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Master's Thesis of Public Administration

**The Role of Tax Administration on
Raising Government Revenue:
A Case Study of the General Commission for
Taxes in Iraq**

**정부세입에 대한 조세행정의 역할:
이라크 조세의 일반 수수료에 관한 사례연구**

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Abstract

The role of Tax Administration on Raising Government Revenue:

A Case Study of the General Commission for Taxes in Iraq

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This study attempts to analyze the weaknesses and constraints of the Iraqi tax administration that cripple the capacity and effective mobilization of tax revenues that should provide sufficient financial resources for the public treasury. Additionally, this study surveys the literature on the topic of tax administration reforms of Korea and draws some useful insights and lessons to suggest recommendations for the problems highlighted and contribute to shaping future development policies and applying them in the context of Iraq.

Qualitative research was utilized to generate data by reviewing and analyzing primary and secondary data to unravel the main weaknesses and constraints. The first phase of data collection was completed through the review and analysis of related Iraqi income tax laws, tax administration's publications and reports, and the

field collection of secondary data about the number of tax defaulters compared to active tax filers. The second phase of data collection of primary data was completed through field interview with three senior departmental directors as participants who have been working at the Iraqi Tax Administration for not less than (18) years

Some problems identified through the study that create weaknesses in the enforcement by the tax administration, including, among other things, the shortage of human and physical resources. The lack of government support and protection for the tax administration and tax officials in particular, poor remunerations and motivational incentive schemes, and other problems discussed in this research. Finally, in the light of the problems identified, recommendations have been made to discuss ways through which tax administration can be strengthened based on successful experiences of Korea's tax administration reforms, which played a key role in the improvement of the country's capacity in revenue mobilization and overall fiscal health.

Keywords: Tax Administration, Tax Reform, Iraq, Government Revenue, Technology.

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Abbreviations

GCT	General Commission for Taxes
NTS	National Tax Service
VAT	Value-Added Tax
GDP	Gross Domestic Product
TIETP	Tax Incentives for Electronically Traceable Payment
MoF	Ministry of Finance
TCC	Tax Clearance Certificates
ICT	Information and Communications Technology
FBSA	Federal Board of Supreme Audit

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Chapter 1: Introduction

1.1 Background of the Study

Being richly blessed with an overabundance of oil, Iraq has overly relied on the income generated by oil revenues for the economic development of the country, which leaves much more to be desired. It is well known that the Iraqi economy is a rentier economy. A rentier economy is one that is defined as the dependence of a state, in regards to its economy, on the natural resources extracted from the ground, i.e., the income that comes from the extraction and export of crude oil which is almost the only way of financing its annual budget. Iraq's largely state-run economy is dominated by the oil sector which is the primary determinant of the economy's fortunes and provides more than 90% of government revenue and over 99% of total exports which brings in over 80% of foreign exchange earnings.¹

1.2 Importance of the Study

Taxation appears to be one of the best means for financing government expenditure, equally in developing and in developed countries, since taxes not only ensure a constant source of funding for government expenditures but also, have been accepted in many societies as the legitimate way of raising money from the public. Another way governments acquire funds to finance public expenditure is through financial aid. However, the financial aid provided by international organizations does not

¹ Iraq Economy Profile. (2018). Retrieved from https://www.indexmundi.com/iraq/economy_profile.html

come without limits². First, financial aid may hamper a country's economic performance. While in its early stages, aid may lead to substantial reforms in a country's policies, in the long run, the debt arising from this aid may affect a country's level of development, as the government struggles to repay the loan. Second, foreign aid is usually accompanied by conditions, which may not be suitable for a country's level of development.

As a result of high reliance on oil, Iraq's fiscal deficit rose from -5.6% of GDP in 2014 to -14.3%³ of GDP in 2016, with a debt stock to GDP ratio of 66% in 2016⁴. Therefore, to finance this debt, it becomes a rationale for the government needs to strengthen its revenue-generating capacity, and one of the essential sources of revenue is taxes.

Taxation is a part of the fiscal policy that falls under the distributive public policy. Taxes are considered as a source that pools the necessary funds to meet the public expenditure to provide services of education, health, security, etc. With the development of the modern concept of the state, taxes have become important means to achieve financial goals, along with political, social and economic goals that the state seeks to achieve through the collection of taxes. Also, taxes are an essential mean of activating and stimulating private investments, whether local or foreign, due to its essential role in determining investment decisions by any government.

Despite the similarity of the tax system in Iraq with its counterparts in developing countries in many characteristics, there is a potential for developing the

² Examples of such organizations are the World Bank, the International Monetary Fund, the United Nations, and the Department for International Development.

³ Iraq Government Budget | Data | Chart | Calendar | Forecast | News. (2019). Retrieved from <https://tradingeconomics.com/iraq/government-budget>

⁴ Iraq Government Debt to GDP | Data | Chart | Calendar | Forecast. (2019). Retrieved from <https://tradingeconomics.com/iraq/government-debt-to-gdp>

characteristics of the Iraqi tax system and enriching them with factors that may lead to improving the system's effectiveness. However, these potentials have not received any structured efforts to develop them and employ them towards achieving the same goals as in the case of most developed countries.

While an effective tax administration is not the panacea to Iraq's tax problems, reforming and strengthening tax administration will result in some increase in tax revenue. In this regard, other countries have had success with tax administration reform. The improvement of tax administration is essential for several reasons. First, good tax policy depends on effective tax administration to be implemented to raise the targeted revenue⁵. Second, corruption in many tax administrations has cost the government a considerable amount of tax money. Therefore, tax administration needs reform. Lastly, tax administration requires reforms to strengthen it for the increasing dynamism of businesses, which is the impact of globalization. In the end, improving tax administration is inevitable if tax revenue is to be increased.

Increasing the tax revenue will remain limited unless the problems experienced by the Iraqi tax administration are addressed. The importance of the research stems from:

- Studying the tax administration of Iraq to understand whether the tax administration has vulnerabilities, especially in the part of collecting information about taxpayers.
- Analyze the weaknesses of the tax information systems.

⁵ Gill, J. (2003). The nuts and bolts of revenue administration reform. Retrieved from <http://documents.worldbank.org/curated/en/621061468339899486/The-nuts-and-bolts-of-revenue-administration-reform>

1.3 Statement of the Problem

Iraq shares borders with Turkey, Iran, Kuwait, Saudi Arabia, Jordan, and Syria. Iraq has a coastline of only 58 kilometers on the Persian Gulf (sometimes called the Arabian Gulf, especially by Arab-speakers), so it is almost landlocked. With a population of about 38 million in 2018⁶.

Countries that depend primarily on their natural resources, including Iraq, face many risks, such as the decline in global prices and the occurrence of political crises that lead to a fiscal deficit. Therefore, the government must use its various tools to compensate for this deficit, and tax revenues represent one of the most crucial fiscal policy tools.

Increasing tax revenues could be achieved by expanding the tax base without increasing the tax rates and through the inclusion of new taxpayers who could not be detected or registered by the tax administration in their records, and enter them within the scope of taxation. This can only be achieved with the presence of an efficient and effective tax administration and tax information system.

Despite the weak contribution of tax revenues in financing the federal budget of Iraq, it is still considered as an essential source of funding for the government budget. However, tax revenues have a meager contribution to the Iraqi economy, whereby Tax-to-GDP ratios in Iraq was recorded at (2%) or less (world bank, 2016). Moreover, tax revenues in 2017 were estimated to be about US\$ 5 billion, which is about 7% or less to the total estimated federal revenue of Iraq, which is about US\$ 67

⁶ Ministry of Planning, Central Statistic Unit, Iraq.

billion⁷. Thus, the contribution of tax revenues to the total government revenues is feeble.

As mentioned earlier, the primary source of public revenues comes from oil proceeds, which made up 90% of the budget in 2017. This means that the estimates of public revenues are linked to estimates of the quantities expected to be exported from crude oil along with the estimates of the world oil prices expected that are characterized by fluctuations and sometimes severe fluctuations, thus, making the government cautious when estimating public expenditure. In this regard, the dominance of oil revenues on public revenues and the low contribution of non-oil revenues reflect the nature of the significant and permanent imbalances experienced by Iraqi budgets, which in turn, indicates the fragility of the Iraqi economy and its increased dependence on oil.

The problem faced by most developing countries and this, certainly including Iraq, is that developing countries face many generic obstacles in implementing an effective tax system that can meet their unique needs and that can also finance the necessary level of public spending in the most efficient way. Developing countries aim to increase their tax-to-GDP ratios in order to reduce budget deficits, improve the services they provide, and optimize the effectiveness of their tax structures.⁸

⁷ Addia, N. S. & Kamel, H. S. (2017). Analytical Study of the Federal Public Budget. Ministry of Finance, Economic Department, Iraq.

⁸ Zee, H., & Tanzi, V. (2000). Tax Policy for Emerging Markets: Developing Countries. IMF Working Papers, 00(35), 1. Cited in Lisa Kayaga. 2007. "Tax Policy Challenges Facing Developing Countries: A case study of Uganda" at 2 [hereafter referred to as 'Kayaga'].

The main problem this study would like to explore are the weaknesses that cripple the Iraqi tax administration, which could be one of the significant reasons causing low tax-to-GDP revenue

1.4 Objectives of the Research

The primary purpose of taxation of any government is to raise revenue to finance government expenditure. With stable tax revenue, governments can provide a wide range of public goods and services such as maintaining security, constructing infrastructure, and providing education, health systems, and social safety nets. Effective and sustainable tax collection requires robust tax administration (Araki, Satoru. 2014, p.1). Therefore, the primary objective of this research is to study the Iraqi tax administration and its performance to find out the related problems that negatively affect Iraqi tax administration and its adopted information systems in order to understand the reasons for poor performance. Therefore, in respect to the identified problems, the secondary objective thereto is to study the literature about the tax administration reforms of Korea to propose feasible ways with remedies and similar solutions to the problems that disturb tax revenue generation based on the performance and reforms of the Korean tax administration, which could lead to increases the tax revenues.

Chapter 2: Literature Review

2.1 Theoretical Framework

Taxation is a sovereign right of the state used to provide resources from private to public use in order to achieve economic and social goals⁹. The tax system is made up of the tax policy, tax laws, and the tax administration. All of these are expected to work together in order to achieve the economic goal of the nation. Tax policy provides a set of guidelines and rules to which all stakeholders in the tax system must embrace; these rules concerned with the reasoning behind how much revenue the government is collecting, what the revenue is being used for, e.g., raising the levels of economic efficiency by exploiting the available resources.¹⁰ Moreover, tax laws refer to the rules and regulations relating to tax revenue and the various kinds of taxes.

Tax authorities in developing countries face four common problems while trying to establish an effective tax system. (1) Underdeveloped economic infrastructures for efficient tax collection, (2) Limited capabilities of tax authorities, (3) Lack and inferior quality of data, and (4) Socio-political instability compared to developed countries.¹¹

Another characteristic of developing economies that hinder the implementation of tax policy is the low registration rate of taxpayers due to deliberate tax evasion. In

⁹ Richard M. Bird, *Tax Policy and Economic Development* (Baltimore: John Hopkins Press, 1992) at 3-4. Cited in Kayaga at 1

¹⁰ Edgar, T., & Sandler, D. (2005). *Materials on Canadian income tax* (pp. 45-49). Scarborough, Ont.: Thomson Carswell.

¹¹ Zee, H., & Tanzi, V. (2000). *Tax Policy for Emerging Markets: Developing Countries*. IMF Working Papers, 00(35), 1. Cited in Kayaga at 11

line with this, Dhillan and Bower recommended that one of the main aims of tax administration should be to detect and bring tax evaders into the system.¹²

The second challenge encountered through tax policy by developing countries is the lack of efficient tax administration, whereby large portions of the economy are at a subsistence level, and taxpayers do not keep records and where they do, they are not readily available and accessible. Also, the low cooperative attitude of taxpayers is due to chronic shortages of proficient tax officials, the tradition of corruption and deteriorating and sometimes nonexistent government services¹³. As a result, countries often develop tax systems that exploit whatever visible revenue-generating options they have rather than developing modern and efficient tax systems that create wide tax bases from which to draw revenue. Hence many developing countries often end up with too many small tax sources. In the same vein, (world bank, 2017, p.15) indicated that Iraq's oil wealth has reduced the need for taxation and weakened the accountability link between citizens and the state. Also notable in the post-2003 period (US-led invasion of Iraq) is Iraqis had witnessing a dramatic deterioration in most basic services: electricity, water and sanitation, health, education, and transportation – and above all security (world bank, 2017, p.110)¹⁴. Therefore, poor public services further alienate Iraqi people from state institutions and increase their distrust of government and decreased confidence in public institutions. They judge the government based on the effectiveness of its delivery of public services and security. Thus, if taxation is for public expenditure, public goods ought to have been

¹² Amardeep D. and Bower J. G. (2005) Reform of Tax Administration in Developing Nations, cited in Kayaga at 14.

¹³ Fiscal Affairs Department, IMF. (1989). Tax administration in developing countries: strategies and tools of implementation, cited in Kayaga at 15.

¹⁴ IRAQ SYSTEMATIC COUNTRY DIAGNOSTIC, Report No. 112333-IQ. (2017). Retrieved from <http://documents.worldbank.org/curated/en/54281148727729890/pdf/IRAQ-SCD-FINAL-cleared-02132017.pdf>

consumed equally. Taxes, therefore, remain a punitive levy on the deprived for these services. Undoubtedly, evidence of taxation seen from public goods would encourage the taxpayer. Otherwise, the taxpayers would lose their sense of responsibility to meet up with their tax obligation.

(Kim & Kim, 2011) In their paper referred to South Korea's experience in reforming tax administration as one of the most noteworthy and impressive models of institutional reforms where efforts to improve taxation and root out corruption in the government went side by side. They further stated that the symptoms of weak tax administration suffered by Korea early in its development are not all that different from the conditions apparent in developing countries which lead to the conclusion that the policy remedies may not be different as well. As in Korea, the path to sustainable economic development for developing countries may begin with improving tax administration capacity and rooting out corruption in government. On that basis, the development prospects of developing countries may depend on their capacity to tax. Before 1966, Korea's economy suffered massive structural problems, and the government suffered chronic budget deficits, relying on money financing (that began to decrease gradually after that) to plug budgetary gaps. In 1963, after president Park Chung Hee took power, the rapid expansion of tax revenues after that in 1966 was due to the efforts in tax administration reform and anti-corruption and the full commitment of the political leadership that was a critical turning point in Korea's development.

Sang Soo Kwak (1965)¹⁵, stated that "the real core of the tax problem lay in implementation and administration." The basis for tax administration such as

¹⁵ Kwak, S. (1965). Tax Policy and Tax Administration in a Developing Economy: The Korean Experiment, cited in Joon-Kyung Kim & K.S. Kim (2011)

accounting and bookkeeping for both tax collectors and taxpayers was inadequate, whereby the tax revenue authority and taxpayers did not maintain and rely on accurate books and records for tax assessments. Kim & Kim, (2011) mentions that the lack of accurate books and records meant that tax assessments could only be arbitrary, allowing abusive tax officials the opportunity to extort bribes and gifts and to meet their tax collection quota, resulting in excessive and unequal taxation.

2.2 The Capacity of a State

The capacity of a state can be defined as the “power to tax and regulate the economy and to withstand political and social challenges from non-state actors”¹⁶ Those states that lack the capacity are deemed to be “weak states” both economically and politically. Acemoglu (2005) shows that weak states tend to have lower tax revenue as a share of GDP and invest less in public goods.

In South Korea, it was only after the political leadership put top priority on rooting out corruption, which made the “tax office immune from normal political influence,” (Brown 1973, pg. 65)¹⁷ and by improving tax administration was the government able to mobilize tax revenues significantly.

Acemoglu (2010) cautions that the benefits of higher fiscal capacity cannot be realized unless an increase in a state’s fiscal capacity is accompanied by “an increase in the political accountability of rulers and politicians.” Otherwise, higher fiscal

¹⁶ Acemoglu, D. (2005). Politics and economics in weak and strong states. *Journal of Monetary Economics*, 52(7), 1199-1226. Cited in Kim & Kim at 6

¹⁷ Brown, G. T. (1973). *Korean Pricing Policies and Economic Development in the 1960s*. Baltimore, John Hopkins University Press, cited in Kim & Kim at 22

capacity may increase the benefits of controlling state power, resulting in a power grab and political instability.¹⁸

Ultimately, a state's capacity may be measured by its capacity to tax; but what truly defines a state – whether it redistributes and allocates resources more efficiently - may be the way tax revenues are used. The defining feature may be the kinds of investments in public goods that the state undertakes or not. Above all, any efforts at tax administration reform need to be backed by a strong commitment of the political leadership and competent government bureaucrats.

Kim & Kim (2011), among other things, stated that in many developing countries, the state is not able to raise sufficient tax revenues, let alone play a role in economic development. Aside from tax policy considerations, the issues, and challenges of tax administration in developing countries stem from several factors including:

- Narrow tax base, where very few people of the total population are targeted for the payment of taxes.
- Poor governance or corruption may erode the benefits policies may bring from the collection of taxes.
- Lack of tax administrative capacity may reduce the efficiency and performance of the tax authority in the realization of their targets as a reduced administrative capacity may also result in reduced collection rates and taxes.
- Low taxpayer compliance. Taxpayers may feel reluctant to adhere to rules, regulations, and laws that have been set up if enough punitive actions and fines do not back the paying of taxes. Also, if there are minimal incentives to pay taxes,

¹⁸ Acemoglu, D. (2010). Institutions, Factor Prices and Taxation: Virtues of Strong States? *SSRN Electronic Journal*, cited in Kim & Kim at 23

taxpayers are very reluctant to follow through with their legal duties.

Kim & Kim (2011) also enumerated that many countries suffer from:

- weak tax administration capacity due to complex tax laws and procedures
- lack of technical know-how and adequate capacity and human resources
- weak administrative systems
- poor organizational structures

The challenge of improving tax administration in these countries is made more difficult since economies of developing countries are often informal, with very small businesses mostly run by individuals or very few people. These informal economies are mostly cash based, relying heavily on cash transactions. These cash-based economies are operated by small businesses and merchants, which are “hard-to-tax.” Tax evasion may be a problem among qualified taxpayers who do not keep proper bookkeeping records, but lack of proper bookkeeping makes assessing taxes a problem in implementation and compliance.

The biggest challenge in building a more effective and equitable tax system remains corruption in tax administration. Moreover, the lack of tax administrative capacity and corruption often results in the arbitrary and uncertain nature of tax assessment and collection, if not outright expropriation. This, in turn, worsens the already deep-seated mistrust taxpayers may have of the government, making the challenge of promoting taxpayer compliance more difficult.

(Kim & Kim, 2011) Stated that an ineffective and corrupt tax administration system could result in inequity in taxation and worsen income distribution. It is often the case that,

1. Weak tax administration,
2. Poor governance or corruption,
3. Low taxpayer compliance,

are often found to be strongly associated with each other and leads to low tax revenues.

2.3 Anti-Corruption Campaign

After the Korean military government had transitioned to a civilian government in 1963, President Park started a significant campaign to root out corruption and rent-seeking within the Korea government bureaucracy at all levels of government. To this end, an Office of Civil Affairs was established in the Blue House for the first time to collect and review petitions made by the public in regards to the affairs of the government. The office was not only symbolic but was also the nerve center of President Park's anti-corruption program. (Kim & Kim, 2011).

The office was not merely for improving public relations but sought to “identify, understand, and address civic problems.” Indeed, reports of corrupt tax officials taking bribes and abusing their power surfaced in the news media. The message that corruptive behavior would no longer be tolerated was sent and well received.¹⁹

The government began to clean house by reorganizing tax personnel after the establishment of the NTS (National Tax Service) in March 1966.

¹⁹ Doh, B. (2002). *Appreciating Valuable Individuals: Memoirs of Bae Do*. Seoul, Korea. Daerim Publishing. Cited in Kim & Kim at 14

Moreover, a merit-based approach to personnel management was instituted where personnel decisions were made based on fairness and performance but above all on character rather than capacity or background of candidates. High priority was placed on promoting integrity and honesty among tax officials. Moreover, tax officials were subject to a performance-based system of awards and penalties depending on if they met targets (Bae, 2002).

2.4 Korean Administrative Reforms of the Tax Authority

“The real core of the tax problem lay in implementation and administration” (Sang Soo Kwak, 1965)

Brown (1973, p. 63) in his book on Korean pricing policies concluded: “Korea’s central tax problems have been those of administration rather than legislation, particularly lack of taxpayer records, the arbitrariness of tax collector assessments, and corruption.”

The basis for tax administration such as accounting and bookkeeping for both tax collectors and taxpayers in this era was inadequate; in that, the tax administration and taxpayers did not maintain and rely on accurate books and records for tax assessments. The lack of accurate books and records meant that tax assessments could only be arbitrary, allowing abusive tax officials the opportunity to extort bribes and gifts and to meet their tax collection quota, resulting in excessive and unequal taxation. Tax collectors would impose an excessive assessment to gain bargaining leverage with the taxpayer. This arbitrariness and uncertain nature of tax assessments left many taxpayers feeling victimized and abused by a system that was known to be

inequitable and reward non-compliance among taxpayers and corruption among tax officials (Kim & Kim, 2011).

To tackle the under-reporting and tax evasion, NTS established a system of collecting and processing data and information on taxpayers and businesses. To check if all the businesses and residences were on tax rolls and paying the appropriate amount of taxes, teams of tax officials canvassed specific areas to conduct “saturation compliance,” which targeted large firms, state-owned enterprises, Small and Medium Enterprises, the wealthy class, i.e., virtually any group that could and should pay taxes. Therefore, when the number of investigations increased, taxpayers were more willing to step forward voluntarily and pay taxes, instead of having their tax liabilities assessed by the NTS.

In 1960, the lack of accurate information available on the sources and size of income made it impossible to make tax assessments, the basis of tax administration – accounting, bookkeeping, and recordkeeping - and the lack of bookkeeping or refusal of taxpayers to produce records made the books and records highly unreliable.

The improvements in the compliance of tax laws and assessment of taxes that were achieved later in Korea were the result of a massive human effort by tax officials, which was often physical and challenging. Tax officials were often required to make hundreds of site visits. However, due to the lack of bookkeeping or refusal of taxpayers to produce records at first, tax assessments had to be based on estimates of gross sales volume, which was then multiplied with standard income ratios determined by tax officials to obtain income and tax liabilities. The problem with this method is that the standard ratios could overstate, or in Korea’s case, underestimate actual income and encouraged taxpayers to understate income since it

was lower than their actual income. Therefore, NTS kept on updating the ratios of income and conducted numerous onsite tax visits to observe their business for the sake of determining the actual value and receipt of sales.

Currently, Iraq faces similar situations whereby individual businesses actively refuse to keep accurate books and records and rely heavily on undocumented cash transactions which makes it very difficult for tax authorities to estimate actual tax liabilities for businesses accurately. Therefore, the Iraqi General Commission for Taxes (GCT) sought to solve this problem by setting up a presumptive system or presumptive income that provides a general rule for estimating the taxable income of taxpayers. This system estimated tax liability according to the presumptive incomes or sales volumes that are issued in the form of an annual schedule by the Iraqi General Commission for Taxes (GCT). According to (Kamash, 2008, p.9), the schedule of the presumptive system was established based on the accumulated experience of tax official's cadres, and specialists were also consulted in order to develop a broader vision, e.g., professional associations such as the doctors' syndicate, transportation, Bar Associations and experts of construction. Therefore, the presumptive system was adopted in Iraq due to the lack of the means and mechanisms to arrive at the real taxable income.

In 1996, in Korea, a formal system of tax self-assessment was introduced. The National Tax Service gave taxpayers the option to voluntarily prepare a tax self-assessment or be subject to regular tax assessment procedures, which was on-site assessment. However, there were significant challenges with how to verify tax payer's voluntary tax returns.

To qualify for self-assessment, taxpayers had to keep record books for the past two years. The introduction of self-assessment helped to promote voluntary compliance of taxpayers and to encourage book-keeping practice. Further, if the voluntary tax assessments were later found to have been falsified or underreported income, then taxpayers were subject to much more severe penalties.

Additionally, other efforts to strengthen tax administration in Korea included instituting internal tax audits and stronger supervision of tax officials. An internal audit department was established to monitor tax officials and to investigate cases of misconduct.

There was a great deal of effort in Korea to change the public image of tax officials and to raise awareness and education on tax assessment and filing on the part of taxpayers; the government attempted to educate the public on the importance of tax revenues needed to fund public goods and development. Training seminars were held for businesses, accountants, attorneys, and taxpayers. Also, the NTS focused on improving taxpayer services, including establishing a claims and appeals system so that taxpayers could formally dispute tax matters.

2.5 Korea's Attempt to Reduce Underreporting in Retail

Businesses

Increasing tax revenues by broadening the tax base and further reducing the shadow economy has been in the center of tax policy and administration in the Republic of Korea since the National Tax Service was established as an independent agency in 1966.

Tax revenues have been increasing steadily by the broadening of the tax base, and the priority of tax policy and administration has been to further reduce the shadow economy in the Republic of Korea since the establishment of the national tax authority.

In 1977, the value-added tax was introduced to enable evidence-based taxation and to prevent tax evasion, by cross-checking VAT invoices. Taxpayers had to submit all invoices when they filed their VAT returns at that time because the government had instituted a cross-checking process of all VAT invoices submitted.

The VAT introduced since 1977 has allowed Korea's tax authorities to use the invoice credit VAT system to capture the sales made by cash-intensive industries effectively. The ministry of finance (MoF) in that same year rolled out a comprehensive legal provision to prevent underreporting in retail sectors. Cash registers were made mandatory by the VAT law for designated cash-intensive businesses, and penalties were levied against businesses that failed to install cash registers, neglected to issue receipts, and altered cash sales.

To reduce underreporting of cash sales, tax incentives were instituted for both retailers and consumers in addition to the other deterrent measures. VAT payable of 0.5% of cash recorded sales were credited to retailers using cash registers. Additionally, 1% of the purchase value was given to customers who collected and submitted cash-register-issued receipts to the government.

However, these policy measures failed, as cash registers had proven ineffective in reducing the underreporting of cash sales.

Retailers did install cash registers, but they were reluctant to issue receipts through them, and if consumers did not request receipts, they did not issue them and so were able to continue dropping off cash sales to evade the tax burden.

However, despite the lure of compensation for obtaining cash register receipts, consumers did not actively do so due to the following reasons:

- The application process for receipt compensation was cumbersome and inconvenient
- The economic benefit was relatively small.
- Delays in compensation due to weak management
- Government's slow budget allocation or budget shortfalls

Therefore, the investigation into and penalties for failure to issue receipts in the early 1980s were almost totally suspended by the government. In 1993, the article of the VAT law-making cash register usage mandatory was officially struck off.

2.6 The Introduction of Tax Incentives for Electronically Traceable Payment (TIETP)

TIETP has been active as a tool for reducing underreporting in cash-intensive retail businesses by incentivizing the consumer to make payments electronically. i.e., the business-to-consumer retail sectors with heavy cash transactions; examples of this include professional service sectors, hotels, restaurants, bars, salons, pharmacies, and other retail stores.

In 1996, Korea shifted from taxation based on government assessment to a voluntary system. Before the voluntary income tax return system was introduced, the NTS used to assess the taxpayer's income tax liabilities based on their bookkeeping and other

records. After abandoning the government assessment system; however, the National Tax Service faced a significant challenge, that was how it could verify taxpayers' voluntary income tax returns? The most problematic areas were the business-to-consumer retail sectors with heavy cash transactions; While business-to-business transactions were traceable through VAT invoice audit trails whereby under the invoice credit VAT system, business buyers report business sellers' sales by claiming their input VAT credit in business-to-business transactions. However, business-to-consumer transactions, especially cash sales, could not be traced by tax authorities (Sung, Awasthi & Lee, 2017).

South Korea's continuous attempts in reforming tax administration is still one of the most noteworthy and impressive models wherein 1999 Tax Incentives for Electronically Traceable Payments (TIETP) was introduced by the Korean tax authorities to promote payments made using credit cards, debit cards, and electronic cash receipts in business-to-consumer transactions to encourage businesses and consumers to pay their bills using banking channels or electronic forms of payment as a means of creating clear audit trails which were a pioneering way to broaden the tax base in business-to-consumer transactions. Therefore, TIETP was successful in turning a predominantly cash economy into a mostly cashless one, with a consequently considerable curtailment of the shadow economy, in a relatively short period.

In the late 1980s, they began to focus on electronic payments, such as credit card payments, that would enable tax authorities to follow the retail sectors' audit trails.

In 1995, the Korean Ministry of Finance started to review tax deductions for wage earners who used credit cards to increase electronically traceable payments. Started in 1998, the Ministry of Finance and Economy undertook series of measures to

encourage credit card payments in the belief that these would provide reliable tax information regarding sales in retail businesses and would contribute to enhancing business transaction transparency.

In 1999, TIETP was finally introduced. Based on the rationale that if end consumers are encouraged by tax incentives to use electronically traceable payment means for purchases, tax authorities could access secure and reliable sales data on cash-intensive businesses. Therefore, policies encouraging end consumers to play an active role in providing such information could be a potent tool for unveiling hidden transactions in cash businesses.

TIETP incentivizes end consumers to pay electronically for their purchases whereby deduction rate for Eligible Electronically Traceable Payments started by 10% in 1999, in 2013 it ended up by 30% of the total end income VAT payable by the consumer. Simultaneously, it induces owner-operated retail businesses to honestly report their incomes to tax authorities by incentivizing them to accept credit card as a more appropriate mode of payment starting with an incentive of 0.5% reduction of vat or taxes due the tax authority for retail sellers in 1994, which was later increased to 2% in 2000.

Using electronic payments provides an automatic report to tax authorities, which can then be used to claim tax deductions. It is equivalent to business buyers reporting their business sellers' sales to claim their input VAT credit in business-to-business transactions. Retail businesses who have their sales reported by third parties (consumers) file truthful income tax returns. They only confirm their electronically traceable sales on prefilled tax return forms provided by the National Tax Service if they find no errors.

TIETP allows wage and salary earners to claim tax deductions for purchases made using electronically traceable payments when they file their year-end income tax return. Wage earners eligible for tax deductions for purchases made using electronically traceable payments such as credit card or debit card payments may submit to the NTS, via their employers, the credit card tax deduction application form and a credit card transaction report issued by their credit card companies. These materials must accompany the wage earners' labor income tax filing form at the end of the tax year.

As indicated above, the TIETP process differs entirely from the receipt compensation process adopted in 1977 due to the following reasons:

- 1- The TIETP application and refund process, in contrast, is easy and straightforward. The tax deduction is credited to wage earners' income taxes along with other tax deductions and credits, so refunds due are not delayed or declined.
- 2- Also, applicants do not need to collect and accumulate all the credit card receipts, since credit companies issue aggregate annual transaction reports and now pre-filled credit card transaction information is presented to taxpayers by the NTS through the Home Tax Service.

According to (Sung, Awasthi & Lee, 2017), the Future implications and challenges for countries pursuing an incentive scheme to induce electronic payment are as follows:

First, critical to TIETP's success is a

- 1- Legal framework - Korea's Act on the Submission and Management of Taxation Data played a pivotal role in enabling tax authorities to collect the

electronic financial transaction information and in inducing voluntary tax compliance in cash-intensive business sectors. As required by the act, credit card companies must regularly submit member stores' credit card and debit card transaction data to the NTS.

Any attempt to get all stakeholders to adhere to laid down procedures and processes will need the backing of a strong law that spells out the various roles, implications, and sanctions of all players in the taxing ecosystem. The law should be firm enough to provide enough punitive sanctions against detractors but not too harsh to drive away potential businesses away. It must also spell out all incentives and rewards in clear, unambiguous language, providing little room for imprecise interpretations.

2- Tax information system - that enables tax authorities to gain access to and to analyze financial transaction information. It would not be possible for TIETP to induce retail businesses' voluntary compliance if tax authorities were unable to collect and process this information.

Providing a consolidated platform that enables the tax authority to have a centralized database of all businesses and eligible taxpayers as well as other necessary ancillary information services which will enable the tax service to access and analyze information from a wide array of sources to make an accurate financial analysis of any selected or identified individual or business. This is necessary to give the tax authority the analytical prowess to make precise tax calculations and provide businesses with up-to-date prefilled tax invoices for payment.

Second, ensuring that the tax rebate process is easy and guarantees the rebate will be received are essential success factors. Therefore, if the application process for the tax rebate is inconvenient or cumbersome, or if rebate payments are unreliable, people will be discouraged from using the system.

Wage and salary earners can easily file year-end personal income tax settlement returns with prefilled electronically traceable payment information provided by the National Tax Service and get TIETP tax refunds along with other tax credits due them.

It is essential to have mechanisms that will provide reliable and timely rebates to deserving beneficiaries so as not to discourage the use of the system over time from the lack of interest and apathy that may develop because people may no longer believe in the system.

Third, the size of tax incentives should be carefully set so that the revenue that is foregone by underwriting TIETP does not exceed the revenue increase gained. One way to do this is by setting thresholds and maximum ceilings for TIETP. Sophisticated tax incentive structures would ensure net gain from TIETP.

In implementing a system to induce the use of credit cards in developing countries, tax incentives that are to be used as an encouragement should not be done vaguely. It needs to be meticulously done and implemented such that any gains realized from the increased use of credit cards are not washed away by incentives paid out for the increase realized. Using bands and maximum limits with highly sophisticated incentive structures would help achieve this.

Fourth, countries wishing to introduce similar tax incentives for electronic payments should consider their citizens' financial literacy and their financial sectors' technological preparedness. Developing countries pursuing a cashless economy may

need to make considerable efforts to establish electronic payments among their citizens, especially those who regard cash payment as more convenient and secure than electronic payment (Nwankwo & Eze, 2012).²⁰

If a majority of a country's people are still heavily dependent on cash payments, either due to

- 1- Financial illiteracy
- 2- Unfamiliarity with banking transactions
- 3- Lack of IT infrastructure in the financial sectors

TIETP should be introduced gradually, in line with the development of other relevant areas. In particular, in low-income developing countries where many people do not have access to the financial sector or credit cards, instituting TIETP for credit or check cards might be challenging. In this case, electronically traceable cash receipts could be an alternative, given that it does not require credit cards or bank accounts. Anyone who does not have a credit card or access to the financial system can pay with cash and make it electronically traceable by using

- 1- a mobile phone number or
- 2- electronically traceable cash receipt card registered to the tax authorities.
- 3- Technological preparedness in retail sectors and financial sectors is still prerequisite, however.

Fifth, retail vendors' costs for installing electronic payment terminals and credit card payment fees that have to be paid to credit card companies can be a big challenge. If retail vendors are reluctant to install credit card payment terminals and accept credit cards due to high fees, increasing credit card payment will be difficult.

²⁰Nwankwo, O., & Eze, O. R. (2012). Electronic Payment in Cashless Economy of Nigeria: Problems and Prospect. *Journal of Management Research*, 5(1), cited in Sung, Awasthi & Lee at 127.

As we have noted, the National Tax Service, supported by the 1999 Income Tax Law and VAT Law, made strong administrative recommendations encouraging vendors to become members of the credit card program.

The Korean government strongly supported the lowering of credit card fees, which was justified in light of increasing credit card sales and the profits of credit card companies. Also, tax credits for credit card sales by retail vendors, introduced in 1994, helped to relieve the burden on small retail vendors.

Sixth, given that tax deductions unevenly benefit higher income deciles over others, under the progressive personal income tax structure, tax credits as a form of TIETP are worth reviewing as a policy alternative. As mentioned, although Korea's TIETP has net positive effects on the GINI coefficient due to the tax-broadening effect, tax deductions have also had regressive effects on tax deductions.

When a country has a progressive tax structure, there is always an uneven or unequal distribution of resources. Deductions must be structured that it benefits lower income earners as much as it does not give undue advantage to the rich. Countries must take note when deductions and benefits are being planned, and necessary steps are taken to prevent the rich from unduly benefiting from tax deductions.

Chapter 3: Conceptual Framework

3.1 Research Questions

Increasing the tax revenue will remain limited unless the problems and weaknesses experienced by the Iraqi tax administration are addressed. Therefore, the primary aim of this study is to explore the weaknesses that cripple the Iraqi tax administration capacity and reduce the efficiency of its performance, which may be one of the significant reasons causing low tax-to-GDP revenue and reduced collection rates.

In achieving the aim of this study, the research questions that need to be explored and answered were:

- A. Does the information system used by the Iraqi Tax Administration need to be revised?
- B. Can a link be found between the information system being currently implemented and the incidence of tax evasion?
- C. Can changes be made to the tax information system to improve the tax yield in Iraq? What type of changes can be made to the tax information system to make it more robust?

3.2 Research Methodology and Data Collection

For the purpose of realizing the objectives of this study, a case study design was adopted as a research type to assess the weakness that cripples the tax administration of Iraq.

An understanding of what constitutes data and what data to collect is vital in order to answer the research question. Therefore, primary and secondary data will be studied and analyzed, which includes the use of semi-structured interviews and relevant documents; related income tax laws; Iraqi tax authority's publications, and reports.

First, secondary data will constitute statistics and data about taxpayers; statistics about the planned revenue target as opposed to achieved tax revenues, which is to be obtained from tax administration in Iraq. Additionally, related Articles and provisions in the Iraqi Income Tax Law will be reviewed and discussed. Given the fact that the master study was done in Korea, the progress of Korea in this area inspired the researcher, and utilizing the available literature about the Korean tax administration reforms; its theoretical underpinnings will be studied and analyzed as a base and echoed in the specific context of Iraq's tax administration.

Second, the semi-structured interview was deployed as a primary source of data; the purpose of these interviews is to elicit data that will provide in-depth information regarding the topic under investigation. In line with this, the respondents will be contacted directly through on-site interviews at the Tax Administration of Iraq.

Moreover, the research adopted an inductive data analysis approach, trying to explore a subject under the research. Furthermore, a qualitative research approach was considered the most appropriate for collection and analysis of data which will be used to uncover facts by diving deeper into the problems of the Iraqi tax administration.

3.3 Participant Selection

Purposive sampling is a non-probability sampling approach through which respondents are sampled based on their expert knowledge, prior experience, and other necessary criteria needed for the research. Based on this, the sample chosen were all currently working in the Tax Administration of Iraq. According to David and Sutton (2011), when employing purposive sampling, the participants are selected to take part in a study based on the researcher's knowledge and opinion about their suitability for the study.

3.4 Data Processing and Analysis

In the process of data analysis, the available required data from various sources will be collected, classified, and tabulated to fulfill the requirements of the study. Data will be presented in percentage when it is required. Tables, charts, diagrams, etc. will be used according to the situation and requirement of the study

Data for this research was primarily collected by 'one on one' interviews with the respondents. Their responses were noted, aggregated, and analyzed for similar themes and answers. These were then tabulated and sorted, after which some data were put into tables as necessary.

Most of the data analysis was done using basic mathematical formulae, such as additions, subtractions, and percentages. Where necessary, answers and suggestions provided by the respondents are verified by finding other scholarly references that support them.

3.5 Limitation of the Study

The researcher may face several problems. One important problem to be encountered is the lack or scarcity of sources, research, and studies conducted in the field of tax administration reforms in Iraq as well as tax revenue mobilization and its problems. Also, the difficulty of obtaining reports and statistics from the Iraqi Ministry of Finance and General Commission for Taxes related to the research subject.

Chapter 4: Tax Administration of Iraq

4.1 Overview of Iraq's General Commission for Taxes

The General Commission for Taxes (GCT) in Iraq was established in 1982 upon the Law of the Iraqi Ministry of Finance No. 92 of 1981. The GCT is the mediator between the legislative arm of the government (Iraqi Parliament) and the executive authority (Ministry of Finance). GCT is the agency in charge of the implementation of the tax policies, which is set by MoF and translating tax laws into revenues. Currently, the commission remains one of the agencies and integration of the Ministry of Finance (MOF); the GCT being integrated means that it is not autonomous and the ministry has full financial and administrative oversight over its activities. Further, MoF sets revenue planned targets that it uses to assess the GCT's performance; these targets are set based on the information provided by GCT about the previous annual tax revenues achieved.

According to the Iraqi MoF, GCT's responsibilities including managing the requirements for tax collection; determining the procedures for tax collection; prepare and issue the necessary instructions to facilitate the implementation of tax legislation; submitting proposals to the MoF in regard to the problems and barriers facing the commission; submitting proposals for the introduction of new taxes or cancellation of existing ones based on studies carried out by the commission, all of which must be conducted to serve the general objectives adopted for the state's fiscal and economic policy²¹. Currently, GCT of Iraq is operating with 16 regional offices throughout Baghdad and 29 throughout Iraq's governorates excluding the Kurdistan

²¹ Ministry of Finance, home, About the General Commission for Taxes, Iraq. Accessed on November 30, 2018 available from: <http://www.mof.gov.iq/pages/ar/AbtGCTaxes.aspx>

Regional Government, which has a separate tax administration legislatively and administratively.

4.2 Low Level of Tax Revenues Contribution in Iraq

According to the Iraqi's Federal Estimated Annual Budget, the data below (Table 1), shows that Iraq's economy relies heavily on oil export revenues to fund its budgetary obligations. In this respect, when in 2015, oil prices plunged and fell below \$50 a barrel, it sent a financial shock to the economy of Iraq, resulting in a sharp rise in the budget deficit.

The plunge in oil prices is already having far-reaching effects on countries whose economies are dependent on oil exports. Such a daunting fiscal cliff would be challenging for a stable or politically coherent state. However, it is potentially disastrous in a place like Iraq, where the country is still suffering from damage and civil unrest after the US-led invasion in 2003. Khedery (2016) on his part warned: "Unlike Russia or Saudi, which have hundreds of billions in hard currency reserves and trillions in assets and state-owned entities, Iraq is insolvent and bankrupt." ²²

In this regard, Iraq's reserves of foreign currency (excluding gold) data reported at 41.5 billion U.S. dollars (Iraq Foreign Reserves, 2018). However, as the annual budget deficit exceeded \$20 billion in 2016, these reserves, which are equivalent to two years of import cover if oil prices remain unchanged. Due to the sudden decline in oil prices, the government had to undertake "severe austerity" measures for all

²² Rosen, A. (2016). Iraq's about to plunge off a fiscal cliff — and the consequences could be dire. Retrieved from <https://www.businessinsider.com/iraq-oil-price-plunge-fiscal-cliff-2016-2>

government departments in the 2016 national budget formulation to minimize the budget deficit (Dawood, 2015).

According to (Dawood, 2015), the adoption of austerity measures in hard times, and of low oil prices and narrow fiscal space, means the government typically cuts the investment part in the formulation of the national budget to be able to pay its current operational spending. Consequently, the government invests less in public goods that are necessary for economic development and enables businesses to thrive, including the construction of well-paved streets; infrastructure to support industrialization; and rural development; electricity; water and sanitation; health; education; and transportation.

From this perspective, the minimum tax contribution and the low performance in terms of tax revenue as a percentage of GDP, which is 2% or less, point to the existence of unexploited 'fiscal space' or untapped potential for tax revenue mobilization. Therefore, tax administration urgently needs to be reformed and activated to be able to produce the expected increase the non-oil tax revenue as one of the stable and effective sources that would strengthen Iraq's ability to hedge against any plunge in oil prices and reduce dependability on oil resources.

Table 1: Estimated Federal Budget of Iraq (2012-2017)

Year	Government Total Estimated Revenue	Price of oil per Barrel	% of Oil Revenue	Expenditure	Deficit	Tax revenue out of Total Government Revenue	% of Tax Revenue
2012	87,458,887,179	85 \$	98%	100,105,068,504	12,646,181,325	2,207,909,658	2.52%
2013	102,312,747,081	90 \$	98%	118,717,502,573	16,404,755,492	2,353,178,542	2.30%
2015	80,658,974,390	56 \$	84%	102,454,913,850	21,795,939,460	4,645,777,752	5.76%
2016	69,120,814,838	45 \$	85%	89,590,289,864	20,469,475,026	4,816,439,233	6.97%
2017	69,432,884,660	42 \$	88%	90,600,272,035	21,167,387,375	4,455,207,605	6.42%

Source: Ministry of Finance, Federal Budget Law, Iraq ²³

²³ Federal Budget Law- Ministry of Finance- Iraq. Retrieved from <http://www.mof.gov.iq/pages/ar/FederalBudgetLaw.aspx> ²³

The figures in the table have been converted to the US dollar currency from the local currency (Iraqi Dinar) by adopting the official exchange rate that is determined by Central Bank of Iraq, which was at 1170 in 2012, 1166 in 2013 and 2015, and 1182 in 2016 and 2017 per \$1 US Dollar.

4.3 The Structure of the Iraqi Tax System

The structure of the Iraqi Tax system is made up of two main components as many other countries. These are direct and indirect taxes.

A. Direct Taxes

Direct taxes are those that are deducted directly from the taxpayer's income. In this regard, in Iraq, despite the weak tax base, direct taxes are the most dominant instrument for mobilizing revenues, contributing more than half of the non-oil tax revenue. That being so, taxes on personal income (PIT) and corporate income (CIT) in Iraq are the most dominant types of tax that generate about half of the non-oil tax revenue (IMF, 2017, p. 20). In Iraq, direct taxes include two categories: income tax and taxes on capital.

1- Income Tax // this include:

a- Personal Income Tax (PIT)

(IMF, 2017) Taxes on personal income are progressive, and the most straightforward and simplest to collect given that tax administration withholds them at the source. PIT is levied on wages of both public and private sector employees, as well as professional income and income from business activity. It has a progressive schedule with five rates: 0, 3, 5, 10, and 15 percent.

b- Corporate Income Taxes (CIT)// these include two categories:

i. Large Taxpayer Companies

In 2014, the Iraq economy witnessed many changes that were unknown previously, most notably, the private sector's entry into the oil industry for the first time since the nationalization of oil. These international companies have entered the country along with mobile phone companies and financial banking institutions (private banks

and money transfer companies)²⁴. In this respect, large taxpayer companies constitute the companies above along with the already existing public-private partnership companies (the capital of these companies is shared between the state by 51% and the private sector and by 49%). Furthermore, taxation of large taxpayer companies is based on a voluntary system of “self- assessment” for the accounting of the income tax liability²⁵.

ii. Other Companies

Other companies include commercial, industrial, agricultural, and tourism companies. These types of local companies are taxed based on a presumptive system for assessing tax liability. Also, this department obliges companies to submit their tax return accompanied by their financial statements that must be verified by an external auditor. However, the obligation of the taxpayer to submit audited financial statements is not an indication of the authority's confidence in their financial statement, but the binding process that is considered part of the tax return filing requirements. That being so, tax administration only adopted these financial statements when the taxable income amount reported by them exceeds the preset presumptive system income rates.

c- Real Estate Ownership Transfer Tax

Real Estate Ownership Transfer tax is enacted by Resolution 120 of 2002 and deductible from the personal income that is generated by the sale of the property. Tax authority estimates the value of the building using the presumptive system of

²⁴ Introduction of Large Taxpayer Department, Administrative order No. 85/6 Date: 2018-1-4. General Commission for Taxes, Iraq. Accessed on February 14, 2019 available from: tax.mof.gov.iq/uploads/Najwan/pdfs/استحداث%20قسم%20كبار%20المكلفين.pdf

²⁵ Iraq, General Commission for Taxes, Corporate Tax Guide, Iraq. Accessed on February 27, 2019 available from: <http://www.tax.mof.gov.iq/PageViewer.aspx?id=30>

the real state (value of the land plus building)²⁶ based on the real estate district, degree of modernity and size of the property. The presumptive system to assess the income tax liability of the real estate transfer has a progressive schedule established by GCT with five rates: 0, 3, 4, 5, and 6 percent.

d- Real Estate Rental Income Tax

This tax liability amount is imposed on the leased property of a taxpayer at a rate of (10%) of the annual rental fee of the property²⁷

2- Taxes on capital // taxes include:

i. Vacant Land Tax

This tax is imposed on the value of land that is valid for construction and not exploited economically. The annual tax rate is charged at 2% of its estimated land value based on the presumptive system, e.g., the location of the district, and size of the property.²⁸

B. Indirect Taxes

Tax levied on the sale and consumption of goods and services rather than on income or profits. A retailer typically collects this tax and pays to the government; this tax is passed on to the consumer as part of the purchase price when they procure such items. The consumer is eventually paying the tax by paying more for the product.²⁹

In 2015, a limited number of indirect taxes were levied in Iraq. Moreover, several taxes and excises are levied on specific goods, as part of an administrative decree

²⁶ This value estimated by the joint inspection committee that constitute a representative from Real Estate Directorate and Tax Authority that that performs the on-site inspection.

²⁷ Tax governed under the Real Estates Tax Law no. 162 (1959)

²⁸ Tax governed under (Vacant Land) Tax Law no. 26 (1962), and amendments

²⁹ Indirect Tax - Investopedia. Retrieved from <https://www.investopedia.com/terms/i/indirecttax.asp>

(Instruction no. 5, 2015). This covered airline tickets (at a rate of 15 percent); cigarette products and alcoholic beverages (300 percent, on domestic production and on imports); automobile sales (15 percent on import value); mobile telephone services (20 percent on scratch cards and phone bills); and on subscriptions for internet usage (also at a rate of 20 percent). Also, there is sales tax on hotel and restaurant services (10 percent).

Most of these taxes were enacted through the annual budget law, with no separate legal basis for their implementation. The levies were not imposed as part of a stand-alone regulation or law that would have ensured the continuity of enforcement of the taxes beyond the annual budget cycle. i.e., no punitive levies on the defaulters of such taxes. Consequently, this has created weaknesses in enforcement by the tax administration. Therefore, following their enactment, these indirect taxes have under-performed, except for the sales tax on telecommunications. (IMF, 2017, p22).

1- Sales Tax

Sales tax is imposed in Iraq on the following activities:

- 1- Hotel and restaurant services (10 percent); tax is only imposed on top hotels and restaurant that are classified as “first-class” or “excellent degree”
- 2- Mobile telephone services (20 percent on scratch cards and phone bills),
- 3- Subscriptions for internet usage (also at a rate of 20 percent)

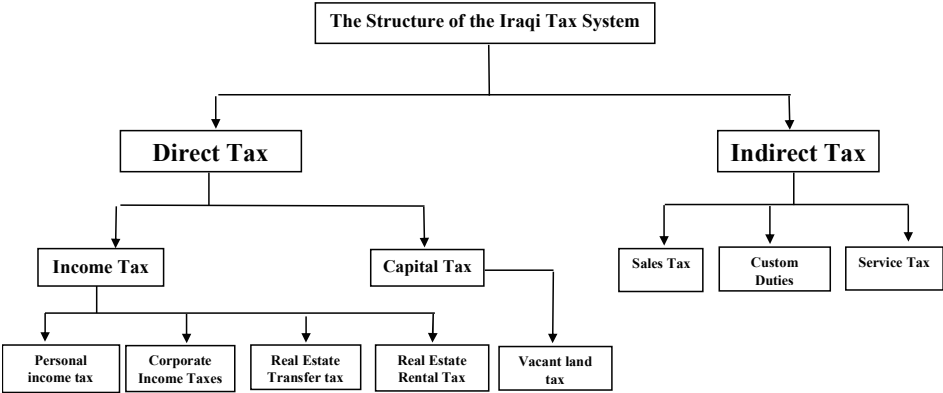
2- Services Tax

This tax is based on the principle that an individual or juridical person pay the governmental institutions a fee in return for a service and benefit. However, these

taxes are collected by the government institutions that perform such services, then submitted to the Ministry of Finance as revenues for the government. In Iraq it is levied on:

- Stamp Tax: tax placed using stamps that are affixed to legal documents, usually in the transfer of assets or property.
- Registration Tax: indirect tax paid when registering or documenting the legal actions such as transfer of ownership for real estate or vehicle.

Chart 1: Flow chart of the Iraqi Tax system



4.4 Planned Revenue Targets Vs. Actual Tax Revenues for Performance Appraisal

According to the GCT, the key objectives of the commission in Iraq is to increase the tax base that contributes to the financing of the state public spending; commitment to the best application of tax laws; finding new sources of income; reducing tax evasion; realizing the principle of equity through better incomes redistribution. However, the realization of the above objectives depends on the existence of integrated, sequential, and efficient procedures that comprehensively covers taxable income sources. Moreover, the Ministry of Finance sets planned tax revenue targets that it uses to assess the GCT's performance.

Table 2. Planned and Actual Revenues 2017

Type of Tax Revenue	Planned Revenue 2017 \$	Actual Revenue 2017 \$	% of Income of Departments to total Income
Companies	425,285,956	997,752,115	23%
Mobile Telephone Service Sales 20%	578,541,455	481,286,802	11%
Subscriptions for Internet Usage Sales 20%	133,231,810	546,531	0.01%
International Oil Companies	888,324,873	1,011,982,234	23%
Companies in Total	2,025,384,095	2,491,567,682	58%

Wages of the Public Sector (Self-Financed sector)	-	9,098,139	0.20%
Wages of the Public Sector (Financed Centrally by the State)	-	212,354,484	5%
Wages of the Private Sector	-	340,282,572	8%
Wages in Total	368,804,569	561,735,195	13%
Real Estate Transfer Tax	135,937,394	113,808,799	3%
Real Estate (Rental)	57,304,569	70,777,496	2%
Vacant Land Tax		5,939,932	0.10%
Total Real Estate	193,241,963	190,526,227	4%
Individual Businesses	113,258,037	148,510,152	3%
Sales Tax on Hotel and Restaurant Services (10 %)	1,799,492	1,986,464	0.05%
Reversed Deposits	-	915,223,350	21%
Automobile Sales (15%)	-		0%
Total Tax Revenues	2,702,488,156	4,309,549,069	

³⁰Source: GAT, Planning and Monitoring Department, Iraq

The Ministry of Finance sets the estimated planned tax revenue targets shown above in Table 2 and is given to the GCT to be achieved as an annual target. To achieve this target, the GCT allocates these revenue targets for each department (e.g., planned revenue for companies, individual business, etc.), through the Tax Authority-Planning and Follow Up Department. Table 2 shows that the tax administration achieved the planned revenues in 2017. However, these revenue targets are not an accurate indication of the tax administration's performance efficiency and effectiveness in realizing its objectives. Therefore, table (3) gives a closer look at the tax administration's performance.

Table 3. Comparison of Taxpayers by Percentage- Business and Professions
Department

Year	Total Taxpayer Recorded	No. Taxpayers		Taxpayer %	
		Filed Their Tax Return	Failed to File their Tax Return	% Filed Their Tax Return	Failed % to File Their Tax Return
2014	1,564,982	388,514	1,176,468	25%	75%
2015	1,399,407	334,518	1,064,889	24%	76%

³⁰ The figures in the table have been converted to the dollar currency from the local currency (Iraqi Dinar) by adopting the official exchange rate that is determined by Central Bank of Iraq, which was IQD 1182 per 1 US dollar in 2017.

2016	1,502,267	314,124	1,188,143	21%	79%
2017	1,567,007	349,422	1,217,585	22%	78%

Source: GCT, Planning and Monitoring Department, Iraq

The data in Table 3 shows the Tax Authority's Business and Professions Department. The table shows that the number of non-operating files (suspended files)³¹ as a ratio of the total registered taxpayers reached (1,567,007) files in 2017. This implies that (78%) of the total registered taxpayers who engage in economic activities are considered to be tax defaulters (non-filers) compared to (22%) of tax filers. In this regard, the ratio of the suspended files to the Non-defaulters shows the high percentage of evaders that have not filed their tax returns. Undoubtedly, the high percentage of tax evaders and non-compliance shows the size of the foregone tax revenues that has a significant effect on the reduction of the tax base. Lastly, if tax collections and enforcement in 2017 amounted to approximately 4.3 billion \$ US dollars as a result of the tax administration's efforts and ability to subdue 22% of the total amount of the taxpayers, then how much tax revenues would be realized if tax administration was able to enforce payment and subdue evaded taxpayers in Iraq?

In the same vein, Table 4 below presents Tax Authority- Companies Department taxation summary results for the mentioned years in Iraq. However, the data again shows the high ratio of the tax defaulters (non-filers) out of the total registered taxpayers compared to tax filers who engage in economic activities.

³¹ Suspended files: registered taxpayers who have not returned to pay their taxes due. These files are typically suspended for a period not less than 5 years due the inability of the tax administration to subdue them for taxation

Table 4. Comparison of Taxpayers by Percentage- Department of Companies

Years	Total Taxpayer Recorded	No. Taxpayers		Taxpayer %	
		Filed Their Tax Return	Failed to File their Tax Return	Filed % Their Tax Return	Failed % to File Their Tax Return
2016	39,860	10,253	29,607	26%	74%
2017	42,028	12,000	30,028	29%	71%
2018	44,096	10,614	33,482	24%	76%

4.5 Presumptive System for Taxation in Iraq

Arriving at a real income that is to be subjected to taxation is oftentimes a complex problem in developing countries, including Iraq (Kamash, 2008, p.8) where the economy is predominantly cashed based, relying heavily on cash transactions, which are “hard-to-tax.” Since they do not keep proper bookkeeping records, and even when records are kept, they are not necessarily reliable. This premise was further confirmed by (Kamash, 2008, p.8) where he stated that the Iraqi tax administration sought to solve this problem, which is the absence of reliable data about the real income amount, and by setting up a presumptive system for estimating taxpayers incomes in which they are taxed on the basis of a presumptive "average" income and not on their actual income, i.e., presumptive minimum taxes. This system estimates the taxable income by resorting to a series of methods and procedures; some businesses income is estimated based on external appearances like

- a- The rental value of the shops in which the taxpayer undertakes his business.
- b- Number of modes of transport used by the taxpayer

c- Number of employees and workers the taxpayer have.

d- Value of salaries and wages paid monthly

Other businesses' income is estimated depending on the sales value, e.g., taking a percentage of the sales value. The sales value can be determined if the taxpayer imported the products. In that case, the amount of the imported products is reported to the tax administration by tax officials who work at the border crossing points. On the other hand, if the products are locally purchased, tax administration can determine the value of sales by cross-checking the local wholesalers that the taxpayer purchased the product from.

Additionally, some professions like:

- a. Doctors, lawyers, and engineers.
- b. Artisans, barbers, carpenters and tailors.
- c. Real estate brokerage offices.
- d. Pharmacies, laboratories, and radiology,

have their taxable income estimated using an annual schedule of presumed incomes. The GCT issues the schedule annually, which is prepared by a specialized committee composed of senior and competent managers of tax administration departments; the judgment of these managers is based on the information and experience of the senior tax assessors. This committee meets annually to issue and update the schedule of the presumptive incomes of taxpayers. In this respect, it is noteworthy to mention that some businesses and taxpayers fall under the regulation of keeping and maintaining commercial books for income tax purposes³². In that, some segments of taxpayers,

³² Commercial Book-Keeping Regulation No. 2 of 1982 and its Amendments

e.g., large and medium taxpayers, are obliged to keep records, and others are not according to the regulations.

As indicated above, tax administration in Iraq struggles to identify the real income in a cash-based economy (underground economy), whereby most businesses attempt to evade tax by engaging in undocumented transactions (transactions that do not exchange receipts), which is hard to track since cash transactions do not leave an audit trail. Therefore, the tax authority sought to achieve a level of equity in distributing tax burden using the presumptive system. Furthermore, this system aims at minimizing contact between the tax official and the taxpayer, facilitates the process of taxation and contributes to complete the inadequacies of the competencies in the experience of some of the tax assessors by providing a general rule for assessing the taxable income for similar business categories and professions³³.

According to the publications of GCT in 2018, it states that the presumptive incomes represent the net taxable income and presumes that each category of professions is operating on their minimum average level. In principle, tax assessors are not legally permitted to go under this preset level of presumed incomes. However, tax assessors are legally entitled to go above that level of presumptive incomes in case of detecting that the activity of some of the taxpayers has exceeded the average level through the available information received about the commercial activity. For example, the district in which the activity is located and business reputation and popularity gained through time.

33 Presumptive system Guide (2018). General Commission for Taxes, Iraq.

As indicated above, tax is levied on presumed net incomes and not the real income of the taxpayer. Accordingly, (Kamash, 2008, p.19) on his part warned that this method is similar to discretionary presumptions. Consequently, the relationship between the principle of equity and the presumptive system is questionable. In that, there could be three assumptions that may happen when taxation is done in this way. First, presumptive income may be fair for both the tax administration and taxpayer. According to this, the principle of equity would be realized. Second, the presumed income could be appropriate for the tax administration at the expense of the taxpayer; hence, it would contradict the principle of equity in case of overstating actual income. Third, it could be appropriate for the taxpayers at the expense of the tax administration in case of underestimating actual income, which would result in a lower tax base. The last two propositions run counter to the principle of equity, despite the primary aim of setting the presumptive system is to seek equitable distribution of tax burden.

4.6 Punitive Levies in the Iraqi Income Tax laws

The purpose of levying penalties is to prevent evaders from returning to violations. Thus, penalties are one of the most reliable means of improving tax compliance for their ability to deter undesirable behavior and achieve the highest level of tax compliance (Ameen, 2000, p.170). The provisions of the Iraqi Income Tax Law, Article 56-59-58-57-45-51-51 criminalize and penalize violations and include financial and physical penalties as follows:

- a- (Article 27 paragraph 2) – Voluntary Registration and Filing of Tax Return

First and foremost, Iraqi income tax law obliges the taxpayer to voluntarily register at the tax administration at the commencement of the commercial activity. This article stipulates “Every person whether registered or not, who has taxable income, must submit a return in respect of his income, before the first day of June of the assessment year, even if the taxpayer has not been requested to do so by a written notice or by any other means of publication”. This article requires that a person who has a taxable income to voluntarily file his tax return by 31/5 of the next year of the income-generating year, i.e., the year following the year of the commencement of the commercial activity. In that, if a person was assumed to have started work on 1/1/2016, under this Article, persons (whether registered or unregistered) who have engaged in commercial activity and did not report and acknowledge the engagement of business, shall not be subject to any penalty before 1/6/2017, i.e., 17 months. Abdulelah (2014), on his part, warned that these 17 months are considered as a legal justification for not registering. Besides, this period is relatively long and would give the lure to the taxpayer (registered or non-registered) to evade tax since it generates a feeling of lack of follow-up from the tax administration over taxpayers.

b- Article 56 (Penalties of not Complying with Article 27, Penalties for Delay or Failure to File Tax Returns)

As for the penalties for not complying with Article 27, income tax law stipulates in the (Article 56 paragraph 1 subparagraph d) “The Financial Authority shall impose an additional amount at the rate of 10% of the tax provided it does not exceed (ID 500,000 or \$422) on the taxpayer who failed to submit income tax return by 31 May of each year, unless the taxpayer proves that the delay has been caused by a lawful excuse”. In this regard, it is obvious to note that penalties for the taxpayer who refuses to register or who do not file their tax return, fail to maintain proper records

for tax assessments, does not exceed the financial penalty, the level of such fine in Iraq, however, has a ceiling that is set to be no more than \$422, making one to suspect its deterrent effect to induce future timely payment.

Further, (Article 56 paragraph 1 subparagraph C) stipulates “A penalty shall be imposed on the person who makes any contravention to the provisions of the Commercial Bookkeeping Regulations for Income Tax Purposes at the rate of 10%-25% of the assessed income”. In this provision, it is obvious to note that the penalty for not maintaining proper books is higher than the penalty on non-payment.

c- Article 57 (Penalties for the Concealment of Financial Information and underreporting of income)

Article 57 states “Whoever knowingly submits false statements or conceals information which he should have to disclose to obtain a reduction, allowance or deduction from amounts of tax imposed, shall be punished with imprisonment for a period not exceeding one year.” This article includes the offenses that have been committed, whether intentionally or unintentionally, due to an error or negligence by the taxpayer. (Ameen,2000) Asserts that these penalties are considered to have a deterrent impact. Adding that, this kind of violation is widely practiced among taxpayers in terms of concealment of information related to their activities. However, it is difficult to detect this violation due to the resource constraints in terms of competent assessors and auditors; low level of computerization that leads to a weak intensive and comprehensive assessment and audits that result in a surface inspection of the taxpayer’s declarations leaving most of the underground economy undetected (Ameen, 2000 p.183).

d- Article 58 (Forgery of Tax Liability)

This Article stipulates that “They shall be punished with imprisonment for not less than three months and not exceeding two years for any person who is proved by the competent courts to have practiced deceit, or fraud to evade whole or partial payment of the tax imposed.” This article shows the broad authority of tax administration that is granted by this law to deter such violation.

e- Article 59 (Duplication of the Tax Amount Liability Along with Imprisonment)

Article 59 states that “The Financial Authority, upon conviction, shall double the taxation of the income indicated in Article 57 and 58 along with imprisonment”. In this article, it is obvious to notice that it has a deterrent impact. The calculation of the tax amount as follows:

$$\text{Tax Amount Properly Calculated} * 2 = \text{Total amount of tax payable} + \text{Imprisonment}$$

f- Article 59 / Repeated (Peaceful Settlement)

Under this Article, the principle of peaceful settlement or agreement has been established when the taxpayer commits any of the offenses stipulated in Article 57 and 58. In this case, the taxpayer must pay the estimated tax in addition to the double the amount of tax estimated. Also, the tax authorities will impose interest penalties determined by the central bank of Iraq annually to the amount of underpaid taxes, which is calculated up to the date of the payment. The calculation of the tax amount as follows:

$$\text{Tax Amount Properly Calculated} + (\text{Tax Payable} * 2) = \text{Total Amount of Tax}$$

$$\text{Total Amount of Tax Payable} * \text{Number of Years} * \text{Interest Rate} = \text{Total Amount of Peaceful Settlement}$$

The penalty under Article 57 and 58, and 59 again shows the broad authorities and rights of the Iraqi tax administration granted by law. However, as indicated above, the real problem lies in the difficulty of detecting these violations, due to resource constraints of the tax administration, alongside the typology of the Iraq economy, that is a cash-based economy where most businesses attempt to evade tax by engaging in undocumented transactions, which is hard to track since cash transactions do not leave an audit trail.

g- Article 45. (Penalty on Non-payment after Formal Written Notification to Defaulters)

This Article stipulates that “If the tax is not paid within 21 days from the date of notification, there shall be added 5% to the amount of tax due, this amount shall be doubled if the tax is not paid within 21 days after the lapse of the first period” This article shows the tax authority’s broad right to enforce payment by sending a written notice to a defaulter requiring the payment of due tax liability in a specified date. However, this penalty is often hard to implement and enforce since taxpayers can change their business addresses. Mainly medium and small taxpayers.

h- Article 51 (Travel Ban on Defaulters)

“The authority has the right to prevent a person from leaving Iraq until he has paid the tax due.” This article asserts the right of the tax administration to impose a travel ban on defaulters.

i- Article 52 (Confiscation of Properties)

“The Minister may confiscate properties whose owner attempts to conceal or evade payment of tax.” Again, this article shows the tax administrations’ vast powers that are granted by law to enforce payment of defaulters.

4.7 Tax Information Systems Used by Tax Administration in Iraq

The GCT and its branches in Iraq use many multiple information systems to identify the sources of income of taxpayers for taxation. The ensuing analysis is concerned mainly with the review of these systems in order to assess how effective they are in identifying the sources of income for taxpayers and how reliable they are in reaching the targets required by their application.

4.7.1 Contracts and Receipts Information System

It is an official and legal document that is issued whether from a public or private sector (such as contracts for construction and supply, purchase receipts, etc.) These contracts provide brief information that shows and prove the taxpayer’s commercial engagement with the public or private sector. Also, it is considered as legal evidence about the taxpayer's activities that are subject to taxation.

These documents have many categorizations in terms of their origin:

- Government sectors for their dealings with the private sector.
- Documents that are provided by the taxpayer and attached with the annual tax return on their activities.

This system is one of the essential systems that support the process of taxation for taxpayers. However, this system is criticized as being disintegrated. According to the tax authority reports and publications:³⁴

- 1- A large number of these documents provided by their original sources to the tax administration and their subsequent accumulation in the tax administration - Technical Information Department- this leads to a backlog of these contracts that needs to be transferred from physical hard copies into the department's database system. This is also heightened by the lack of human resources (labor force) in the division to help reduce the pressure in converting the documents into the database format.
- 2- Weak cooperation of ministries and other government institutions to send these documents to the tax administration. Therefore, it becomes challenging to identify the sources of income of taxpayers for taxation due to the shortages in the information.
- 3- Lack of integrated database between the government agencies and tax administration is helping the evaders in avoiding the transmission of transactions and contracts to the tax administration. Alongside the usage of paper documentation which is also helping the evaders in mutilation and falsification of figures, the tax department receives some of the contracts with incomplete information such as the omitted name of the taxpayer or his address, or the financial value of the transaction both in numbers and writing. Therefore, it becomes challenging for the tax administration to rely on such data to detect the sources of income of taxpayers for taxation.

³⁴ Technical Information Section- General Commission for Taxes- Ministry of Finance- Iraq. Access on October 15, 2018 available: <http://tax.mof.gov.iq/PageViewer.aspx?id=92>

4.7.2 Customs Permits System

It is an official document that is issued and approved by the General Customs Authority of Iraq, which is considered one of the agencies of the Ministry of Finance. This document is issued when commercial goods are entering and exiting Iraq by land, air, and sea border crossings. The import and export operations are documented at the border crossing points, followed by the issuance of their customs permits that has details of the imported goods.

These permits are then submitted to the GCT through the units of tax officials that are operating at the border crossings. These permits constitute an accurate source of information that helps the tax administration to identify the taxpayers (exporter or importer) and their activity size through monitoring each import or export volumes.

In this regard, its noteworthy to mention that tax administration deducts the amount of tax due on from taxpayers in advance rather than waiting for the taxpayer (the importer) to submit his tax return until the end of the fiscal year to undertake the taxation based on the profit or loss, that being so, tax administration through its assessing units at the border crossings assess the amount of tax due on the taxpayer using the presumptive system e.g. the cost of good imported, quantity etc. However, this method has been adopted in response to widespread evasion practices among taxpayers and the inability of tax administration to induce voluntary compliance. Therefore, state resort to this method (taxation in advance) in order to preserve the right of the public treasury.

Despite the effectiveness of the customs permits system in determining the sources of income for taxpayers, it has some drawbacks that make it a disintegrated system. According to the GAT website report and publications:

- Lack of integrated database between the General Customs Authority and tax administration results in traditionally and slow transmission and transfer of these permits to the tax administration.
- Iraq economy highly depends on imports (foreign goods) to meet the domestic demand. However, the human resource constraint in the tax administration increased the permits in massive quantities resulting in accumulation of the permits; this leads to a backlog of the permits that need to be transferred from physical hard copies into the department's database system.

4.7.3 Reporting Tax Evaders System

This system includes any citizen or other entity, whether involved in the activity of the taxpayer or not, providing confidential reporting to the tax administration and who is considered as a secret informant. This information is notifying the existence of an activity for which the taxpayer has not been taxed. The Income Tax Law No. 113 of 1982 article 54 regulates this system and encourages it by giving rewards calculated based on a percentage of tax collected due to the reporting, provided that the share of the informant does not exceed 30% of the tax collected from the taxpayer.

4.7.4 Field Inspection of Taxpayers System

The field inspection is conducted on the premises of taxpayer and is used by the GCT which is aimed at:

- Identify registered and unregistered taxpayers and their sources of income within the geographical area in which the tax branch is located.
- To undertake on-site assessment at the location of the taxpayers' commercial activity as a part of the presumptive system procedures.
- Update data and information about taxpayers' commercial activity size, so they can examine the individual or business financial records to ensure that the taxpayer has filed a tax return accurately.

It is noteworthy to mention that in Iraq, the field inspection information system ceased to be implemented by the tax administration in 2003 (US invasion of Iraq) with the worsening security conditions. However, Field inspection procedures were activated back again in 2014, and up till date, inspection committees are assigned to doctors' clinics, pharmacists, lawyers' offices, and others, only in relatively safe geographical areas.

In principle, the purpose of field inspection used by tax administration is to detect new taxpayers; to verify the credibility of taxpayers' tax return and to undertake on-site assessment. However, this system depends mainly on the integrity and honesty of tax officials in reporting tax evaders. That being so, first, tax officials in performing their duties have broad discretionary power. Such discretion allows officials to act arbitrarily. They may, for instance, make assessments using the presumptive system. These assessments, however, could be contested by taxpayers to reduce their tax obligation, which, in turn, lays the foundation for a system of "negotiation" between taxpayers and tax officials. Therefore, even though payment of taxes is through banks, by the time of payment, the tax due may have already been negotiated. Second, this system is not comprehensive and does not cover all the geographical areas specified for each regional tax office due to the security situation

instability after 2003. Therefore, its again challenging to rely on this system to arrive at the amount of real income to conduct equitable taxation and to increase the registration rate of taxpayers by detecting and bringing tax evaders into the system, and obtaining accurate and reliable information to decrease evasion rate.

4.7.5 The Information System of Coordination Between Real Estate Rental Tax and Income Tax:

In 1998, GCT introduced a system that intends to look into the real estate tax information system and to employ it to contribute to the more efficient collection of taxes from taxpayers, by requesting information from owners of the leased property about persons who occupy their properties for commercial, industrial and other economic activities.

This information system is based on the fact that commercial activities are often carried out in shops that are rented from the owners to persons who engage in various activities and whose income is subject to tax payment according to law.

(Abdulelah, 2014, p. 90) noted that there was high coordination between the Ministry of Electricity and Tax Administration before 2003 on ways of exchanging information by making Tax clearance certificate (TCC) as a prerequisite to deliver electricity to the commercial property.

Despite being a cost-efficient and effective system in reducing tax evasion by obtaining information about registered and nonregistered taxpayers on the type of business practiced by taxpayers, this system has only implemented for five years, 1998 till 2003 (US invasion), its adoption was indefinitely postponed.

4.7.6 Tax Clearance Certificates (TCC)

TCCs is a written confirmation issued by tax administration certifying that a taxpayer has either paid all taxes due or that he is not liable to any taxes at the date of issue of the certificate.

The requirement to issue TCCs in Iraq, however, usually arises in conditions where the public sector is requiring TCC as a prerequisite for a contract or tender to be given to businesses (businesses competing for contracting with the government sector). Also, some ministries in Iraq, based on administrative instructions of the GCT, requested TCC when taxpayers apply for a work permit renewal from the ministries in charge. In this regard, article 28 paragraph 4 obliges government ministries and agencies to condition TCC as a prerequisite for contracting or dealing with individuals and businesses. Article 28, however, does not stipulate the TCC as a prerequisite for obtaining or renewing government licenses to practice a profession and commercial activities, e.g., professions and other commercial activities that are regulated by the Ministry of Justice, Ministry of Health, Ministry of Trade, Ministry of Tourism, Central Bank of Iraq, etc. In that case, there is no legal framework enabling the tax administration to oblige government ministries and agencies to condition TCC as a prerequisite for renewing government licenses for business and profession.

In principle, TCC is for ensuring that one's filing is up-to-date, and there is no tax due or outstanding. That being so, TCC is as a powerful tool used by the tax administration in inducing compliance by obliging businesses to disclose their commercial engagements because these taxpayers cannot underreport their taxable incomes when contracting with government sector (private-to -government).

Nevertheless, these disclosures are limited to commercial engagements with government sectors. However, taxpayers' commercial engagements with the private sector (private-to-private) are still susceptible to underreporting.

Nevertheless, TCC can play a pivotal role in Iraq by enabling tax administration in inducing timely compliance of taxpayers, not only when businesses engage with the government, but as a more comprehensive measure used by making it as a compulsory requirement for renewing work permits by the related ministries and syndicates that regulates the work of taxpayers.

4.7.7 Commercial Bookkeeping Regulation for Income Tax Purposes No. (2) 1985

According to this regulation, and based on their amount of taxable income, some categories of business, e.g., companies, first-class hotels, and restaurants, private hospitals, private banks, etc. are obliged by the law to keep financial books and records, and must be verified by an external auditor while filling a tax return annually. Second, this regulation obliges other categories of business to maintain financial books and records but does not condition the verification of their books by an external auditor. Third, under this regulation, professions are not required to keep financial books and records, e.g., doctors, clinics, hairdressers, pharmacies, and other retailers.

Moreover, according to (article 56 paragraph 3) of income tax law, failing to adhere to this regulation in Iraq can lead to a penalty at the rate of 10%-25% of the assessed taxable income.

In principle, bookkeeping is considered as an indispensable requirement and significant source of information that helps tax administration to estimate the taxable income in an equitable manner that should be based on real income. Additionally, maintaining financial records provides detailed information on commercial transactions between different taxable persons. Furthermore, it enables tax administration to conduct “cross-checking audit” by analyzing the details of sales and payments of registered business taxpayers. Consequently, cross-checking audit reduces tax evasion by enabling tax administration access information by detecting non-registered taxpayers through registered taxpayers. Accordingly, it would reduce tax evasion and helps to identify new taxpayers (Ameen, 2000, p. 11).

However, as mentioned earlier, tax administration in Iraq struggles to identify the real income in a cash-based economy: that is, in a mostly “underground economy” where most businesses attempt to evade tax by engaging in undocumented transactions (transactions that do not exchange receipts) that is hard to track. Due to this fact, the obligation to maintain bookkeeping is only considered to be part of a mandatory administrative requirement to file a return as tax administration does not consider these books as a reliable source of information. As a result, tax administration adopts the presumptive system to tax these taxpayers. These financial records are only adopted when they report taxable income above the presumptive system.

Chapter 5: Analysis of the Tax Administration in

Practice: Evidence from Interviewees

5.1 Analysis of interview

5.1.1 Profile of Interviewees

To realize the objectives of this research, semi-structured interview sessions with three participants of the senior management staff were held as the second phase of data collection, and as a primary mean of data gathering. These officials have been working at the Iraqi tax administration for not less than (18) years; being involved in the management process and decision making in the General Commission of Taxes (GCT) of Iraq. To preserve the anonymity of the participants, they are referred to as A, B, and C.

5.1.2 Tax Administration Resources

In the implementation of tax policy, a significant constraint in its rollout and administration is the shortage of adequate resources to sustain and ease the operation of tax administrators. In this regard, resources can generally be classified into two types in the administration of taxes: human resources and physical resources. Human resources refer to the labor force; includes not merely the number of tax officials but also their quality and age. Second, Physical resources or non-human resources; include resources that cover office buildings, equipment, vehicles, communication

systems, etc. They are the instruments with which human resources work in order to ensure compliance with tax laws.³⁵

Three (3) questions were employed under this theme to assess the availability of human and physical resources in Iraq's General Commission for Taxes.

The first question was, "Does the administration and its branches suffer from a shortage of staff, especially the specialized staff in tax accounting such as assessors and auditors? (If yes, please explain)" In general, all the participants answered in the affirmative, confirming the shortage of human resources. Participant (A) indicated that after 2003, the Ministry of Finance (MoF) stopped recruiting new staff, which resulted in a noticeable shortage in staff, especially the young administrative staff. Consequently, it turned the administration to an aging directorate, i.e., the older aged staff outnumbered the younger aged staff. He indicated that the administration is currently operating mainly on the old staff of assessors and auditors. He also indicated that the number of tax assessors and auditors had become inadequate to handle the current number of taxpayers. Participant (B) stated that the Large Taxpayer Department is suffering from a noticeable shortage of necessary staff of auditors and examiners. Adding that, after 2003, many international companies have started to operate in Iraq. The taxation of these large companies requires high-caliber professionals with experience in International Financial Reporting Standards. He stated this shortage in most times has led to inefficient service delivery to large corporations.

The second question posed to participants was, "Is the Iraqi tax administration well placed in terms of adequate physical resources to maintain its work and facilitate its

³⁵ Kangave at 50

mandates?” Generally, all the participants answered in the affirmative, confirming the shortage of physical resources and the archaic working conditions present in the tax administration. Participant B stated that the Large Taxpayer Department has been operating in a small office department that is unable to receive any additional staff.

Moreover, the participant highlighted that the Iraqi GCT is a subordinate department to the Ministry of Finance (MoF). Because of that, it does not have any authority to allocate the budget according to its operational needs; the Financial Department of the CGT prepares and submits the budget to the MoF, and the budgetary allocations are contingent on MoF approval.

The third question posed to the participants was, “Does the tax administration depend on computerization and ICT across the core taxation functions, e.g., registration, taxpayer account management, auditing, storage, filing of returns?” (If no, please explain). In answering, all the participants indicated that the use of computers is limited to the running of databases which are used by the GCT to store taxpayer’s files through the backing up of paper documentation of taxpayer’s files. Participant A indicated that the use of computers in the information storage process is inefficient due to the lack of human resources and other necessary physical resources, e.g., scanners that must be available to update and administer the information in the taxpayer’s electronic files in day-to-day operations.

Furthermore, participants indicated that computers are also used in preparing reports about the actual collected tax revenues across the GCT and its regional offices; preparing the operational budget; tracking the increase or the decrease of taxpayers numbers, etc. In the same vein, participants confirmed the absence of a centralized

ICT systems application in Iraq, which results in slow and inefficient flow and sharing of information between and across the internal departments of the GCT, between regional offices and headquarters, and headquarters and other government ministries and departments, e.g., the General Customs Authority, Municipality of Baghdad, Ministry of Trade, Ministry of Health, etc.

5.1.3 Stakeholders Support for Tax Administration

When implementing policies, tax administration requires the support of a variety of parties. They need the support of the government, and the backing of their officials, the cooperation of taxpayers, under this thematic area, three (3) questions were used to assess the challenges faced by the GCT in relating to those different stakeholders.

The first question under this theme was” What are the main challenges or difficulties facing the tax administration in applying tax policy in Iraq? The predominant answer to this question regarding the difficulty in the implementation of tax policy is the taxpayers' uncooperative attitude towards tax administration and the relationship between taxpayers and tax administration (the government representative and implementer of tax laws). This relationship is characterized by animosity and resistance on the part of the taxpayers. They further went on to explain that the root cause of this resistance and animosity is the taxpayer mistrust in government institutions and government spending policy. As mentioned earlier in chapter 2, that in the post-2003 period (US-led invasion of Iraq), the Iraqi people had witnessed a dramatic deterioration in most basic services: electricity, water and sanitation, health, education, transportation, and security. All participants stated that taxpayers need evidence for proper utilization of their money that should be seen in public goods

and services such as valuable investment in areas like constructing infrastructure, electricity, health systems, education, and above all security of the life and properties of the people in the country. Participant C indicated that taxpayers had not seen a result of paying their taxes being reflected on public services. As a result, taxpayers are discouraged from paying their tax obligations and taking every slight opportunity to evade tax obligation.

The second question directed to the participants was, “What are the most important reasons for the uncooperative attitude of the government ministries in providing the tax administration with the necessary information to detect taxpayers? In responding to the question, participant B indicated that “In principle, taxes are a civic duty and obligation and tax administration could not fight alone in this field to raise tax revenue for the government. Therefore, the government institutions must work alongside the tax administration as an integrated system to reduce tax evasion.”

Additionally, participants indicated that the government’s oversight and enforcement according to the law³⁶ to obligate and bind those ministries to submit the requested information about contracting and other taxable transactions and payments with the taxpayers to the tax administration is feeble.

In the same vein, participant A indicated that information plays a significant role in the verification of tax taxpayer’s returns to check their accuracy to arrive at a real taxable income. He further indicated that information-gathering powers from third parties (government ministries and institutions) need to be strengthened by setting a system of penalties and oversight over the delinquent government institutions.

³⁶ Article 28 under the Iraqi Income Tax Law No. 113 of 1982

The third question under theme was, “Does the tax administration have the legal authority to compel ministries and other government institution to make a Tax Clearance Certificate (TCC) as a prerequisite for renewing work permits? When asked, participants confirm that the absence of a clear legal framework governing this aspect in the Iraqi Income Tax law. Therefore, due to the lack of a strong legal basis governing this aspect, a weakness in the enforcement has been created whereby some ministries cooperate and comply based on the tax administrations' administrative instructions, others do not comply with the tax administration's instructions. Participants also confirmed the imperative need to strengthen this measure and indicated that if implemented comprehensively, it would play an essential role in the detection and collection of tax revenues in the appropriate time by obliging a large segment of delinquent taxpayers to get their TCCs as a prerequisite to renew the work permit from the responsible ministry or government institution.

5.1.4 Criminal Penalties in the Income Tax Law

The purpose of levying penalties is to prevent evaders from returning to violations. Thus, penalties are one of the most reliable means of improving tax compliance for their ability to deter undesirable behavior and improve tax compliance. Moreover, tax administration must be well equipped with the legal authority that will empower them to enforce payment against delinquent taxpayers to deter them from evading taxes. Under this theme, two (2) questions were posed to the participant to assess the provisions of penalties under Iraq's income tax law.

The first question was, “Are criminal penalties in the income tax law deterrent enough to reduce the rate of non-compliance and evasion?” In their answer, all the respondents agreed that criminal penalties are not deterrent enough and should be tightened in order to reduce evasion. They indicated that severe penalties such as the imprisonment under article 57 and 58 are seldom applied. They further agreed that under Article 56, the penalty of non-compliance is low, which is the additional 10% of the tax calculated with a ceiling of no more than \$422 for all kinds of taxpayers (small, medium, large taxpayers). They went on explaining that imposing low penalties for non-compliance under the income tax law would downplay its significant effect on revenue performance.

The second question was, “Does the number of tax defaulters or evaders correspond to the legal authority granted under the Iraqi income tax law? In their answer, participants indicated that due to the years of political turmoil that Iraq has been going through after 2003, it became challenging to penalize defaulters of tax payment according to the income tax law. They added that, before 2003, tax officials were well equipped and protected by government police officers when undertaking their duties such as field inspection to check if all businesses were on tax rolls and when undertaking field auditing at the taxpayer premises to examine taxpayer’s financial records to ensure the accuracy of their returns. The participant indicated that tax officials are faced with a daunting task that cannot be carried out by the tax administration on its own but requires the protection and support of the government, civil service systems, and other public sector departments. Participant asserted the imperative need for the backing of the government in terms of providing security guards for active tax detection and law implementation.

Moreover, Participants A indicated that human and physical resource constraints are making the situation worse; tax administration lacks the sufficient number of tax officials that are responsible for tracking each defaulter company to subdue them for taxation. He also indicated that some companies have a fake address, which makes it impossible for the tax administration to track them; he stated that this problem would be less if there were efficient ministerial coordination. For example, the Iraqi Ministry of Trade that is responsible for registering the newly established companies must be responsible for maintaining companies with accurate details and tracking their level of activity.

Participants also stressed the importance of reactivating the Companies Tax Law No. (21) 1997 - Article 147, which stipulates the removal of any company not in good standing (i.e. one that stops to operate for more than one year, without a legitimate excuse) from the list of the Corporate Registration Department at the Iraqi Ministry of Trade; they indicated that this would achieve more efficient tax detection, it would also enable MoF in setting more accurate revenue targets that would correspond to the economic reality of the country. This would, in turn, reduce the MoF pressure made on tax administration to attain unrealistic revenue targets, which is set by the MoF- Economic Department.

5.1.5 Institutional Arrangement of the GCT

The General Commission for Taxes (GCT) in Iraq was established in 1982 by the MoF statute No 92 in 1982. Upon its establishment, the Tax Administration was set up as a directorate within and subordinate to the Ministry of Finance (MoF) with the responsibility to collect and assess tax revenues according to the national income tax

law. Accordingly, MoF has full fiscal oversight regarding the authority to allocate the budget within the GCT, and interfere in day-to-day operations, and has full authority in the recruitment of tax officials staff. Hence, no flexibility granted to the GCT in decision making about the number and skills of staff hired.

In this regard, many governments in the recent past, have chosen to give their tax administrations autonomy under a broad umbrella of the MoF³⁷. Reasons, why governments grant semi-autonomy to the tax administration, are its size in terms of a large number of staff members and a broad office network and technical nature, which are specialized in the assessment and collection of taxes. Therefore, the management of these tax administration functions as a single-purpose organization with a certain degree of autonomy found to be more efficient than maintaining the functions within the ministry's ordinary reporting line (Araki, Satoru. 2014, p.7). Therefore, under this theme, the participants were asked to recognize how essential tax administration autonomy is in enhancing their effectiveness and efficiency.

The question posed to participants was, "Is having a certain degree of autonomy necessary for the tax administration and the development of its work?" in their answer, all participants answered in the affirmative reasserting the need for a certain degree of administrative and financial autonomy. They indicated that a limited degree of autonomy if granted would make the tax administration more efficient by delegating more administrative authority to the tax administration's commissioner regarding the administrative procedures that fall under the specialty of tax

³⁷ Crandall, W. (2010). Revenue Administration: Autonomy in Tax Administration and the Revenue Authority Model. Technical Notes and Manuals, 2010(12), 1. Cited in Araki, S., & Claus, I. (2014). A comparative analysis of tax administration in Asia and the Pacific. Retrieved from <https://www.adb.org/sites/default/files/publication/41792/tax-administration-asia-pacific.pdf>

administration. Thus, it would help in reducing the bureaucracy in the decision making that in most times causes an inconvenient and inefficient services delivery to the taxpayers.

Most importantly, in their answer, participants believed that if the government granted the tax administration financial autonomy from the MoF, it would allow the tax administration to have control over their operational cost by being able to decide on how to make the optimal use of the resources allocated to them. Consequently, it would give the tax administration more flexibility in the decision about the number and skills of staff hired; It would also be able to implement organizational reforms; buy the required physical resources, such as building an ICT infrastructure. As a result, it would help them in performing their duties most effectively and efficiently as per the income tax law. They further indicated that in the case of semi-autonomy was granted, the Iraqi Federal Board of Supreme Audit³⁸(FBSA) would still have the oversight over the tax administration by exercising the checks-and-balance needed to ensure the integrity and accountability of the executive authority of tax administration, and enhancing the protection of taxpayers' rights against any abuse of its discretionary powers.

³⁸ (FBSA) is a Professional Institution independent neutral, it was established in 1927 and plays an integral role in ensuring the accountability of public funds, and promoting efficiency of its auditees, government institutions and public servants. The FBSA is responsible for auditing the Government of Iraq's accounts and overseeing public contracts; it is considered one of the oldest institutions of the Republic of Iraq. (Salih & Daw, 2015, p.116)

5.1.6 Best Practices to Improve Taxpayer Compliance

Under this theme, participants were requested to recommend the possible approaches to address compliance issues.

The question posed to participants under this theme was, “What measures should tax administration take to encourage compliance of taxpayers, primarily large taxpayers?” In their answer, participants were unanimous in prioritizing the importance of building tax awareness and education, reassuring that it is the duty of the government to undertake valuable investments in public goods and service by collecting adequate taxes. Consequently, it will be easier to convince people that taxes are for their benefit and welfare.

Participants also stressed the importance of political support for reform strategies of the tax administration through the provision of funds for the tax administration to invest in ICT and computerization of their tax systems. Accordingly, it would replace the inefficient and antiquated manual systems of tax core functions, e.g., tax assessment, auditing, filing returns, and processing. As a result, the new system if built, would reduce the bureaucracy or official red tape of the tax administration and improve taxpayer services, thus, facilitating compliance for taxpayers and improving collection rates.

Participants further proposed the utility maximization of the scarce resources instead of waiting for the provision of additional resources; they indicated that because of the constraints in the resources allocated to the GCT, MoF should attempt to maximize the scarce resources by efficiently allocating the resources available and implement the strategies that would produce the highest tax revenue. Therefore, they proposed that more resources should be spent on ensuring compliance of the large

taxpayers before going after the small ones based on the premise that large taxpayers contribute a significant proportion of total tax revenues. Therefore, they suggest that tax administration should devote its best staff and other resources for the large taxpayers to ensure their compliance. In the same vein, participants stressed the importance of building a trust-based relationship with the large corporations through the provision of quality services that would require a more tailored treatment approach and less administrative bureaucracy by providing timely responses to their requests. Thus, it would have a positive impact on large taxpayer compliance.

Chapter 6: Conclusion

6.1 Summary of findings

It has emerged from the study and analysis of the GCT' reports, publications, and secondary data collected about the Iraqi tax administration and alongside perspective of participants interviewed that the Iraqi tax administration has been riddled with several challenges and constraints that limit its optimal performance. The challenges are summarized as followed:

- Weak staffing system of tax administration throughout the government: Iraqi tax administration is suffering from a lack of the requisite human resources, not only from the lack of competent accountants and qualified auditors, but also the administrative labor force that is required to undertake other important areas of tax functions, which encompasses functions associated with taxpayer account management and maintaining taxpayers' records (e.g., registration, taxpayer accounting, data processing, filing, and storage).
- Poor working conditions: the lack of the necessary infrastructure and the physical resources to administer taxes. Such as, inadequate offices to accommodate staff; modern office equipment such as computers and, photocopiers and printer's machines; and also involved in too much paperwork, all of these conditions create an uncondusive atmosphere for processing of tax returns and effective tax collection.
- The low level of the GCT's automation: Iraqi tax administration is still highly relying on a manual- based system when conducting the core tax functions, e.g., tax assessment, auditing, filing returns, and processing. The

manual system is not only slowing down the functioning of tax administration, but it also susceptible to mistakes by revenue officers.

- High discretionary power: there is a constant interaction between tax officials and taxpayers. The law grants the tax officials a wide discretionary power in performing their duties. Such discretionary powers are coupled with poor salary packages in addition to the absence of performance-based bonuses, which may create a situation ripe for abuse or collusion, including corrupt practices.
- Protection for tax officials: lack of government protection for tax officials when performing their duties given the security instability that make their job very challenging.
- Tax evasion: the main aim of taxation is to generate revenue to finance public expenditure, but an underlying aim is to redistribute income through progressive taxes. Consequently, tax evasion distorts this goal causing inequity in taxation and worsen redistribution of income by allowing some people to renege on their duties and leaving the burden of taxation to a particular section of the community. Various practices can be classified as tax evasion. Such as, failing of the taxpayer to file a return, another is underreporting income, and engaging in cash transactions that are not recorded.³⁹ In this regard, it has emerged from the secondary data collected and analyzed, and from the viewpoint of the participants that Iraq's economy is fraught with tax evasion. It has emerged from the study the factors that contribute to the evasion are as follows:

³⁹ Tait, A. A. (1988). Value Added Tax: International Practice and Problems (pp. 306-308). Washington D.C: International Monetary Fund. Cited in Kangave at 35.

- I. Weak third-party information system: Weak exchange of information between tax administration and third parties (government institutions) causes a lack of the availability of information relating to taxpayer's taxable transactions and payments. This information exchange system would assist in the tax administration's auditing and investigation to match information received from third parties with the information provided by the taxpayer declarations, which would be an effective way to detect potential concealment in the reported income.
- II. Lack of an integrated database system: the absence of a centralized database that consolidates information between tax administration and the government agencies at a national level is facilitating, enabling tax evasion.

6.2 Recommendations

Tax administration is very crucial enterprise and basic foundation for any economic development of many nations. However, this fundamental and essential source of capacity to the economic building program is faced with various problems which need urgent attention from the stakeholders and policymakers. Proper utilization of tax proceeds would provide positive development to a nation and would facilitate the standard of living. In respect to this, the study put forward the following recommendation to reform tax administration based on the many reforms Korea adopted as a developed country and the interviewees (senior directors at the GCT) used in the research, have proposed some reform measures as a prerequisite, which if instituted would enhance the effectiveness and efficiency of the tax administration:

➤ Recommendation relating to the GCT's institutional arrangement

Iraqi tax administration is constrained by laws and regulations that apply to the public sector as a whole, regarding the management of human, financial resources. Therefore, public expenditure management rules considerably reduce the flexibility of the tax administration to move financial resources from one activity to another. In the same vein, tax administration staff are part of the general civil service. This puts a particularly difficult problem concerning the recruitment and retention of good tax assessors, auditors, and IT professionals, etc., that are needed to run a modern tax administration. Therefore, the responsibility of implementation of tax laws ought to be distinguished from the core of civil service policy. Accordingly, the best form of achieving this is by setting a percentage of the collected tax revenue that should be allocated annually to the tax administration. Once the government and parliament approve the budget, tax administration should be allowed to disburse the funds as it pleases in response to emerging priorities and difficulties without interference from the MoF. MoF will still have the power to policy issues, and the tax administration will still be accountable for delivering agreed results, which is the revenue targets set by MoF.

The advantage of the predetermined ration of revenue over the budgetary allocations, which is set by the MoF, is that it would increase tax administration autonomy. Consequently, it would enable tax administration to obtain a degree of autonomy regarding human resource management, budget organization, and reduce the MoF interference in day-to-day operational management. However, to ensure that this autonomy was not abused, (FBSA) will still monitor the GCT's operations and oversight over the tax administration by exercising the checks-and-balance needed to ensure the integrity and accountability of the executive authority of tax

administration, and enhancing the protection of taxpayers' rights against any abuse of its discretionary powers.

There is the need for financial resources to be made available; without financial resources, even the best-laid reform plans will be rendered ineffective. Most importantly, the predetermined ration will ensure adequate and sustainable funds to enhance the institutional effectiveness and efficiency of the tax administration, but it will not ensure the retention of motivated, well-trained professionals with high integrity. In this regard, the budgetary allocation of the MoF does not include a provision for incentives to the tax officials. Therefore, the parliament must set a legal framework to authorize an incentives scheme to tax officials. Moreover, the incentives must be distributed through performance-based bonuses whereby tax officials are subject awards and penalties depending on if they met targets. It is possible that this treatment will translate into excellent customer service. In the end, it is hoped that the incentives will attract and retain competent staff and dissuade employees from engaging in corruption.

➤ Recommendations relating to the GCT procedures

The current practices of administering taxes using a system based on manual processes for the core tax functions, e.g., tax assessment, auditing, filing returns, payment of taxes do not only result in a slow and inefficient processing of tax returns, but also allows for direct contact between taxpayers and tax officials and thereby encourages, at least to some extent, abusive practices or mutual collusion. Therefore, MoF must seek the investment and introduction of the ICT systems to expedite functioning and improve computations, assessment, and collection processes in an

efficient, systematic manner. Importantly, computerization of the organization's systems limits collusion between taxpayers and tax officials since taxpayers file returns electronically.

There is a need for strengthening the oversight role over other government agencies to ensure more efficient information exchange with the tax administration about taxpayers' transactions and transaction records

- Recommendation relating to the strengthening of the role of third-party information sharing system.

Based on the literature reviewed, the 1999 Korean experience of (TIETP) shows the power of using the incentives, as a tool to implement policy more efficiently and effectively. Thus, it has reduced tax evasion, broadened the tax base, and increased tax revenues by taking advantage of incentives. Similarly, Iraqi stakeholders and policymakers must use incentives to motivate and garner the support of third-parties (government institutions) in recognition of their essential role in providing information about their contracting with taxpayers. Thus, help the tax administration to conduct taxation more equitably based on real income. Simultaneously, Iraqi parliament should introduce a legal provision to penalize the non-compliance of a government institution in enabling information exchange between the GCT and different government agencies to ensure more effective implementation of tax laws.

Additionally, the Iraqi parliament should introduce a legal provision to make TCC as a mandatory requirement for obtaining or renewing various work licenses from the responsible ministries or other syndicates. This measure, if implemented, will

reduce the opportunities of evasion by forcing taxpayers to come to tax administration making it difficult for taxpayers to stay out of the tax net. Consequently, it will broaden the tax base through the detection and collection of tax revenues in the appropriate time.

➤ Recommendations relating to the penalties in the Iraqi Income Tax Laws

Under article 56, the penalty for non-compliance in Iraq (failure to file a return) is set at a percentage of 10% of tax calculated given that it does not exceed (ID 500,000 or \$422) for all segments of taxpayers (small, medium, and large taxpayers). In this case, setting a ceiling for such penalty may not deter the defaulters from engaging in non-compliance, since the penalty will not exceed \$ 422, and the benefits to be derived from non-compliance will likely be higher than the penalty. In Korea, for example, the penalty for non-compliance is set at a given percentage of 20% of the tax sought to be evaded and that the magnitude of the penalty corresponds with the different tax liabilities⁴⁰.

$$\frac{\text{Income Amount un(under)reported}}{\text{Proper Income Amount to be reported}} \times \text{Tax Amount Properly Calculated} \times 20\%$$

To reduce the rate of the non-compliance, therefore, the Iraqi parliament needs to amend the law so that the penalty becomes fairer by removing the ceiling of the penalty so that it will be in correspondence with the amount of income amount unreported.

⁴⁰ Korea National Tax Service, Q&A/ FAQ, Faq – Individual. Available from: https://www.nts.go.kr/eng/help/help_02_01.asp

Lastly, the effect of having higher penalties is the likelihood of increasing the costs associated with non-compliance and most likely will deter people who do not comply voluntarily. On the other hand, if the detection rate of non-compliance is low, high penalties will not deter people from not complying. For penalties to be much more effective, the tax administration system has to be strengthened and improved in areas such as detection of non-compliance businesses and focused auditing on detecting inconsistencies in the information given by taxpayers and third parties.

In line with this, MoF should constitute and assign tax police to protect tax officials when conducting field surveys to detect unregistered taxpayers to be able to conduct their duties without fear of attack or harassment.

6.3 Policy Implications

The National Tax Service of Korea was established as a separate organization from the MoF in 1966 to mobilize more effectively the tax revenue needed to finance the country's government-led national economic development plan consisting of seven five-year plans that were introduced in 1962 and concluded in 1996. Based on the literature reviewed, the symptoms of weak tax administration suffered by Korea early in its development stage are not all that different from the conditions apparent today in a developing country like Iraq. This may lead one to the conclusion that the policy remedies may not be too different as well. Though it is difficult to precisely separate the effects of income growth, the dramatic rise in tax revenues in Korea can be primarily attributed to improved and more effective tax administration primarily driven by systematic improvement in tax laws and policies over the years. Moreover, one of the critical roles of the state, which was played early in the economic development was through the government's efforts to improve tax administration and root out corruption was critical in raising tax revenues. It required not only the full commitment of political leadership but also a massive collective and human effort by trustworthiness and honest, and fair tax officials. (Kim & Kim, 2011, p. 22)

Korean tax administration instituted various measures to address and deter future unreported income and tax evasion. In 1996, tax assessment was shifted from taxation based on government assessment to a voluntary assessment system. Before the voluntary income tax return system was instituted, the National Tax Service either assessed taxpayer's income tax liabilities based on their bookkeeping and other records or it accepted taxpayer income tax returns that complied with preset standards or that reported income above the preset standard income-to-sales ratio the

NTS established for specific business sectors, geographical areas, and business scales.

After abandoning the government assessment system, however, the NTS faced a significant challenge: how could it verify taxpayers' voluntary income tax returns? The most problematic areas were the business-to-consumer retail sectors with heavy cash transactions; examples include professional service sectors, hotels, restaurants, bars, salons, pharmacies, and other retail stores. Therefore, in the aim of conducting equitable taxing based on information and evidence, Korean tax authorities in 1999 introduced (TIETP) based on the rationale that presumes end consumers would provide third-party information encouraged by tax incentives. The basis was that through the use of the electronically traceable payment means for purchases, tax authorities could access secure and reliable sales data on cash-intensive businesses. Consequently, this tax incentive scheme was an effective measure in reducing underreporting by inducing retail businesses whose sales are reported by a third party (the consumers) to file truthful income tax returns and has contributed significantly to transforming the Korean economy into a cashless economy over the last decade and a half.

Most importantly, in 1997, NTS established an integrated ICT tax system to integrate all transaction data obtained from electronically traceable payments, including credit cards, debit cards, cash receipts in business-to-consumer transactions, e-invoices in business-to-business transactions, financial income information, property transaction information, and other third-party information provided by public and private institutions. The NTS now makes use of the system to verify taxpayers' tax returns and to analyze risk assessments and tax audits. The National Tax Service also

uses the system to provide improved taxpayer services by making prefilled tax return forms and other tax payment guide services available (Sung, Awasthi & Lee, 2017).

In more specific terms, the ICT tax information system formed the basic building block to operate TIETP in Korea. IT systems enable tax authorities to gain access to and to analyze financial transaction information. It would not be possible for TIETP to induce retail businesses' voluntary compliance if tax authorities were unable to collect and process this information.

In the same way, the successful introduction of a TIETP system would require a considerable amount of time and effort on its preparation by the Iraqi government. It also needs to have a certain level of computerization in the government sector and the financial sector. The government should study various aspects of introducing the system over a sufficiently long time. Besides, the government should seriously consider how the tax administration and the financial sector are prepared in terms of computerization. Such unpreparedness would be an open invitation to the disadvantaged taxpayers by the reforms to use it as a convincing reason and excuse to oppose the TIETP system. Ultimately, Computerization of the organization's systems would not necessarily increase revenue collections; there must be coupled with political will, good governance, and effective organization if it is to yield its potential for higher revenue.

6.4 Conclusion

Taxation is an important fiscal policy instrument at the disposal of governments to mobilize revenue and promote national development and economic growth.

Taxes not only give the needed economic revenue to the government to complete its expenditure and provide development to its people but also places citizens in the position of stakeholders, who are specifically facilitating the national development through the support of taxes to the government as a part of their commitment to national development.

Effective tax revenue mobilization reduces an economy's overdependence on flows of oil revenue export, which are always volatile. Consequently, it would give governments more flexibility in designing and controlling development agendas and facilitates its implementation.

Judicious utilization of the collected revenue from taxes will allow the government to redistribute income through the provision of an adequate infrastructure that would boost and improve the life quality of its citizen. Thus, it would help grow the economy in a way that benefits all citizens. Therefore, the government role on building taxpayer awareness on the benefits and importance of paying tax and the consequences of not paying tax.

It is hoped that the tax policy and institutional reforms in Iraq, as well as strategies to be geared towards the diversification to shift the economy from the historical over-reliance on the oil revenue. This would not only elevate the relatively minimal contribution of non-oil tax revenues but also improve the current 2% tax ratio to GDP so that taxation can become an essential instrument of fiscal policy.

Consequently, it would help to maintain macroeconomic stability and steady economic growth without resorting to foreign aid.

In this thesis, it was claimed that one reason for Iraq's poor tax revenue sourcing is the fact that it has a weak tax administration system. Therefore, Iraq has to depend mostly on strengthening tax administration to increase its tax revenue.

Based on the literature reviewed, a significant factor of the increased tax revenue is a function of an effective enforcement strategy, which is the pure responsibility of tax administrators. Iraq lacks the enforcement types of machinery which include among other things, adequate human resources, ICT systems, and effective communication system with other government agencies. This, among other issues, calls for increasing the autonomy of tax administration. Tax administration requires highly trained personnel that are a key requirement for tax administration's operations and organizational effectiveness. This is because people are the most important enabler for tax administrations to carry out their main mandate, which is to raise revenue for the government (Araki, Satoru, 2014, p.22) In this regard, more autonomy should be granted that would enable tax administration to hire the appropriately qualified personnel, reduce internal layers of management with its attendant bureaucracy and official red tape, buy the appropriate physical resources required for the job.

Conclusively, taxation is an excellent source of revenue generation. Therefore, the government should make the people have a sense of belonging by providing social amenities with revenue generated and then go after defaulters who should be made to face the wrath of the law. When that is done, the economic goal of taxation in Iraq will be achieved.

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Article 28 under the Iraqi Income Tax Law No. 113 of 1982

Abstract in Korean

정부 세입에 대한 조세행정의 역할:

이라크 조세의 일반 수수료에 관한 사례연구

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글로벌행정전공

본 연구는 재무부에 충분한 금융 자원을 제공해야 하는 세금의 효과적인 유통과 함께, 제 기능을 하지 못하는 이라크의 조세행정의 약점과 제한사항에 대한 분석을 시도 하였다. 이에 더해 본 연구는 한국의 조세행정 개혁 주제에 대한 문헌들을 조사하여 강조되고 있는 문제점들을 위한 제안을 제시하는 유용한 교훈 및 통찰을 도출하였으며, 이를 통해 향후 개발될 정책들을 형성하고 이라크에 적용하는데 기여하고자 하였다.

본 연구에서 주된 약점들과 제한사항들을 해결하는 주요한 자료와 이차적인 자료를 검토하고 분석하는데 질적 연구 방법을 사용하였다. 첫 번째 단계의 자료 수집은 이라크 소득세와 관련된 분석과 검토, 조세행정의 출판물들과 보고서들, 그리고 적극적 세금신고자들과 비교한 세금 체납자들의 수에 대한 이차적인

자료의 현장 수집을 통해 완성이 되었다. 두 번째 단계의 주요한 자료의 자료 수집은 이라크 조세를 담당하는 행정부처에서 18년 미만의 경력을 가진 3인의 부처 책임자들의 현장 인터뷰를 통해 완성 되었다.

본 연구에서 대부분의 문제들은 다른 것들을 포함한 조세행정 집행과정에서의 약점과 인적·물적 자원이 부족한 것으로 확인되었다. 정부의 지원의 부족과 조세 행정을 위한 보호와 특히 세무공무원들, 낮은 보수들과 동기부여를 할 수 있는 장려 제도, 그리고 기타 문제들을 본 연구에서 다뤘다. 최종적으로 언급한 문제들을 고려하여, 본 연구는 조세행정이 국가의 세입 유통과 전체적인 재정 건전성 향상의 핵심적인 역할을 하는 한국의 조세행정개혁의 경험을 토대로 강화될 수 있음을 제안하였다.

주제어: 조세행정, 조세개혁, 이라크, 정부 세입, 기술

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