

The Applicability of Value-Added Tax in Iraq

Hamid Abbas Al-Marzouk^a, Ali Miri Hassan^{b, a,b} Al-Mustqbal University College / Accounting Department, Email: drhameedabbas@yahoo.com, alimirih@gmail.com

The research aims to show the possibility of applying this type of tax as an alternative to the indirect tax system in Iraq, by using a suggested model suitable for application in the Iraqi environment. The research reviews the procedures through which it is imposed and the implementation of value added tax. The research presents the justifications that called for the introduction of the value added tax as one of the most important sources of tax revenue in Iraq. In addition to favouring it as an alternative to customs taxes in light of international and regional blocs, the value-added tax can consequently play an effective role in financial contribution in addition to other financial means and be appointed to the role of supporting the national economy. To achieve these goals, the following hypothesis has been tested: "The implementation of value added tax in most countries of the world makes their application in Iraq possible and effective as a substitute for the indirect tax system". The research concluded that until the advent of the implementation of the value-added tax in Iraq which provides tax revenues, the decrease in oil and customs revenue would be compensated for, and, as a result, this provides the entry for Iraq into the World Trade Organization, abolishing the customs tariff, and bringing low oil prices.

Key words: *Value added tax, The tax system in Iraq, Value added model.*

Introduction

This research has a great importance in highlighting the scarcity of studies that offer a process for the technical regulation of value-added tax in Iraq. Adopting this type of tax will contribute to supplementing the budget with revenues. This type of tax is considered an alternative to the indirect tax system in Iraq because of the latter's reliance on one resource, which is oil. The search began with seeing a problem in the weakness of the effectiveness of indirect taxes in Iraq, especially its economic efficiency. In addition to that, Iraq failed to keep pace with the development in tax policy practiced by developed countries as well as

some developing countries. The researchers relied on the inductive approach on the theoretical side and the deductive approach in the practical framework. The research was divided into two topics, the first of which is an introduction to the value-added tax. The second presented the proposed model for applying the value-added tax in Iraq, then reaching the conclusion.

The First Topic:- Value-Added Tax

First: The Concept of Value-Added Tax

The VAT is tax indirect that is relatively new. It is a modern tax and its application did not begin until the last fifty years. However, this tax has become a major source of revenue in most countries of the world (Ahmad, 1990, p. 23). VAT was initially created to meet the needs of increased revenue which is not easily met by taxes on the number of businesses due to its multiple nature, which can result in severe distortions in Economic Decisions (Samurai, 2016: 2). From the economic point of view, value-added tax was defined as a general tax on consumption of goods were affected and services, including imported goods. It was defined as "a tax imposed on sales of goods and services provided to individuals, the individual pays the tax in addition to the price of the commodity or the value of the service and the seller or service provider who gets the tax is obligated by registering this tax in a private book, and paying it to the public treasury during specific stages by the financial departments" (Al-Bustami, 2006,p. 20). Known from a legal perspective, according to the law of the European Union, VAT, " is the general tax on consumption as it is based on adding value to goods and services" (Al-Atheeb, 2000, p. 23). The researchers are aware that VAT is the tax which is imposed on sales of local and imported goods, services and businesses, except for what is to be excluded by a special provision.

Second: The Characteristics of the Value-Added Tax

- 1. It is a General Tax:** In the sense that the principal in value-added tax is submission, and the exception is exemption, it is general to which all domestic and imported goods and services are subject to and this property leads to avoiding problems that result from the inaccuracy of describing taxable goods in addition to being subject to One without the others (Mr. Awad, 2007, p. 16).
- 2. It is an Indirect Tax:** It is indirect, because it is not levied directly, but is collected from the institutions and individuals subject to it, and it is described as dealing with local consumption, because it is imposed according to the method of the destination country, i.e. the commodity or service is subject to the tax of the state in which it is consumed, and it is not of the state tax it produced (Al-Akam, 2005, p.50).

3. Periodic Collection Tax: This tax is obligated with the duty of periodic collection, and therefore it is considered a renewable resource that helps in government spending, and thus it differs from direct taxes provided annually, and that its supply is called for more frequently than a that of annual taxing – about a month in some countries, up to three months in other countries to not make its burden heavily on the taxpayer. This also reduces the chances of evading it, unlike direct taxes where the length of time provided increased opportunity to evade them (Mr. Awad, 2007, p. 17).

4. A Tax that Achieves Self-Censorship: The use of the invoice system showing that value-added tax is a tax that falls under the principle of self-assessment (self-executing) due to the fact that companies, or taxpayers are forced to demand invoices from suppliers, in order to show the tax paid by them. This is entered within the price paid on purchases to enable them to deduct the tax, which also makes the process of evasion difficult because of the multiple points of imposing the tax, and the fact of collecting it from several parties compared to the one-stage tax (National Institute of Public Finance and Policy, 1994, p. 40) .

5. A Regional Tax: The value-added tax is applied regionally within the borders of the state. As for exports outside the country's borders, they are exempt from tax (or are subject to a zero rate), (Al-Qaei, 2002, p. 37).

6. A Tax that Applies the Principle of Deduction: Every taxable person receives the value-added tax on the price of the sale of the commodity or on the value of the services he provides, and deducts this when the tax is paid to the treasury – the tax he paid when buying and producing (Al-Qaei, 2002, 38).

7. Multistage Tax: In the sense that it is a tax imposed on all stages of production and distribution, starting from the product, through the wholesale dealer, and until it reaches the retailer and ultimately reaches the final consumer. Before it reaches the retailer it is considered incomplete, and thus an incomplete tax (Mr. Awad , 2007, p. 18).

8. It Prevents Double Taxation: It allows taxpayers to deduct the tax paid on their inputs from the tax due on their sales, and allows the seller of the commodity registered when calculating the tax to deduct the tax due on the value of his sales from what has already been paid from this tax on his purchases (Al-Akam, 2005, p. 53).

Third: The Justifications that Called For the Introduction of a Value-Added Tax System

The march of economic reforms in Iraq started after 2003, and its pace has accelerated in the past few years in order to increase the effectiveness of the Iraqi economy, and to raise growth rates and subsequent development, especially with the large number of economic problems that Iraq is experiencing due to the blockade phase, when countries decided to move from an economy-oriented system to a system of market economy. Because this system requires the development of the tax system in it, whether in direct or indirect taxes, it cannot be successful without reconsidering this system, and it has become necessary to introduce a system of value-added tax, for this reason. Many issues can be summarized the most important:

1. The transition to a market economy, the urgent need to develop Iraqi exports, and the transition from rentier status to export diversification, especially if we know that 90% of our current export structure is around petroleum, and that this type is at risk both at the present and in the future due to the conditions that Iraq is going through. This is also related to external demand, which is also unstable, and the urgent need also to increase the degree of integration of the economy with the economies of other countries that apply this tax, and this is not done unless there is a developed tax system.
2. Lack of customs revenues resulting from the reduction of customs tariffs for many goods imported from abroad, or because of the delay in implementing the new customs tariff law due to the economic and security conditions that Iraq is going through, as well as the ineffectiveness of production tax, and sales tax, which did not achieve the role that was intended for it, whether economically or socially, it remained just the names of the types of taxes that appeared with the advent of legislation for them.
- 3- The rules imposed by the World Trade Organization as conditions for joining them, which lead to the lifting of non-customs restrictions and lower rates of customs tariffs for many imported goods, knowing that Iraq is now an observer member in this organization, which requires the adoption of an alternative tax system that is more efficient than On the one hand, and suitable for global economic developments.
- 4- The successes achieved by the value-added tax in the countries that applied it make it a tax that the countries that did not apply it are looking to seriously consider adopting it, and taking it as a general tax on spending to achieve a set of goals that cannot be achieved in light of other indirect taxes, for example. Example: The value added tax in the European Union constituted "30%" of the tax revenue for 2008, and in Algeria, which is one of the Arab oil states that implement the value added tax, this tax contributed 28% of the tax revenue for the year 2004 (Abu Zaida, 2010, 282).

Fourth: - Obstacles to the Introduction of a Value-Added Tax System in Iraq

To implement the value-added tax requires carefully considered stages to ensure the success of the application on the one hand, and on the other hand to diagnose obstacles that prevent implementation in the event that it is not diagnosed and treated, and these obstacles can be identified as follows: -

- 1- **Low Degree of Tax Awareness among the Iraqi Taxpayer:** - Since the imposition of such tax requires a tax awareness enjoyed by members of society and those charged with value-added tax, these taxpayers have obligations and procedures that must be taken when collecting and supplying them, and when conducting the deduction process in them , And it is not currently available.
- 2- **Inflationary Pressures Resulting from the Application of Value-Added Tax:** - Such a tax may lead to higher prices, and the creation of inflationary pressures in the Iraqi economy,

which negatively affects people with limited incomes, and can lead to economic stagnation as a result of less consumption resulting from higher prices Goods and services, especially since Iraq is a middle-income country, and many goods and services have not been imposed on them a spending tax in the past, so it must be imposed at moderate prices and expand the list of exemptions for that tax while increasing wages when imposed.

3- The Absence of an Accounting System for Value-Added Tax: - It requires an accompanying accounting system that is applicable to all those charged with easy and easy collection and supply, as well as requiring an integrated system in terms of accounting concepts and norms accepted by the taxpayers, and the tax administration in which the legal accountant has an important role , The value-added tax requires holding regular books in which all transactions are recorded in a way that enables the competent tax administration to determine the tax correctly, so these books should be recorded daily with an explanation of the quality of the goods sold, or the services provided, and the price of selling these For goods, or for the replacement of those services, and this is not currently present in Iraq, in most of its economic facilities.

4- The Absence of a System for Invoicing in Iraq: - Producers and merchants in Iraq have not yet become familiar with this system, and the introduction of the value-added tax requires taxpayers to release their sales and transaction tax invoices, all of which clarify the amount of tax paid, the net price of goods and services separately. , In order to check the value of the tax deductible.

5- Lack of a Tax Administration with Knowledge of Value-Added Tax: - In order to collect and supply the tax, qualified and trained tax departments are required, and there is a need for a qualified tax information apparatus, a database and information on those charged with this tax and linking my information with other tax departments, especially the General Authority of Customs , Electronic linking systems, and a human element capable of using them, as they require a highly efficient tax apparatus capable of solving problems facing its application, and this device is not currently available in this form according to what we believe.

The Second Topic: - The Proposed Model for Implementing the Value-Added Tax in Iraq

Mechanism for Applying VAT in the Tax System in Iraq

The value-added tax is considered a broad container and there is an agreement that it is a tax and its final container is the consumption, as it does not affect prices and does not affect savings and investment, and that its application requires accuracy and readiness at all levels, and here comes a presentation of the proposed mechanism for implementing value-added tax using the laws of other countries.

First: The Incident Creating the Tax

1- The tax is due for verification of the fact of selling the commodity or performing the service or work in accordance with the provisions of this law, and it is considered in the sale ruling that the taxpayer use the commodity or benefit from the service for special or personal purposes or dispose of it with any of the legal actions.

2- The tax is due with respect to the imported goods at the stage of their release from customs, by establishing the incident establishing the customs tax, and it shall be collected in accordance with the procedures established in this regard and investigating this incident in relation to each importer, regardless of his business number.

The Moroccan law stipulated in the matter of the incident creating the tax that the incident creating the tax on value added be from the receipt of all or some of the price of goods, works or services.

And if the price of the goods, works or services is paid in a clearing or bartering manner, or the matter relates to deliveries, the tax-generating incident is determined by the time the goods are delivered, work is completed or the service is implemented. The incident creating the tax can be determined according to two things (Al-Saadi, 2007, 43-44). The first matter (local activity) is that the incident of sale is the incident that creates the tax, whether the sale is for the future or the allowance or in installments and other means of disposal of goods and services, and the fact of the sale is a reality If you create any of the (receipt of the commodity and the performance of the service, the payment of the price of the good or the return for the service, whether paid in whole or in part or in any form of price performance). As for the second matter (import), as the incident creating the value-added tax with respect to the imported goods is the release fact Customs.

Second: - The Persons Included in the Tax

The Iraqi VAT Law defines the taxpayer as every person who engages in an activity, subject to tax, whether that activity is the sale of goods or the import of goods or services (Al-Bustami, 2006, 43).

In England, the VAT law specifies the taxable person that any person (whether an individual or a company) is making or intends to make taxable supplies, and whether he is registered or required to register under the law of the year 1983, and taxable supplies are those supplies of goods and services (except Exemptions) that take place in the United Kingdom as part of the establishment's business, and requires a person whose annual sales value exceeds 35,000 pounds or who expects this number to exceed within the next thirty days to submit to the Authority notification of exceeding the registration limit (Abdul Basit, 2011, 105) .

It is possible to determine the persons covered by relying on the previous tax legislation text forms in the countries of the world that those who are covered by value-added tax, any person (natural or legal) is engaged in the process of selling, importing or producing a good or service or his business number has reached the determined limit (determined by the law of each country).

Third: The Scope of the Tax's Validity

The tax applies to activities that occur within the territory of the state carried out by people who are within the borders of the state, whether they are of the nationality of the state or foreigners.

Fourth: - The Tax Price

Due to be an indirect tax, as it does not take into account the personal and social circumstances of those charged with paying it, and the nature of the container on which these taxes are imposed requires the taking of the relative tax, since it is difficult to adopt the upward price due to the large volume of goods and services subject to this tax on the one hand, and on the other hand a different nature and quality Goods and services subject to tax, and the relative price has many administrative and organizational procedures that are simple and easy to apply to taxpayers and tax administration, so the value-added tax rate is imposed on the type of commodity and product and according to a classification E if it was necessary or semi-necessary goods and services or from perfectionism and semi-perfectionism, and tax rates are imposed on these goods that are low, medium and high, and that the difference in the price level from the legislative point of view is due to the main reason for the high level of income of individuals charged with paying the tax as a matter of For example, in developed countries compared to those in developing countries that suffer from a problem with a low level of their income and a difference in their consumption pattern, the countries have adopted the application of one ratio for all goods and services as in (Algeria, Tunisia, Sudan, Indonesia, Cyprus, Turkey) or two prices such as (France , Hungary, Italy) or three categories of price (as in Argentina, Morocco, Egypt) or rely on four price categories, as in Colombia, and there are countries that have approved a price for goods and another price for services as in Malaysia (IMF, 2005-4-5).

Fifth: - Tax Exemptions

They are the goods and services on which the value-added tax is zero and is either for political motives such as:

Sales or service delivery to the state's financial institutions and institutions financially related to it or for social reasons such as:

- Mosques, churches, places of worship, orphanages and the elderly (homes for the elderly).
- General sports clubs, public education clubs and clubs.
- Organizations that provide social services to the non-profit community.
- Disabled Equipment.

Or Economic Motives Such As

- Investment projects subject to tax exemptions by the state for a specific period of time in order to encourage local investment.
- Devices and equipment used in agricultural operations.

Sixth: - Tax Collection

Tax legislation approved for the value-added tax system is required in its content charged with making an invoice that includes data related to the type and nature of the good and the service and the process of selling or performing the service, and that it is accurately described and includes the name of the seller and buyer, the price of the good or service and the tax price or amount on the good or service to be paid By the person charged with paying it and giving a copy to the buyer, to keep a copy of the invoice with the seller and to give a number or a sequence for each invoice issued by the seller taking into account the accuracy in filling and recording the invoice and this tax needs a high control system by the tax administration.

A Suggested Model Suitable for Pricing Goods and Services According to the Iraqi Economy

The application of value-added tax in most countries of the world, such as (Algeria, Tunisia, Sudan, Indonesia, Turkey, France, Hungary, Italy, Argentina, Morocco, Egypt, Malaysia ... etc.) makes it possible to apply it in the Iraqi environment according to the proposed model compatible with The Iraqi environment, and this contributes to increasing tax revenues. The following table shows proposed prices for a group of goods and services commensurate with the nature of the Iraqi economy, as well as the pattern of consumption of the good or service by the Iraqi individual.

Table 1: Classes of goods and services and the value-added tax rate proposed thereon

First: necessary goods and services	
Categories	Suggested percentage of application
Local and imported flour	3%
Local and imported rice material	3%
Vegetables of all kinds, local and imported	3%

Fruits of all kinds, local and imported	3%
Fruit juices of all kinds, local and imported	3%
Local and imported dairy and cheese	3%
Local and imported sugar	3%
Tea of all kinds, local and imported	3%
Vegetable and animal oils of all kinds, local and imported	3%
Coffee, Nescafé, cocoa, cocoa powder, all kinds, local and imported	3%
Coffee, Nescafé, cocoa, cocoa powder, all kinds, local and imported	3%
Soaps, detergents and cleaning powders of all kinds (including shampoo, conditioners, oil bath etc.) local and imported	3%
Soft drinks of all kinds, local and imported	3%
Women, men and boys clothes (from companies that do not carry a world famous brand) in all their types, local and imported	4%
Medicines, preparations and medical and health devices	2%
Main lighting devices	4%
Second: semi-essential goods and services	
Categories	Suggested percentage of application
Spices and spices of all kinds, local and imported	5%
Stitches and nuts of all kinds, local and imported	5%
Canned food of all kinds, local and imported	5%
Domestic and imported children's games	5%
Home furniture of all kinds	5%
Home furnishings and carpets	5%
Third: The necessary goods and services	
Categories	Suggested percentage of application
Household electrical appliances of all kinds	6%
Computers and peripheral devices of all kinds	7%
Communications devices (mobile phone) of all kinds	7%
Household and glass and non-glassware	6%
Local and imported sweets and pastries	5%
All types of fuel for heating and domestic and imported transport	5%
Pesticides and fertilizers	6%

Sanitary ware (wash basins, bathrooms and accessories)	7%
Telecommunications Services	7%
Scientific and educational books	7%
Building tools, cement, stones, tiles , sand, and more	7%
Fourth: semi-luxury goods and services	
Categories	Suggested percentage of application
Small and large taxis	15%
Stationery and stationery	10%
Shaving devices and tools	10%
Internet services	10%
Sound, recording, radio and photo cameras	10%
Sports equipment	15%
Daily, weekly and monthly newspapers and magazines	10%
Tickets for aircraft, railways and land vehicles inside and outside the country	10%
Hotels and restaurants according to their ranks and grades	20%
Tourist transportation	20%
Revenue from literature and books	10%
Alabaster and solution stones	10%
Manual and wall watches (not famous brands)	10%
Fourth: luxury goods (entertainment)	
Categories	Suggested percentage of application
Ornaments, gold, jewelry, diamonds, pearls, precious stones	25%
Crystal, precious glass, and rare art paintings	20%
Rare antiques and rare utensils	30%
Coats made of natural fur (protecting animals, especially rare animals)	50%
Clothes made of natural leather	50%
Alcoholic Beverages (Social Protection)	60%
Cigarettes and tobacco, of all kinds, local and imported	60%
Concert equipment, entertainment halls and movie theaters	18%
Cosmetics and perfumes of all kinds	20%
Small and modern private cars	30%
Manual and wall watches made of diamonds, precious stones, gold, platinum, and silver	45%
Hunting and shooting weapons	25%



The application of value-added tax according to the proposed model and compatible with the Iraqi environment makes its application possible in the Iraqi environment, and this contributes to increasing tax revenue and support the national economy and is proof of the research hypothesis that “the implementation of value-added tax in most of the world makes its application in Iraq possible and effective As an alternative to the indirect tax system. ”

Conclusion

The application of value-added tax contributes to providing tax revenues that compensate for the decrease in customs revenue as a result of Iraq’s entry into the World Trade Organization, and the abolition of customs tariffs.

The proposed model of value-added tax contributes to the diversity of tax revenues, given Iraq’s dependence primarily on oil revenues, and this type is a new addition to the budget balance of revenue, in addition to supporting the local product and not weakening its competitive strength in global markets because of the lack of tax system in Iraq to diversify In taxes, in addition to being affected by this tax system, political and economic changes in Iraq, which contributed to a decline in the tax revenue.

The application of value-added tax contributes to rationalizing consumer spending due to the high marginal propensity to consume in Iraq towards the most necessary commodities, and reducing consumption towards luxury or unwanted goods, which contributes to increasing the savings of individuals and then investment.



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