25% employer contribution.

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 payable on all taxable income.

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 tax or net worth tax.

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

Tax treaties: Iraq has concluded around 10 tax treaties.

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

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