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# *Iraqi Accounting, Finance and Tax overview*

Japan External Trade Organization (JETO)  
"Iraq Seminar for Japanese Companies"

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**pwc**



## *Agenda*

- 1 Iraqi Accounting System*
- 2 The Iraqi corporate income tax regime*
- 3 Trading in Iraq versus trading with Iraq*
- 4 The 35% tax rate on the oil and gas sector*
- 5 The Iraqi tax withholding system*
- 6 Customs duties*
- 7 Benefits enjoyed under investment laws*
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# ***Iraqi Accounting System***

Iraqi GAAP

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## *The accounting system in Iraq is based on (“Iraqi GAAP”)*

- The uniform accounting system (“Iraqi GAAP”) was first introduced to make available the minimum level of information necessary for the beneficiary parties particularly the shareholders and the employees of the company itself as well as to taxation authorities.
- The Iraqi GAAP was mainly applicable to the organizations in the social sector, however it is now the main source for the preparation of companies covered by Iraqi companies law account.
- The Iraqi GAAP specifies the types of records and books and the way they must contain financial information and explanation.



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## *The accounting system in Iraq is based on (“Iraqi GAAP”)*

- Financial accounts prepared according to Iraqi GAAP are to be adopted as a minimum standard for general requirements and the company may use additional information system including cost accounting and any statistical information in light of its needs and requirements of the sectorial parties.
- When computers are used in the preparation of accounts, the company must make available the required accounting information and explanation in accordance with Iraqi GAAP ensuring the possibility of checking and auditing in the regular methods.

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## *The accounting system in Iraq is based on (“Iraqi GAAP”)*

- By the application of regulations no. 2 of 1985, relating to records for tax purposes, certain categories of tax payers are required to keep the following books and records;
  - Journal;
  - General ledger;
  - Inventory stock cards;
  - Correspondences logbook.
- These books and records should be kept in the Arabic language, and should be maintained for a period of not less than seven years in Iraq.
- Books and records should be kept at the tax payer physical location within Iraq.

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## *The accounting system in Iraq is based on (“Iraqi GAAP”)*

- Applicable accounting standards Books and records may be kept electronically, provided that the journal is kept in a certain sequence, and the extracts of the system used is by way of schedules.
- The tax authorities may examine these records at any given time, the inspection is usually carried at the tax persons physical location.
- The journal should be attested by a notary public.
- The categories of tax persons that are subject to these regulations include; Companies registered in accordance with the Iraqi companies law, Branches of foreign companies registered in Iraq, Trade representative offices of foreign companies registered in Iraq.

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## ***Iraq - the accounting standards***

- The Board of Supreme Audit (“BSA”) is the official legislative body that is responsible for the issuance of accounting standards and policies in Iraq.
- The Audit Advisory Board (“AAB”) is responsible for organizing and supervising the auditing and accountancy profession within the “private sector” in Iraq, while the BSA is responsible for auditing governmental entities.
- The Chairman of the BSA is also the Chairman of AAB.



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## ***Iraq - the accounting standards***

- Iraqi organizations and foreign entities operating in Iraq must use the Unified Accounting System (“U.A.S”) for statutory reporting, including audited financial statements which must meet the requirements of the Tax Authorities, the Central Bank of Iraq (“CBI”), and the “Registrar of Companies.”
- The U.I.A.S has been last updated in the mid 90s.
- The U.A.S stipulates the use of a predefined Chart of Accounts codes (e.g. Fixed Assets - 11, Salaries and Wages - 31... etc).
- The Central Bank of Iraq has recently pre-announced to convert the financial statements for private banks operating in Iraq to the International Financial Reporting Standards (“IFRS”). However, this is not yet technically in effect.

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## ***Iraq - the accounting standards***

- Any organization may use any accounting standards internally or for any other reporting purposes. However, reporting to Iraqi regulators should comply with U.A.S. requirements.
- Organizations operating in Iraq should maintain their accounts and ledgers in Arabic.
- Reports must be issued to the Iraqi regulators in Arabic.
- Organizations can internally record their accounting transactions in any currency, however, audited financial statements submitted to the concerned authorities must be presented in the official currency of the country - Iraqi Dinars.
- Accounting treatment as per U.A.S may be ambiguous regarding certain international accounting policies, such as the treatment of the practice of a head office charging a certain percentage of its overhead to a contract being executed in Iraq, or the treatment of “management expenses” incurred by a head office in relation to activities of the entity operating in Iraq.



*The Iraqi corporate income tax  
regime*

2



## *The Iraqi corporate tax regime is based on a law that dates back to 1982 its instructions and CPA orders*

Income Tax law No. 113 of 1982

The Iraqi Tax regime is based on the application of the Income Tax law No. 113 of 1982, a relatively short law and simple containing 63 articles in total that deal with the definition of taxpayers, persons subject to tax, taxation of income, allowable expenses, administrative matters, collection mechanism as well as the appeal process. The Tax law is not comprehensive and remains silent on a number of important areas, largely untested in certain areas and practice and precedent in respect of matters not directly dealt with in the law often remains open to interpretation and application in a hazard and inconsistent manner.

Regulations No. 2 of 2008

A key test in determining whether a foreign company is taxable in Iraq is whether the foreign company is considered to be doing business “in Iraq” (i.e. trading activities subject to tax) or “with Iraq” (i.e. trading activities not subject to tax).

The Iraqi tax administration issued official guidance in the year 2008 clarifying what is regarded as business “in Iraq” and business “with Iraq”. Pursuant to that guidance, trading “with Iraq” (thus no subjection to tax in Iraq) will be assumed in a number of scenarios

### The development of the Iraqi corporate Tax system

CPA Orders number 49 and 84

The Income Tax law was amended by the Coalition Provisional Authority “CPA” Order 37, 49 and 84 of 2004.

The CPA orders were tailored made to address certain areas of concern to the Coalition activities in Iraq (mainly tax exemption for CPA contractors), created more grey areas (especially the Permanent Establishment concept introduced) and are considered to be repealed by the Iraqi Government, the only benefits were the reduced tax brackets, and the foreign tax credit concept which application is pushed back by the local authorities.

Law No. 19 of 2010

In February 2010, the Iraqi Presidency Counsel issued a new law that imposes income tax at the rate of 35% on the income realized in Iraq from contracts concluded by the Iraqi government with the foreign oil companies, its branches, offices, or subcontractors working in Iraq in the oil and gas production sector and related industries.

Under this new law, the contracts (activities) that will become subject to the new tax rate will be identified by way of regulations to be issued by the Ministry of Finance with the Ministry of Oil.

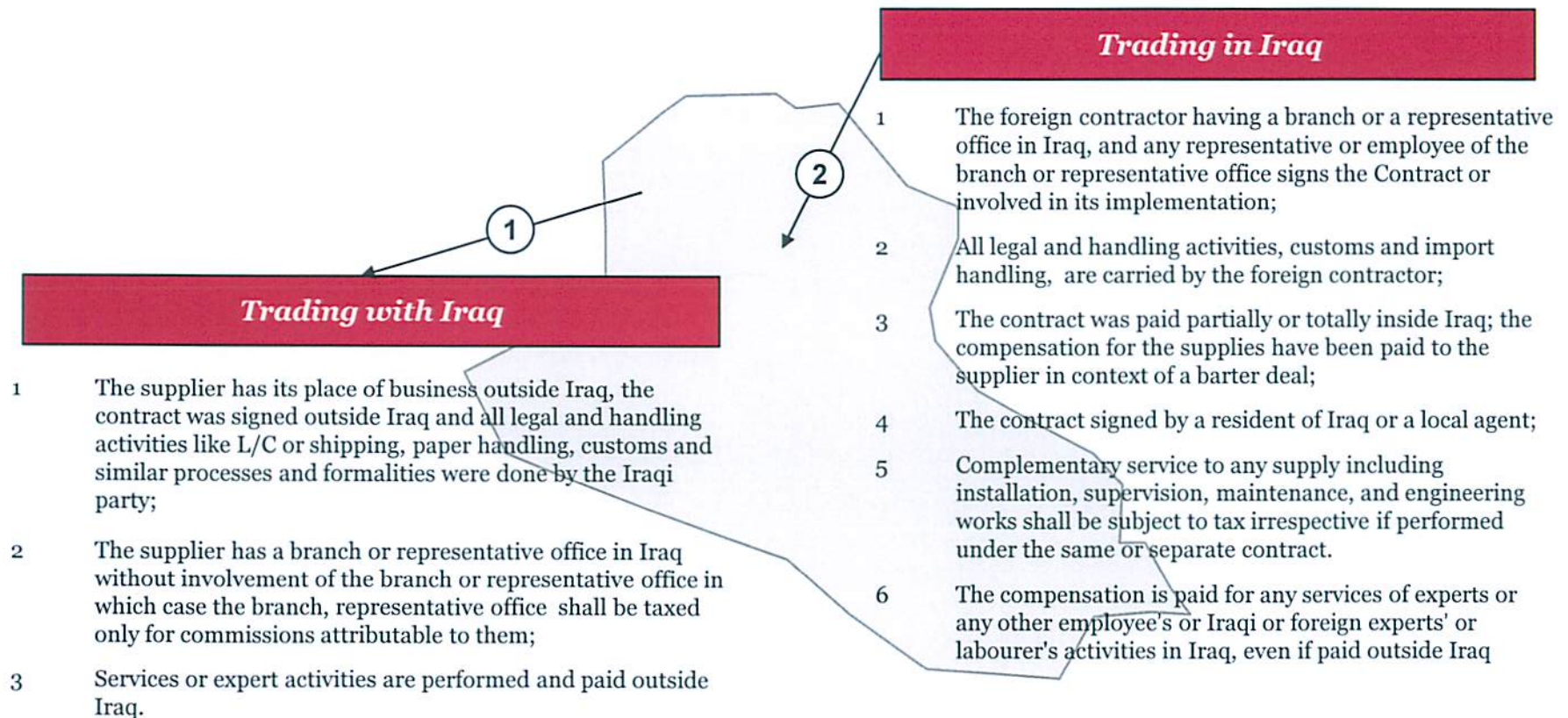


# *Trading in Iraq versus trading with Iraq*

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## *Taxation in Iraq is based on the concept of “trading in” or “trading with” Iraq, trading in Iraq is assumed where an “in Iraq” business element exists*

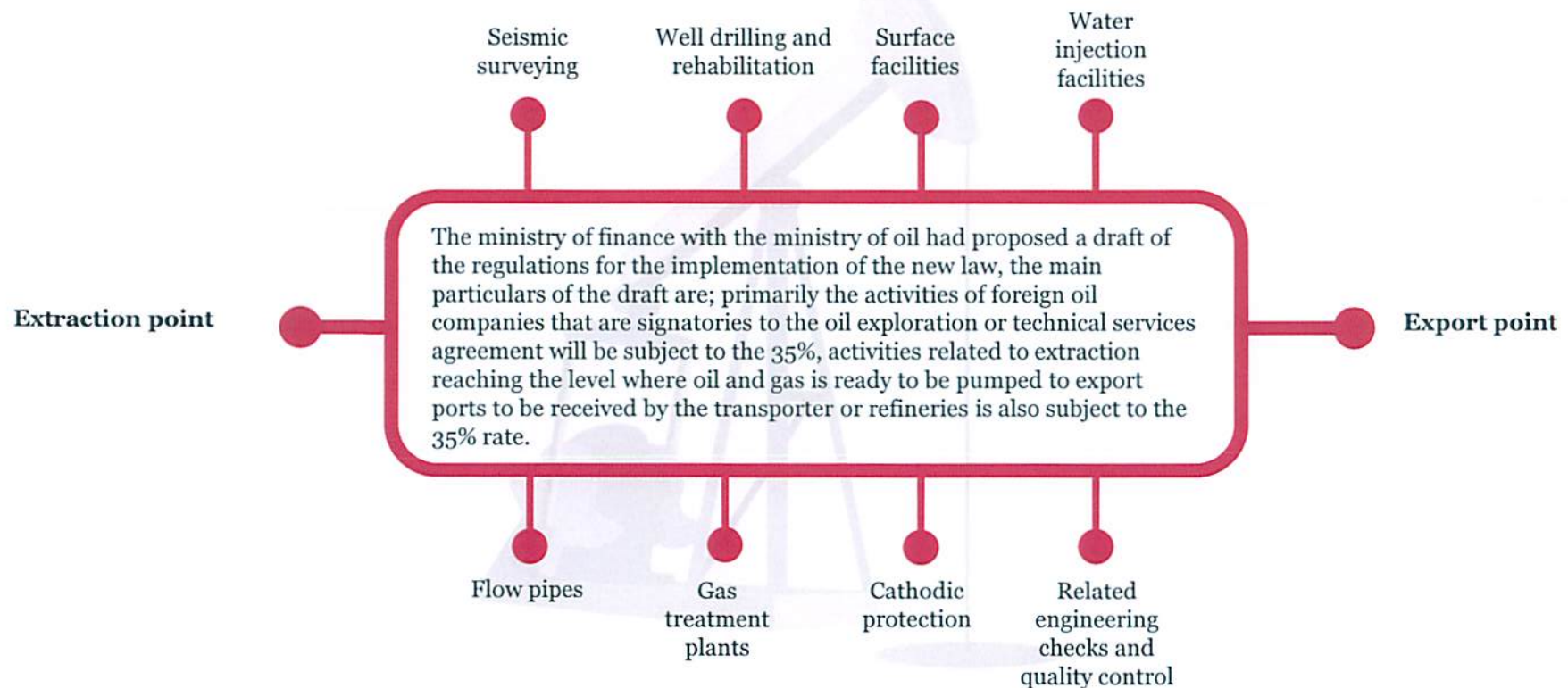




*The 35% tax rate on the oil and gas sector*

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***A new law imposing tax at the rate of 35% on the oil and gas production sector and related industries was introduced in 2010***



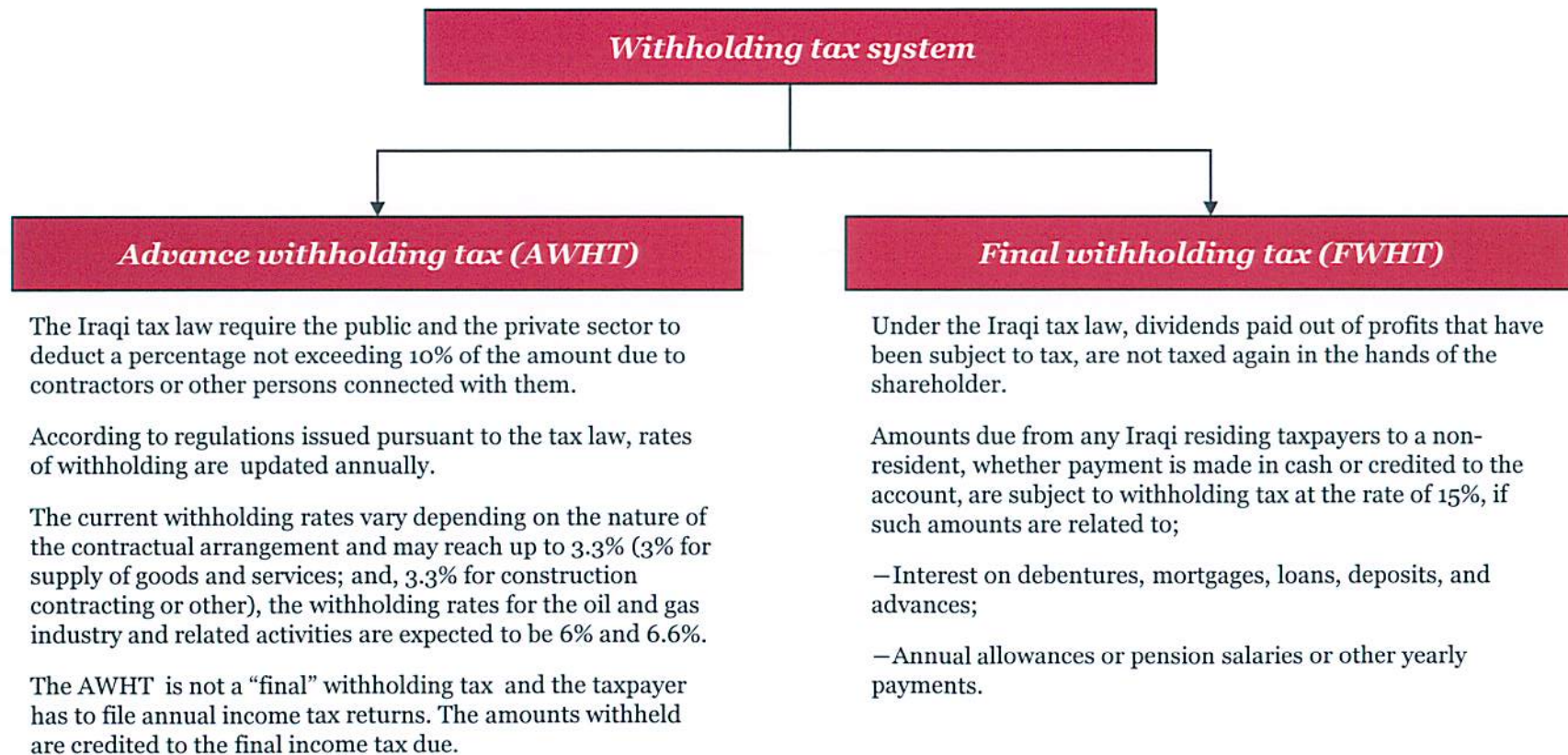


# *The Iraqi tax withholding system*

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## ***Iraq operates a tax withholding system which applies on some Iraqi sourced income***





# *Customs duties*

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## *The flow of goods into Iraq is controlled by the customs law No. 23 of 1984, which was suspended in 2004 by a CPA order*

### *Customs law No 23 of 1984*

The General Commission of Customs in Iraq applies the Customs Law No. 23 of 1984 with its amendments in regards to customs duties.

### *CPA order No. 54 of 2004*

Under the CPA order No. 54, all customs tariffs, duties, import taxes and similar charges for goods entering or leaving Iraq were suspended until the sovereign transitional Iraqi administration imposes such charges. The CPA orders levied a flat rate of 5% (Reconstruction Levy) on goods imported into Iraq with certain exemptions for example, food, medical equipment, clothing, books, imports of the type exempted under the Vienna Conventions on Diplomatic Relations of 1961 and Consular Relations of 1963 and imports exempted under the Convention on the Privileges and Immunities of the United Nations.

### *The custom tariff law of 2010*

The customs duty system and procedures in Iraq is currently evolving. In March 2010, the Iraqi Presidency Counsel issued Law 12 of 2010 (Custom Tariff Law). The new Custom Tariff Law shall become effective after three months from publishing in the official gazette. The new law comprises only 11 articles and primarily addresses custom duties on goods imported into Iraq. The law notes that customs duties shall be levied based on percentages set in the custom tariff and agricultural agenda that is annexed to the Custom Tariff Law. For the purposes of the Custom Tariff Law, the custom tariff and agricultural agenda shall mean the schedule comprising itemized codified, section and notes based on the international harmonized system adopted by the world customs organization. In addition to these rates, a custom tariff not exceeding 20% of value will be levied on imported items that are not listed in the custom tariff schedule. The custom tariff agenda is not introduced as yet accordingly the Reconstruction Levy continue to applies.



*Benefits enjoyed under investment  
laws*





# *Projects granted investment licenses enjoy many benefits under the investment law*

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## *Investment law No. 13 of 2006*

- The Investment Law grants projects covered by provision of the Law the necessary privileges and guarantees for its continuation and development by providing support in a way that enhances the competitive capacities of these projects in the local and foreign markets.
- Under the Investment Law, Governorate Investment Commissions are responsible for issuance of Investment licenses in the governorate or region where the project is situated.
- The benefits offered to investors under the Investment Law can include tax and duties exempting for a period of 10 years as the date of commencing commercial operations, the level of tax exemption is based on the areas of development, and the benefits of the project to the national economy.
- The guarantees offered to investors under the Investment Law include the right to employ and use non- Iraqi workers in case it is not possible to employ an Iraqi with the required qualifications and capabilities.

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## *Prime development projects*

- Under Regulation that were issued in the year 1982 and ratified in 2010, contractors (Iraqi and Foreign) that are implementing projects classified as prime development projects, may be exempted from tax on the profits arising to the contractor under such project.
- In order for the exemption to apply, the project should be allocated for under the state budget that is approved by the Iraqi Parliament.

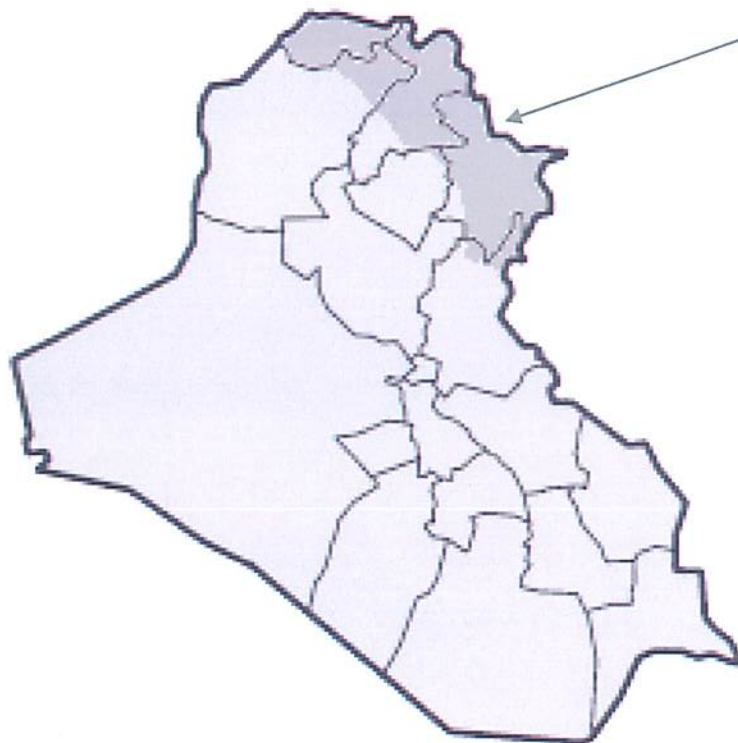


# *The Kurdistan region*

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## *The income tax regime in the Kurdistan region is similar to that applicable in other parts of Iraq.*



### *Kurdistan regional authority*

- The tax regime in KRG is based on the application of the Iraqi tax law and KRG tax law which levies tax at a rate that could reach up to 40%.
- Under the Iraqi tax law, a taxpayer is liable to tax for income arising from any source in KRG in the tax year (the year prior to the year of assessment) that income is not taxed again in other parts of Iraq, the KRG government is responsible for the collection of tax.
- The oil and gas sector in KRG is regulated by a special law, under which tax exemptions may be offered.
- Under the Model Profit Sharing Contract ("PSC") issued pursuant to the oil and gas law, tax benefits are offered to International Oil Companies and their subcontractors on profits realized from KRG under such contractual arrangements.
- These exemptions extend to individual tax that is levied on non-Iraqi individuals working in Iraq.



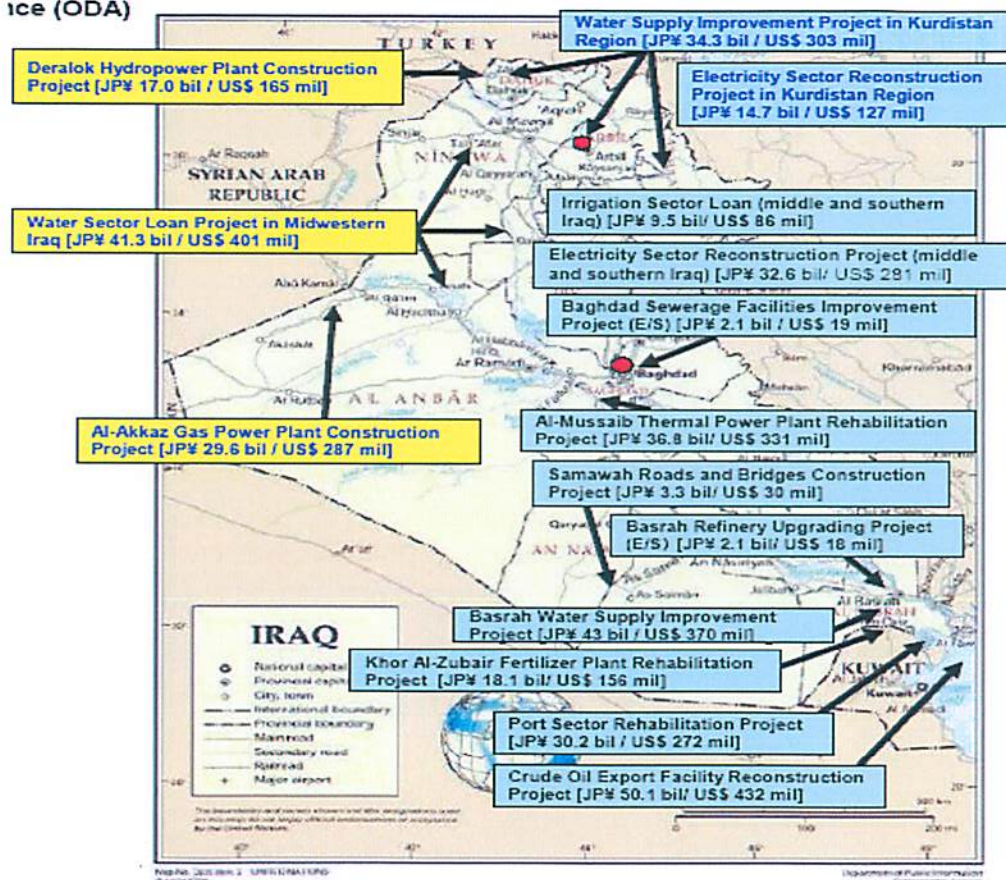
# *Japan's Assistance program*

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# Japan's Assistance for the reconstruction of Iraq and tax benefits embedded

ice (ODA)



## Kurdistan regional authority

- In the Madrid Conference (October 2003) Japan pledged up to \$ 5 billion of assistance for the reconstruction in Iraq, this includes grant aid of \$ 1.5 billion for the emergency assistance on basic infrastructures Reconstruction in various sectors and loan assistance of \$ 3.5 billion, also Japan pledged an additional \$ 100 million of grant aid.
- In the year 2007, the Government of Japan and the government of Iraq exchanged notes on the loan assistance to Iraq, the projects covered include electricity, transportation, water and sanitation oil, agriculture, etc.
- In the year 2010 the Government of Japan and the Government of Iraq signed and exchange of notes on three new projects (\$ 0.85 billion) in the fields of power plant and water supply.
- Japanese companies that are implementing projects under the above program enjoy certain tax benefits.



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*Thank you...*