

Patryk Karczewski
Amereller, Dubai
pk@amereller.com

Omar Abdullah
Amereller, Erbil and Dubai
omar@amereller.com

Recent developments in international taxation: the Republic of Iraq and the Kurdistan Region

Introduction

Amid the rapid changes to the tax landscape in the Middle East, the Republic of Iraq and the Kurdistan Region are perceived as jurisdictions where tax regulations appear to be somewhat outdated and are outliers when assessed against international standards.

For example, Iraq is one of the few countries that do not have in its tax laws a clear provision on how to define a permanent establishment, instead using a rather outdated approach that involves assessing whether the activity performed by a non-resident entity falls within the boundaries of trading 'with Iraq' (non-taxable for the non-resident) or 'in Iraq' (taxable in Iraq for the non-resident).

This old-fashioned approach to tax legislation was noticed by Iraqi politicians and, over the course of the past 12 months, the Republic of Iraq and the Kurdistan Region have undertaken substantial legislative and administrative reforms to their respective tax regimes. These measures are aimed at:

- enhancing revenue mobilisation;
- fostering greater fiscal discipline;
- reducing reliance on hydrocarbon-derived revenues; and
- advancing institutional modernisation.

The present document provides a summary of the principal developments to tax legislation in the country, highlighting the key statutory instruments and administrative directives promulgated within the last 12 months.

The Republic of Iraq: legislative and administrative measures

Formation of the Supreme Committee for Tax Reform and first initiatives

Pursuant to Executive Order No 23092/2023, issued by the Iraqi Council of Ministries, the Prime Minister's Office issued an executive decision, in March 2024, to establish the Supreme Committee for Tax Reform (the 'Committee').

The Committee has been vested with a broad mandate to:

- conduct a comprehensive review of existing tax legislation, including but not limited to the Income Tax Law No 113 of 1982 (as amended);
- propose reforms to the tax base, rates and exemptions in order to align them with international best practices; and
- oversee the implementation of technological and governance-related enhancements by the General Commission for Taxes (GCT).

Currently, tax legislation grants significant arbitrary powers to the GCT that impact the certainty of the application of the law and deter foreign investors from funding initiatives in Iraq, as tax due diligence has become a standard element of all investment processes.

Therefore, any attempts to change the tax landscape in the country are more than welcome.

Following its formation, in October 2024, the Committee signed a Memorandum of Understanding with the International Tax and Investment Centre (ITIC), a non-profit research and education organisation that promotes tax reforms, in order to monitor the implementation of tax reforms in Iraq.

In furtherance of its modernisation agenda, the Committee initiated the following administrative reforms during the reporting period:

1. Deployment of a centralised electronic archiving and digital tax inquiry system to reduce administrative latency and procedural inefficiencies.

The platform allows users to inquire about their tax status through the 'Ur' electronic services channel. This was the first step in a significant review of the existing records and a clean-up of the database to eliminate name duplications that took place, which is a step towards greater transparency.

2. Budgetary allocation for the acquisition and implementation of the Integrated Tax Administration System (ITAS).

Many tax administrations across the world have already adopted electronic channels to exchange information with taxpayers and this trend was noticed by the Iraqi administration, which led to a green light being given to the implementation of the ITAS. The system, once implemented, will provide an opportunity for the adoption of other important tax reforms, such as the introduction of the self-assessment tax regime.

Currently, Iraqi tax provisions require a significant amount of involvement by the GCT in regard to assessing tax liabilities. A taxpayer files their return and then awaits the tax authorities' response in regard to the amount of tax that will be imposed by the GCT on them. In light of the very broad provisions on income tax in the country, this approach creates significant inconsistencies in terms of how the law is applied.

The introduction of the self-assessment tax regime has been on Iraq's radar for quite a while and is also supported by the International Monetary Fund (IMF). Budgetary approval for ITAS is the first step towards the introduction of the self-assessment tax regime, which will involve returns being reviewed based on the risk profile of the taxpayer and a presumption of correctness will be applied to documents submitted by taxpayers.

3. Expansion of the tax base in regard to healthcare and social media.

The Committee has mandated the screening of all taxpayers registered with the tax authorities, with a recommendation to include professions and sectors currently not registered and covered by income taxes, such as healthcare professionals (doctors, pharmacists, dentists, etc), as well as healthcare providers like private hospitals. The actual methodology of the tax calculations and the legislative framework for those sectors are under development at the moment.

Furthermore, the Communications and Media Commission (CMC), the authority that regulates access to the media, announced in March 2025 that social media users with large followings will be required to pay an annual fee, similar to a tax. The fee amount will be

calculated based on the person's number of followers and will range from IQD250,000 to IQD1m (approximately \$190 to \$770). That move has been followed by a recommendation from the Committee to include influencers and other entities deriving revenue from online activities (e-commerce) in the income tax system.

4. Change in GCT practice related to deductible costs.

Up until recently, Iraqi tax authorities tended to overlook the rules set by Article 8 of the Iraqi Income Tax Law regarding the deductibility of business expenditures. Income tax law stipulates that expenses incurred by a taxpayer in order to produce the income that year shall be deductible by the taxpayer. In practice, the GCT disregarded the actual expenses reported by the taxpayer and was assessing tax using Article 32 of the Income Tax Law, which is very broad and obliges the GCT to assess tax 'on the basis of the actual income'.

However, recently, due to pressure from the Committee and in order to promote transparency, the GCT has started accepting actual business expenditure reported by taxpayers, as long as they are within the boundaries set by Article 8 of the Income Tax Law.

These measures are designed to enhance transparency, reduce discretionary authority and curb opportunities for corrupt practices.

A reported increase in revenue collection

The Federal Ministry of Finance disclosed in March 2025 that total tax revenue collections had reached IQD3.755tn (almost \$3bn), representing a 22 per cent year-on-year increase. This improvement is attributed to enhanced enforcement measures, broader taxpayer inclusion and the effective operationalisation of recent reforms.

The Kurdistan Region: regional legislative developments

Tax relief for small taxpayers and low-income earners

Pursuant to a directive issued in March 2024, the Ministry of Finance and Economy of the Kurdistan Regional Government (KRG) ordered a 50 per cent reduction in the estimated annual income tax liabilities of qualifying individuals, particularly low-income professionals and sole proprietors. This relief measure is predicated on the principle of equity in taxation and has been issued in response to the ongoing economic volatility in the Region.

Temporary suspension of taxes for select economic sectors

A subsequent directive, effective from August 2024, provides for the suspension of regional tax assessments applicable to the following sectors:

- restaurants and food service establishments;
- the hospitality sector (inclusive of hotels and guesthouses);
- private medical facilities; and
- commercial bakeries.

This temporary moratorium is intended to mitigate the inflationary impact of taxation on essential services and to alleviate cost pressures on end consumers. Also, tax on vacant land (otherwise known as the 'white land tax') has been temporarily suspended. The duration of the suspension is unknown as it is tied to the introduction of the relevant legislation and agreements with federal agencies.

The Intergovernmental Fiscal Coordination Agreement

In July 2024, representatives of the KRG and the Federal Government entered into a bilateral understanding addressing several contentious tax issues, including:

- mutual recognition of tax exemptions granted by the KRG under its legislative competence;
- the clarification and resolution of federal tax liabilities attributed to industrial undertakings operating within the Region;
- the resumption of federal fuel subsidies for regional factories;
- the harmonisation of tax collection protocols and enforcement procedures; and
- the establishment of joint mechanisms for combatting tax evasion.

This accord signifies a critical step towards legal harmonisation and intergovernmental cooperation on fiscal governance.

Conclusion

The described developments signify a concerted and deliberate effort on the part of both federal and regional authorities to recalibrate the fiscal architecture of Iraq in accordance with principles of equity, efficiency and sustainability. While significant progress has been achieved in regard to the principles of the legislative reform and administrative modernisation, the long-term efficacy of these measures will depend upon robust enforcement, institutional transparency and continued intergovernmental collaboration.

One of the crucial elements in the push towards Iraq becoming a modern tax jurisdiction is the implementation of ITAS and the efforts to curb the inconsistency in the application of the country's tax laws. The timeline of the ITAS implementation has not been published yet. However, the establishment of the Committee and the regular reporting on the progress of the reforms to the Iraqi leadership that is taking place highlights the dedication of the stakeholders to modernise the tax system.