

## Determinants of tax policy in achieving economic goals in Iraq

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**Abstract:** The research aims at determining the fiscal policy to promote the country's economic growth and stability. In order to reach this goal, it is required to rely on the deductive approach of indications of tax revenues data and performance indicators of Iraq's fiscal policy for the duration (2003-2022), The research found that there were limitations to the functioning of fiscal policy in achieving Iraq's economic objectives, requiring fiscal policymakers to override all those determinations by reviewing performance indicators and drafting a tax law that delineates the entire tax system.

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**Key words:** Determinants, tax policy, economic growth, economic stability.

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**Introduction :** Tax policy has always had economic goals other than its financial and social goals, which derive their functions from fiscal policy, achieving correction of the course of the economic cycle in recovery and contraction and redistribution of income in favor of reducing poverty rates.

The Iraqi economy, being a country dependent on oil revenues, has limited tax revenues in light of an expansionary financial policy that works to reduce taxes by including the economy with exemptions and financial spaces in order to stimulate the economy and eliminate social differences between classes. However, this mechanism did not work automatically as prepared for it in light of the presence of economic policies that did not support the tax policy and kept the Iraqi economy hostage to rentierism. This coincided with the characteristics of the Iraqi economy, which has infrastructure and a dilapidated production base that aborted the work of the tax policy in implementing economic reforms that revive the movement of the Iraqi economy. It addresses the imbalances to redistribute income towards those with limited income and improve living conditions, leading to social and economic well-being in the country.

### **General framework for research**

**Research problem:** The problem lies in trying to answer the following questions:

What is the impact of tax policy on the achievement of economic objectives in Iraq?

- How can tax performance be reformed to enhance economic efficiency and growth?

What are the determinants facing tax policy in Iraq?

**Research hypothesis:** The research hypothesis is based on the following (there are determinants that hinder the work of tax policy in achieving its overall economic goals in the country).

**The importance of the research:** The importance is highlighted in shedding light on the determinants of tax policy in an economic environment marred by dependence on oil rents to finance public revenues and the weakness of the production base in light of the economic recession, thus finding ways out to achieve economic goals in Iraq.

**Research objectives:** The research seeks to achieve the following objectives:-

1- Addressing the theoretical aspects of tax policy and its economic objectives.

2- Explaining the determinants of tax policy affecting the achievement of economic goals in the country.

3- Develop proposals and recommendations to monitor tax policy.

**Research methodology:** Descriptive analytical approach to analyzing tax data, unemployment rates, and inflation, with a quantitative approach to measuring the determinants of tax policy in Iraq.

**Limitations of the research:** Spatial boundaries are represented by the Iraqi economy, while temporal boundaries are represented by duration (2003-2022).

### **The first axis: the theoretical aspect**

#### **First: Definition of tax policy**

There are many definitions of tax policy according to the point of view of writers and researchers, but they do not deviate from the framework of what is listed in the following table: -

**Table (1) Definitions of tax policy**

Se.	Source	Definition
1	(hijazi, 2001:7)	"The set of programs that the government intentionally plans and implements, using all actual and potential tax tools to create certain effects and avoid other effects in order to be compatible with society's economic, political, and social goals."
2	(Othman and Al-Ashmawy, 2007:320)	"The set of integrated programs planned and implemented by the state, using its actual and expected tax sources to create desirable economic, political, and social effects, and avoiding undesirable effects in order to achieve the goals of society."
3	(qodi, 2011:109).	"The set of decisions, procedures and measures adopted with the aim of establishing and organizing tax deductions according to the objectives of public authorities."

Thus, the elements of tax policy emerge in the following points (Al-Anbaki and Abboud, 2018:34):-

1 - The set of objectives that tax policy seeks to achieve economically, financially, socially and politically.

2- The means and methods used to achieve these goals, which in turn consist of two parts:

- ✓ The tax structure on which the tax policy is built.
- ✓ The technical regulation of taxes includes all the technical rules and provisions that determine the amount of the tax burden by determining the tax base, tax price, tax exemptions, and tax collection.

**Secondly: the objectives of economic tax policy**

The breadth and diversity of the purposes sought to be achieved by tax policy has led to it becoming a goal not only to finance public revenues, but also to consider it a tool in the hands of the government to carry out the functions of the state, which include mobilizing resources to redistribute income, achieving growth, and maintaining the stability of macroeconomic policies by achieving the following points.(Al-Ali, 2011:328):-

**1- The role of tax policy in supporting economic stability**

**A- Confronting inflationary gaps (inflation):** This gap expresses an increase in aggregate demand over aggregate supply; Which leads to economic imbalance. This phenomenon is one of the most important causes of the imbalances that these economies suffer from. Using the tax system and its policies is the indirect method in financial policies to confront these gaps, This is done by imposing these taxes to influence the consumption and saving factor. A high level of tax imposed on individuals' incomes leads to a decrease in disposable personal income, and then a decrease in the volume of consumption and saving, and then a decrease in the volume of aggregate demand. The role of the tax system is that it is one of the most important means of treating inflationary gaps, by using so-called contractionary fiscal policies to limit the increase in aggregate demand. Taxes are the most important tools used, by raising the tax rates imposed and introducing new taxes that limit the increasing purchasing power of individuals. This is in addition to using the progressive tax method, which works to absorb purchasing power from segments with high incomes (Muhammad, 2022:229).

**B- Confronting deflationary gaps (recession):** These are the gaps resulting from a decrease in aggregate demand from aggregate supply, which leads to a decrease in aggregate demand from aggregate supply, which leads to a decrease in economic growth rates. Due to the weak purchasing power of individuals, which then leads to stagnant markets and lower prices. In contrast to the method of addressing and confronting the inflationary gap, the state here uses what is called expansionary fiscal policy by reducing the tax rates imposed to support the purchasing power of individuals and push them to consume. Which prompts producers to increase their production and face unemployment problems (Al-Moussawi, 2017:15).

**2- The role of tax policy in achieving economic growth**

Economic growth is one of the most important goals of the economic tax policy that you are looking for. This is done by increasing the amount of money collected from fees and taxes, as well as maintaining economically acceptable levels of effective demand that ensures moving the wheel of the economy on the one hand and controlling the levels of monetary and economic controlled inflation. In addition, achieving economic stimulus policies for more local production to move the wheel of the economy and reduce unemployment levels in Iraqi society by taking into account tax rates on investment, production, capital, and profits (Sumaisim, 2015).

**The second axis: Analysis of the reality of tax policy and economic goals in Iraq**

**First: An analytical view of the reality of tax policy in Iraq**

**1- Characteristics of tax policy in Iraq**

A - Iraq suffers varyingly from a severe deficiency and weakness in the accuracy of data on the activity of economic units due to the weak efficiency of statistical agencies, including the tax system, which suffers from clear weakness and inefficiency in counting tax bases, let alone collecting them Therefore, indirect taxes decrease despite the ease of

collecting them and the reliance on direct taxes shown in Figure (1) due to the ease of identifying taxpayers compared to indirect taxes, which are characterized by tax evasion.

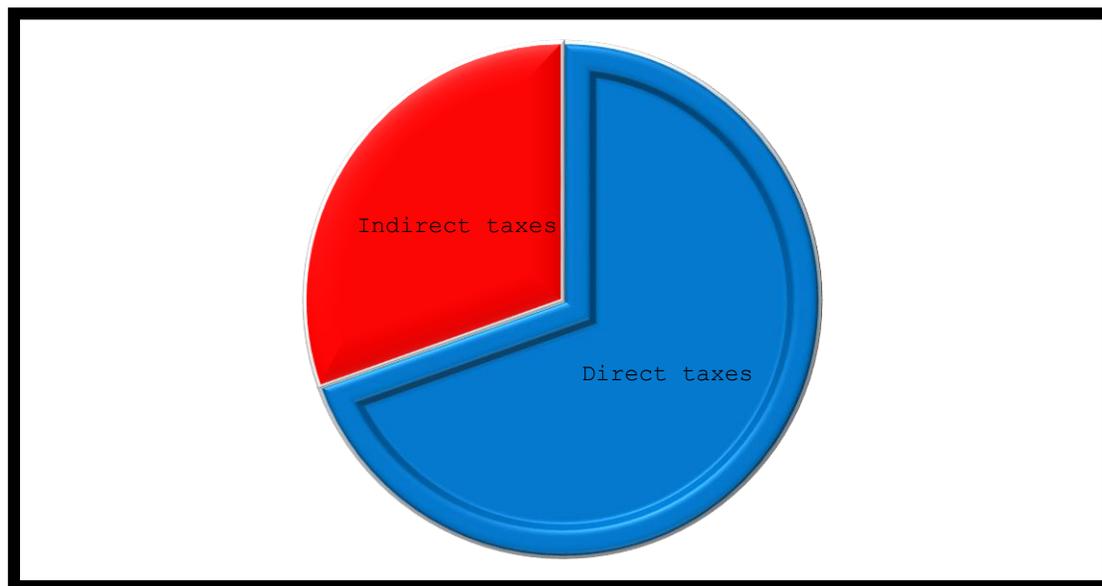


Figure (1) Relative composition of direct taxes and indirect taxes in Iraq

B - The number of taxable persons to the population does not exceed (1%) if we exclude employees who are subject to direct withholding tax on their personal income, and the tax burden does not exceed (4%), and its reason is due to high inflation rates and variation in the exchange rate, and this The percentage is not proportional to the tax rates in most other countries.

C- The weak efficiency of the tax administration compared to developed countries and its adoption of backward methods and methods in determining the tax base and its inability to reach most of the tax bases, with the accompanying backwardness of methods of inventory and linkage and weak tax awareness. which exceed (20%).

D - The lack of clarity in the laws, controls and instructions for tax policy among taxpayers reflects negatively on tax accounting procedures and thus makes the tax lose one of its basic pillars, which is tax simplicity, because this will be a reason for the practice of administrative and financial corruption.

E - The instability of tax legislation and regulations, which reinforced the confusion of the tax administration, as the increase in tax laws and the diversity of controls and circulars that appeared as a result of the increase in the number of taxpayers and the diversity of tax activities, which doubled the burdens on the tax administration in finding ways to increase the awareness of taxpayers about the tax and increase the efficiency of the appraiser in Conducting the tax accounting process.

F - The multiplicity of tax laws in Iraq, in addition to the government’s intention to include articles related to tax in the annual budget law and not in a single special law.

## 2- Tax revenue growth rate

The annual growth rate is an important indicator for analyzing trends in tax revenues, through which it is possible to identify the directions of tax policy towards economic goals. Which we include in Table (1), which shows the growth rate of annual tax revenues and their ratio to national income as follows:-

**Table (1) Growth rate of tax revenues and their ratio to national income in Iraq for the period (2003-2022)**

year	tax revenue	national income	Growth rate of tax revenues (%)	Taxenergy (%)
2003	32,348	29,618,507.0	—	0.1
2004	209,820	53,311,558.7	548.6	0.4
2005	647,355	74,622,598.6	208.5	0.9
2006	739,544	96,902,093.4	14.2	0.8
2007	1,765,503	113,163,014.7	138.7	1.6
2008	2,916,838	165,421,918.9	65.2	1.8
2009	3,335,125	134,264,467.4	14.3	2.5
2010	1,503,516	163,926,503.5	-54.9	0.9

2011	1,408,184	217,091,235.4	-6.3	0.6
2012	2,311,139	255,460,517.9	64.1	0.9
2013	2,518,684	243,518,658.0	9.0	1.0
2014	2,570,851	236,708,036.0	2.1	1.1
2015	2,622,941	162,739,468.0	2.0	1.6
2016	4,531,042	16,563,4417.0	72.7	2.7
2017	7,089,240	183,436,173.0	56.5	3.9
2018	6,817,312	217,753,872.0	-3.8	3.1
2019	4,941,615	224,162,218.0	-27.5	2.2
2020	5,519,780	182,384,472.0	11.7	3.0
2021	5,674,124	241,238,269.0	2.8	2.4
2022	5,169,333	—	-8.9	—

Source: Prepared by the researcher based on data

(1) Ministry of Finance, Economic Department, unpublished data series.

(2) Central Bureau of Statistics, Directorate of National Accounts, Domestic Product and National Income Reports.

\*Data not available for 2003 and 2022.

We note from Table (1) that tax revenues suffer from weak growth, as they did not exceed (7) trillion dinars at best, due to the tax system in Iraq, which suffers from backwardness, stagnation, and the spread of financial and administrative corruption, in addition to the fact that the investment environment is not attractive to the sector. Private, which negatively affected economic activity. And Low growth in tax revenues means weak tax effort, which was measured through the concept of tax capacity, which is defined as the productive capacity of the national economy valued at current prices minus the level of basic consumption. Or in other words, it is the maximum amount of revenue that can be collected through taxes within the limits of national income and its composition without prejudice to the social considerations of taxpayers. It ranged between (4-0.1%) of the total national income. It is low compared to developed countries, which range between (30-20%), and the low tax percentage of national income in Iraq negatively affects the government's ability to achieve its economic goals. This shows that the absorptive capacity or cost capacity of the national economy (the economy's ability to bear the imposition of more taxes and fees) is available. In other words, the greater the absorptive capacity of the economy means the possibility of increasing public revenues.

### Second: An analytical view of the objectives of economic tax policy

The tax policy seeks to achieve the economic goals of the Iraqi economy, which are represented by two main goals:-

#### 1- Economic stability

Tax policy is necessary to achieve economic stability, as the tax can be used to absorb the surplus from the monetary mass and thus reduce aggregate demand, which leads to alleviating the burden of inflation. The state can also, through its use of tax policy, achieve economic stability by addressing the deflationary gap by by granting tax incentives to investors or reducing tax rates and increasing tax exemptions (Qadi: 109).

Table (2) Inflation and unemployment rates in Iraq

year	Unemployment rate (%)	Inflation rate (%)
2003	—	—
2004	28.1	33.5
2005	26.8	26.8
2006	17.9	37.1
2007	17.5	53.1
2008	11.7	30.9
2009	15.3	12.7
2010	14.0	8.3
2011	12.0	2.5
2012	8.3	5.6
2013	11.9	6.1

2014	13.7	1.9
2015	10.6	2.2
2016	10.7	1.4
2017	10.8	0.1
2018	13.8	0.2
2019	12.9	0.4
2020	12.8	-0.2
2021	13.8	0.6
2022	14.6	6.1

**Source: Prepared by the researcher based on data from: Ministry of Planning, Central Bureau of Statistics, Annual Statistical Collection.**

We notice from Table (2) the relative stability in unemployment and inflation rates. This is not due to the role of tax policy in achieving economic stability because it is not effective as one of the financial policy tools in supporting monetary policy in reducing inflationary pressures and reducing unemployment, thus avoiding the occurrence of recession and deflation and overcoming economic crises. As a result of the decrease in the tax burden (low tax bases and failure to impose new taxes) and as a result of the weakness of the private sector's work for various legal and technical reasons, which led to the failure to reach full employment of resources and thus the relative rise in unemployment rates, the inflationary pressures that the economy suffers from in light of the relative stability of the exchange rate by the central bank result from imported demand. Monetary policy after 2020 was guided by various measures, as the Central Bank issued several laws that would enshrine the role of the Central Bank in managing its monetary policy independently, most notably the issuance of treasury bonds and their sale to commercial banks and stock markets. These measures worked to reduce the money supply and transfer purchasing power from the hands of individuals to the government and reducing inflation rates in 2022.

## 2- Economic growth

The effectiveness of tax policy is highlighted in organizing the efficient work of economic resources in the economy. Tax and customs policies have included granting exemptions to stimulate economic sectors, such as granting exemptions to the industrial sector and the agricultural sector in accordance with applicable laws to facilitate their work. In fact, the financing role of the tax system in mobilizing tax revenues and directing them towards productive investments is limited because it did not contribute to increasing aggregate demand and creating a government spending multiplier mechanism in generating increases in production, employment, and employment and emerging from the state of recession. Due to the lack of harmony in the work of economic policies with the financial policy in the tax administration, these conflicting policies led to the weakness of the work of the productive apparatus according to a trade policy that adopted an open-door policy for imports, which led to the widening of the channel of monetary leakage abroad, in addition to the monetary policy following the exchange rate as a nominal stabilizer. Except for the last two years, which was reflected in the weak work of real sectors which led to the expansion of financing the GDP from oil and the weakness of other activities. The gross domestic product is fueled by crude oil. This can be included in the following table:-

**Table (3) Percentage of economic sectors' contribution to the gross domestic product in Iraq for the period (2003-2022)**

year	million dinars				
	GDP (at current prices)	The Oil Sector (%)	Agricultural Sector (%)	Sector Industry (%)	The Service Sector (%)
2003	29,894,476.2	59.2	7.1	5.9	27.8
2004	53,499,238.6	57.7	6.90	3.9	31.6
2005	73,911,088.3	57.5	6.85	5.7	29.9
2006	96,067,160.6	55.2	5.80	5.9	33.1
2007	111,961,230.2	52.9	4.91	6.9	35.3

2008	158,443,584.4	55.2	3.81	7.0	35.5
2009	131,632,210.0	43.0	5.19	8.6	43.2
2010	163,104,739.2	45.1	5.13	10.3	39.4
2011	218,617,834.8	35.1	4.54	9.1	33.3
2012	255,727,068.5	49.8	4.10	10.5	35.7
2013	274,745,875.0	46.0	4.80	11.4	37.8
2014	267,262,787.8	43.9	4.91	11.2	40.0
2015	196,203,013.3	33.4	4.15	11.6	50.9
2016	198,774,369.4	34.1	3.94	11.6	50.3
2017	224,636,323.2	38.9	2.89	11.1	47.1
2018	272,083,889.0	46.5	1.92	8.9	42.7
2019	276,157,900.0	40.6	3.7	11.6	37.9
2020	217,413,594.1	29.1	5.8	10.3	55.0
2021	301,152,800.0	45.5	3.1	8.0	43.4
2022	383,062,200.0	57.0	2.9	5.4	34.7
average time		46.3	4.6	8.7	39.2

Source: Prepared by the researchers based on data from: the Ministry of Planning, the Central Bureau of Statistics, the Directorate of National Accounts, domestic product and national income reports, different years.

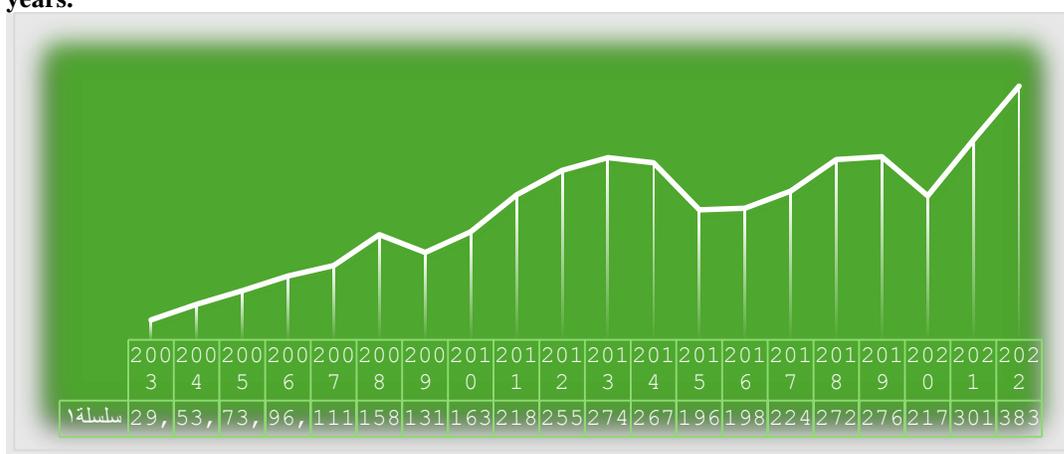


Figure (2) Trends in GDP growth in Iraq for the period (2003-2022)

We note from Table (3) and the figure attached to it that the contribution to the gross domestic product is in a state of relative increase and that its contribution is largely focused on the oil sector, which exceeded the rate of (46.3%), while the contribution of other sectors is very limited, which as a whole constituted a rate of (63.7%), as it constituted The contribution of the economic sectors, as an average period, is the agricultural sector (4.6%) and the industrial sector (8.7%) and the services sector (39.2%), This constitutes a problem faced by tax revenues because they derive their revenues from the activity of various economic sectors, which has contributed to the weakness of tax revenues and the lack of expansion of the tax base despite the government's tireless efforts to make tax policy work to support investment and advocate for the work of the private sector, which contributes to the movement of economic activity and the supply of GDP. Gross domestic product and thus increase real economic growth in the country.

### The third axis: Determinants of tax policy in achieving economic goals in the Iraqi economy

There are some determinants created by the political, economic and social conditions surrounding the Iraqi economy that influenced the financial authority to formulate a tax policy that works to increase financing and achieve economic

goals in the country in accordance with the requirements of the desired economic reform in the country, because economic reform begins through a tax policy that works to encourage investment. And developing economic sectors to bring about real economic growth This is done by overcoming the determinants that are considered obstacles to the work of tax policy, which we include in the following points:-

1- Loss of economic identity with the beginning of the transition to market economy mechanisms, with the state controlling most aspects of the economy and displacing the work of the private sector from exercising its role in reviving economic activities that develop tax revenues.

2- The dominance of economic rentierism over the Iraqi economy, in contrast to the limited sources of financing, including taxes, which made the link between macroeconomic variables and the increase in crude oil prices make economic goals also dependent on crude oil and the extent of its growth in the economy.

3- Structural imbalances in the structure of the economy, especially in financial policy tools, which led to making financial policy share the instability of economic variables with other policies, leading to an economy that relies on crude oil to finance its revenues with the scarcity of other revenues, especially taxes that have economic weight in developed countries.

4- The weak flexibility and rigidity of the tax system, meaning its inability to respond to the requirements of economic development or to the change in the structure of economic activity, which makes it fall short of achieving its economic goals.

5- Adopting quick solutions and not studying in depth their effects and consequences on the Iraqi economy, such as resorting to imposing direct taxes that have a greater impact on middle-income people than imposing indirect taxes that have an impact on consumption.

6- The weakness of the private sector's work due to weak security stability and the decrease in material and moral incentives that contribute to stimulating the private sector movement in exchange for the expansion of the activity of the government sector, which almost controls various economic activities, despite the persistent trends calling for adopting a market economy, one of whose important mechanisms is expanding the activity of the sector. The private sector, which supports tax bases and provides space to increase tax revenues in the country.

7- The Iraqi economy suffers from a low level of capital accumulation, and the spread of industrial and technological backwardness with the increasing population, which has affected the standard of living of individuals, and has had a significant impact on the tax capacity in the economy.

8- Weak flexibility of the production system to reactivate the production movement in light of the weak work of the government spending multiplier and investment accelerator in the Iraqi economy.

9- The lack of a real desire for economic change and finding ways out of the economic crisis due to the multiplicity of parties that make economic decisions in the country, in addition to the bifurcation and multiplicity of decisions in light of interconnected economic policies.

10- Weak investment channels in the country, while there is a trend towards real estate investment channels, which most of what the tax earns from this aspect does not establish a fixed base on which tax revenue depends.

11- Weak coordination between economic policies that led to commodity dumping not equivalent to what was collected from customs revenues due to the weakness of the customs wall as a result of manipulation, fraud and tax evasion.

12- Administrative and financial corruption, which hinders the structure of the economy and wastes government funds and revenues, thus reducing the creation of development opportunities and wasting development efforts.

13- The gaps that occurred due to the time delay of fiscal policy, especially tax policy, in responding to economic problems, especially since the time slowdown works to deepen financial problems.

## **Conclusions and recommendations**

### **First: Conclusions**

1- Weak flexibility of the tax system to respond to the requirements of economic growth and changes in the structure of economic activity, due to weak economic activities compared to oil activity, in addition to weak investment despite the many exemptions granted to the private sector.

2- The low percentage of tax from national income, as it is its main vessel from which it is collected, which at best did not exceed (4%), which made it weak in its impact on the economic variables of the Iraqi economy.

3- Economic stability is not due to the efficiency of tax policy as much as it is due to effective monetary policy measures in making the exchange rate a nominal stabilizer, which led to relative stability in the general level of prices, and unemployment is relatively low due to the expansion of public sector appointments in Iraq.

4- Tax policy is an ineffective means and was unable to achieve economic stability due to the weak efficiency of the tax system in Iraq and the emergence of cases of tax evasion that caused instability in the relationship between the gross domestic product and tax revenues and the weakness of tax revenues keeping pace with the changes occurring in

the gross domestic product. Therefore, it did not take an effective role. And real in addressing economic problems and the economic situation in Iraq.

**Second: Recommendations**

- 1- The need for the Ministerial Council for the Economy to work in partnership with the relevant authorities to regularly review tax laws to update them in line with economic and social changes.
- 2- Decision makers seek to make tax policy supportive of other economic policies in achieving a balance of macroeconomic variables to achieve relative stability in the Iraqi economy.
- 3- Tax policy makers are required to go beyond all those determinants by reconsidering performance indicators, specifically with tax energy in terms of the possibility of imposing new taxes such as environmental taxes or value added tax.
- 4- The necessity of working to simplify tax legislation and procedures by making tax laws and circulars smooth, simple and clear, taking into account the simplification of the sterile administrative bureaucracy taken by tax administrations in tax accounting.
- 5- There must be a role for the Ministry of Finance, represented by the Economic Department/Tax Policy Unit, to unify tax laws in accordance with the directions aimed at supporting economic growth by all means, including exemptions and allowances that can be changed in accordance with the political and security changes that are ravaging the global economy.

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