



Pharmaceutical companies operating in Iraq

Tax assessments of Kimadia contracts

Iraq is seeing an increasing number of foreign pharmaceutical companies looking to enter the market to supply medicine and healthcare equipment. Typically, foreign pharmaceutical companies enter into contracts with either The State Company for Marketing Drugs and Medical Appliance, "Kimadia" (a company which represents the Ministry of Health in Iraq), or with private entities.

How are Kimadia contracts taxed in Iraq?

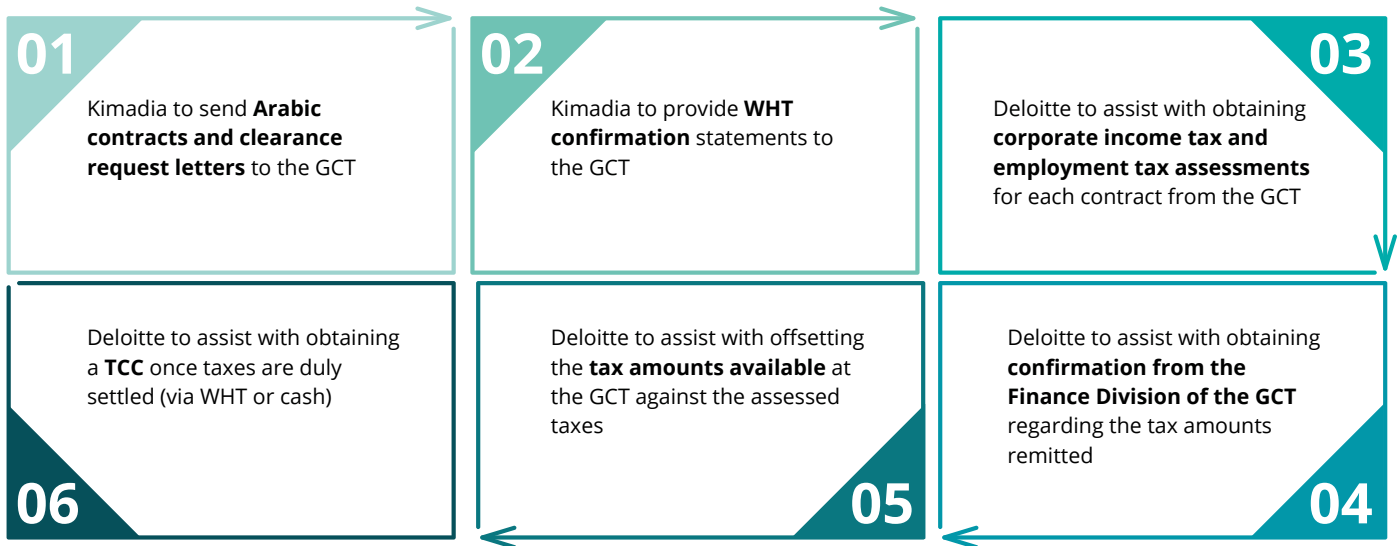
Historically, contracts concluded with Kimadia were considered to be "trading with" Iraq (as opposed to "trading in" Iraq), and therefore not subject to tax in Iraq. However, at the end of 2011, the Iraqi tax authority, General Commission for Taxes ("GCT") appointed a designated Technical Committee to discuss whether contracts entered into with Kimadia for "pure" supply of goods should be regarded as "trading in" or "trading with" Iraq. The Technical Committee took the view that on the basis that foreign pharmaceutical companies are required to work with locally registered "scientific offices" in Iraq, the scientific offices would in effect act as an agent of the foreign company. On this basis, the GCT tends to take the position that contracts signed with Kimadia should be taxable in Iraq.

Why is the Tax Clearance Certificate ("TCC") important?

Where companies enter into contracts with Kimadia, taxes are withheld on payments made to them. Additionally, Kimadia typically withholds performance bonds. In order for Kimadia to release the withheld amounts, both tax retentions and performance bonds, pharmaceutical companies are required to present a TCC for each contract issued by the GCT. The GCT would issue a TCC only once the contract is completed and assessed for both corporate income tax and employment taxes, as well as taxes that are duly settled. In practice, failure to obtain a TCC is likely to affect commercial operations of the pharmaceutical companies, i.e., inability to import goods into Iraq or participate in a tender unless a TCC is provided.

The following page sets out a summary of the tax assessment process pertaining to contracts entered into with Kimadia.

What is the tax assessment process?



How can we help?

We have excellent credentials and a wealth of experience in supporting pharmaceutical companies in Iraq, with a dedicated tax team in Baghdad, supported by our international tax practice in Dubai. Our team has excellent working relationship with the tax authority, Kimadia and the Company Registrar, which are all key players in the process of obtaining closure for assessment of Kimadia contracts. While the process might be lengthy and complex, our team is able to provide full support to pharmaceutical companies with respect to Kimadia contracts. Please feel free to contact our team if you have any queries at all or need any assistance with Kimadia contracts.



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