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TAX EVASION AND ITS EFFECTS ON THE IRAQI ECONOMY (REALITY AND PROCESSORS)

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SUMMARY:

The phenomenon of tax evasion is one of the economic problems that various developing or developed economies suffer from, with its percentage varying from one country to another. This depends on the causes and consequences of this phenomenon on the economy. And its direct impact on the state's general budget, which is not limited to reducing the proceeds of tax revenues only. Rather, it also limits the state's ability to perform economically and address the problems that the economy suffers as a whole. Tax evasion also leads to a misdistribution of public burdens.

This study will address the nature of tax evasion and its causes in the Iraqi economy and a review of a number of mechanisms and proposed treatments for the advancement of tax systems to reduce the problem of tax evasion as it represents the second resource for financing the general budget of the Iraqi economy after oil, as the latter is characterized by the instability of its prices and thus the disparity of its revenues in the form that makes Reliance on sources of tax revenue is essential.

INTRODUCTION:

The tax system in any country is considered its financial backbone, and tax evasion is defined as the taxpayer's attempt to escape from the tax imposed on him by law and on his activities. For decades, societies have faced the phenomenon of tax evasion and it is one of the most dangerous phenomena that hinders the state's spending policy by limiting the provision of necessary funds and revenues. Public services that enable the state to carry out its duties, cover its public burdens, and provide services to the various groups and segments of

society. The phenomenon of tax evasion would not achieve tax justice in the distribution of income between taxpayers and the state. In Iraq, the first appearance of tax laws was early compared to the countries of the region, as the first income tax law was issued in 1927 with the number (52) related to income tax, and the phenomenon of tax evasion in Iraq is wide and continuous for several reasons that will be addressed during the research paragraphs.

Research importance: The research derives its importance because the problem of tax evasion is a problem that affects the various joints of the economic and social state, and limits the state's interference in economic life, so it has become very important to address this phenomenon.

Research problem: The phenomenon of tax evasion is a problem that most countries of the world suffer from, and they strive to reduce its economic and social effects and combat it by various means and treatments.

Research hypothesis: The research is based on the fact that the Iraqi tax system has suffered for long periods from the phenomenon of tax evasion, which directly affected the economic and social life, which calls for standing up to it and developing treatments and solutions for it.

Search structure: The research was divided into three sections, as the first topic included tax evasion (a conceptual framework), the second topic dealt with analyzing the structure of the Iraqi tax system, and the third topic dealt with a set of proposed treatments for the problem of tax evasion in Iraq.

The First Requirement: Tax Evasion (Conceptual Framework)

First: The Concept of Tax Evasion:

Conventionally, public finance scholars have defined tax evasion with several definitions, including those who define it as the failure of the taxpayer in whole or in part to pay the tax without transferring its burden to someone else, which affects the state's tax revenue and loses its right. Some also defined it as non-compliance with the implementation of tax laws by not paying the due tax, and therefore it is the illegal behavior of the taxpayer in directing his material will in not fulfilling his financial obligations and creating a state of inequality in bearing burdens on the side of the state and not paying the tax in whole or in part to satisfy his desires. Personal .

Some definitions dealt with the tax as the financial - monetary obligation - imposed by states forcibly and finally from persons, whether they are natural or legal persons, and without direct consideration to achieve a public benefit, taking into account the mandated ability of the taxpayer. The social and political development of the state.

The tax base can be defined as the money or the thing on which the tax is imposed and is subject to it. As for the tax system, it is a form of organizing the collection process, and it is one of the sources of public revenue for the state according to specific technical rules dealing with its imposition, means of

collection and organization. These systems are varied according to the nature of the economic and social structures, as well as the prevailing political system in a way that makes it (the tax system) coordinated with it in terms of form and content.

Tax evasion is resorting to fraud and deception to get rid of the tax or reduce its amount, either by trying to deny the existence of the tax base or disclosing an amount less than the actual amount of the base. The real or exaggerated expenditures or non-disclosure of some or all of their incomes. A common example is the concealment of goods from the eyes of customs officers at border points, airports and ports by entering them into the country so that they are not subject to customs tax.

Second: Types of Tax Evasion:

Tax evasion leads to the state losing part of its revenues that it collects through taxes and tax evasion in general is divided into two types, it may be legitimate evasion or what is known as tax evasion, or illegal evasion and the latter may be wholly or partially. Explained below:

1- Legitimate evasion: it is called tax evasion and the legal loopholes that taxpayers benefit from, they implement in order to get rid of tax payment, and it is legitimate in case of taking advantage of legal loopholes regulated by tax legislation, not for individuals to donate their money to heirs during their lives in order to avoid the corporate tax that His heirs are subject to it after his death, and the evader may seek the assistance of experts and specialists to achieve this purpose.

This type is considered not criminal, as the taxpayer avoids bearing the tax or committing to it without violating the provisions of the legislation by taking advantage of the loopholes in the law.

2- Illegal evasion: It is the evasion that includes fraud and deception that the taxpayer resorts to get rid of it, and in which the taxpayer violates the legal provisions and uses fraud and deception methods by committing financial crimes punishable by law.

There is another classification of types of tax evasion that depends on the extent of tax evasion, as follows:

1- Partial evasion: It is the disposal of part of the tax payable by one of the illegal methods, for example, concealing part of the sales or recording them at prices lower than their real selling price

2- Total evasion: It means the final disposal of the taxpayer from paying the tax imposed on him, thus losing an important part of its revenues to the treasury, by various means of fraud and fraud. Certain offices or permits to practice the profession that were not included in the tax records, which causes a shortage of revenues and, consequently, the services provided by the state to the community.

Third: Reasons for Tax Evasion:

1- Economic reasons: Tax evasion is completely and directly affected by the economic conditions that prevail in the country, and lead the taxpayer either to tax evasion or to not fulfil his tax duty in full. The comparison between the benefit obtained by the taxpayer and the risks he is exposed to due to tax evasion and perhaps the amount of the tax It is one of the decisive factors in this comparison, and the taxpayer's tendency towards evasion increases as the tax burden on him increases, and the economic fluctuations that the state is exposed to affect various areas of life, and this effect extends to the tax system and the extent to which tax evasion rates are high or low.

1. The period of economic recovery: the level of national product rises and thus leads to a rise in the average per capita income and works to increase the individual mandated ability to pay the tax imposed on the taxpayer, and accordingly there is less or no evasion because the taxpayer does not feel the burden of the tax imposed on him as well as the high incomes of the taxpayers During the recovery period, it leads to the arrival of new categories of entry into the tax base, which means that there is no need to increase the tax rate or impose new taxes, and thus tax evasion is reduced as long as the burdens will be distributed to a larger number of taxpayers or include new tax bases.

2. The period of economic depression: the opposite occurs in periods of economic downturn or depression in which the average per capita income decreases, unemployment rates rise, the level of use and production decreases, trade stagnates, and prices fall. The state's need for financial resources increases for the purpose of increasing public spending to motivate the work of financial projects to eliminate unemployment. The recovery of trade movement and facing economic depression, so the state resorts to several methods to obtain the necessary revenues to fill the deficit resulting from the increase in expenditures over revenues.

- Increasing the existing tax rates
- Imposing new taxes
- Reducing the level of tax allowances
- Cancellation of some legally established exemptions

All of this led to a decrease in his ability to pay the tax, so the rate of tax evasion will rise the rise in unemployment rates or the sharp decrease in the level of employment

2- Legislative or administrative reasons: Another reason for tax evasion may be a result of a defect in the tax legislation because of the loopholes in it, which makes it easier for taxpayers to access them as a result of the lack of clarity in the wording in the tax legislation and the presence of some loopholes, which leads to creating problems and increasing The possibility of evasion or the existence of a defect in the application resulting from a weakness in the efficiency of the tax system

3- The efficiency of the tax administration: The weakness of the efficiency of the tax administration after which authority is limited to the endemic of

taxpayers and the imposition of tax and its deficit on reducing tax evasion is one of the important reasons in stimulating an evasion of performance

4- The technical reasons: The non-adopting modern electronic systems is not in the calculation and taxation of taxes and not in control, either within or outside the tax organization

5- Social and psychological reasons: They are represented in the weak tax awareness of the taxpayer, and tax awareness is the full awareness by individuals of their financial levels towards society and the state. Tax evasion, especially, since many people still see that tax evasion is smart and courageous, and there are those who see that tax awareness is less advanced than legal awareness, meaning that when the taxpayer violates laws, he does not feel that he has committed a sin against society, as he feels when he steals or kills.

Fourth: The Effects of Tax Evasion on Some Economic Variables:

Tax evasion of its various types has negative economic, social and psychological effects on society. These effects are represented in a decrease in the proceeds and depriving the state of an important proportion of the revenues through which it can exercise its economic and social roles. Tax evasion also results in the inability of those charged with applying the principle of justice and equality, as the non-submission of some Taxpayers violate the general concept of social justice, in addition to tax evasion, it weakens society's belief in the role of the state in providing necessary services to individuals and reduces confidence in financial management to become a factor of moral corruption

The Second Topic: Analysis of The Tax System in Iraq

First: the tax system in Iraq

The tax system in Iraq is based on a deep historical legacy, as it goes back to the Assyrian King Hammurabi, who is considered the first to establish a tax system, as Article (36) of his famous obelisk had dealt with his legislation of taxes, and at the dawn of Islam taxes appeared as religious obligations or a legitimate right for the poor to The wealth of the rich has been mentioned in the Holy Qur'an, the Most High, saying (Take from their wealth a charity that purifies them and purifies them with it) (Surat Al-Tawbah, verse 24-25), which is included in the obligation of Zakat. And the tax system in Iraq is more than eight decades old, as the year 1923 is the beginning of the history of tax legislation in Iraq when the first tax law was issued in the name of Property Tax Law No. (49) of 1923 and then the income tax legislation in 1927 by Law No. (52) of 1927.

The structure of the tax system in Iraq consists of two types of taxes, which are direct taxes and indirect taxes, and that the structure is based on tax pluralism, not uniformity, and accordingly, the components of each can be analyzed as follows:

1-Direct taxes: This type is of great importance because it targets a large segment of money and people when they are subject to tax, and they are of two types:

1. Income tax: It is considered one of the most important taxes in modern tax systems, because income is the optimum criterion for expressing mandated ability, and it takes into account tax justice and enables the state to obtain revenues from moderate sources. Among its characteristics are:

- It is a progressive tax, meaning that the tax is imposed either at a price that increases as the taxable income increases, meaning that the relationship is direct between the tax price and the taxable income.
- Personal tax: by taking into account the income tax law of the taxpayer's personal circumstances and financial position.
- The annual tax by accounting with the taxpayer's income resulting from the fiscal year in accordance with the tax rates prescribed in the text of the law, in implementation of the idea of an annual tax accounting.

Adoption of the principle of tax territoriality: which is intended to apply the tax to the income of taxpayers regardless of the nationality of the owner and his place of residence, whether inside or outside Iraq. What is meant by the territoriality of the tax is the incident of income generation in Iraq. This means that the income arising in Iraq is the income generated in Iraq, but it belongs to a non-resident person.

- Imposing the tax on the net base, i.e., adopting the net income method in calculating the taxable income of the taxpayer.
- Dealing according to the method of separating the husband and wife's responsibilities in tax accounting: each person has his or her independent financial liability, with the exception regulated by law and allowing the merging of the spouses' income in cases specified by the legislator.

A tax imposed on labor and capital income: meaning the diversity of sources of income on which the tax is imposed.

1- Real estate tax: It is one of the direct taxes in Iraq and has its own legal regulation. This tax is imposed on the revenues generated by the taxpayer (the legal property owner in terms of the general concept) from the exploitation of real estate belonging to him. Among its characteristics:

- A direct tax and its base from the income generated from the exploited real estate. It is not imposed on the property itself, but rather on the rental value of the property. When the income stops, the tax stops.
- Tax in kind: meaning that it does not take into account the personal and family circumstances of the taxpayer, as the taxpayer does not grant tax allowances.
- Annual tax collected in advance: the tax is imposed annually and collected annually in two installments, the first payment on the first day of January, and the second installment is due on the first day of July, and the installment is for the purpose of facilitating the taxpayer.
- The tax is imposed at a relative rate of (10%) of the revenue for each property in exchange for maintenance expenses, before calculating the tax.
- A tax imposed on the total income: the Iraqi law adopts the concept of total income when imposing the tax on the rental value of the property or the agreed alternative.

2- Indirect Taxes in Iraq:

They are taxes that do not look at the personal and social circumstances of the taxpayer, but rather look at the citizen's treatment of consumption and circulation, and are divided into:)

1- Taxes on consumption: They are taxes on expenditures and taxes in kind, and they have a revenue and a special advantage in times of boom, and they are of several types.

Financial monopolies: collected by public authorities, such as electricity, water and telecommunications fees

- Customs taxes: imposed on imported and exported goods across the border.
- Production taxes, which are called excise taxes, which are imposed on the goods produced.

2- Taxes on circulation: which are imposed on the circulation of wealth, which have a high tax outcome and are easy to collect and have appeared in modern countries. They are of several types, the most important of which are:

- Registration fees, which are the fees collected by the state in return for registering transactions

- Stamp fees are imposed on some trading operations that take place by editing documents such as contracts and bills of exchange. The fee is obtained by purchasing the stamp and affixed to the transactions.

Second: The Reasons for Tax Evasion in Iraq

Among the main causes of tax evasion are the following:

1- The low level of tax awareness among taxpayers about the importance of taxes in the economy and their role in financing the state's general budget.

2- He presented tax legislation, its inconsistencies and lack of clarity, which opens the way for personal diligence.

3- Weak efficiency of the tax-collecting cadre. In addition to the financial corruption of some of its departments.

4- Not inflicting serious penalties on evaders and selective accountability.

5- Lack of transparency, simplification and clarity of procedures.

6- The significant shortage in the preparation of research, studies and field surveys on tax evasion in Iraq and ways to combat it.

Third: The Economic and Social Effects of Tax Evasion in Iraq

1- Economic effects: the continuation of the tax evasion problem leads to the failure to achieve economic goals as well as it will affect a group of economic variables that have a significant impact on the economic structure of countries, namely consumption, savings and investment. Tax evasion leads to devastating effects on the national economy of the country because it reduces revenues public expenditures and thus reduce the public expenditures spent by the state, and this leads in its entirety to bad economic conditions and damage to the state's treasury

2-Social effects: Tax evasion is a weapon in the hands of social and political systems in directing the economy and society in one direction without the other. It cannot take its way to practical implementation as long as tax evasion is tightening the screws on the state in achieving these goals.

The Third Topic: Suggested Treatments for The Problem of Tax Evasion in Iraq

There are a set of measures and proposals that would contribute to curbing the phenomenon of tax evasion and weaken its effects, as follows:

1- Reviewing tax legislation: this is done periodically and continuously, so as to introduce new financial legislation that reduces the chances of the emergence of legal loopholes that leave room for tax evasion. Especially the review of laws related to taxes and the laws that were issued after 1982 because some of these laws are considered the way to practice tax evasion.

2- Spreading tax awareness among individuals and creating tax information programs through the preparation of widespread media programs aimed at enlightening citizens on the ways in which public money is disposed of.

1- Achieving tax justice: in terms of tax comprehensiveness so that it affects all incomes so that the taxpayer does not feel that there is someone who achieves revenues and does not pay the tax. Thus, achieving equality among citizens in bearing public burdens and eliminating favoritism in tax assignments.

4- Reform the Tax Organizational Structure Through:

1- Completion of transactions as quickly and as close as possible.

2- Conducting periodic transfers between employees, and whenever possible, it can facilitate and reduce cases of bribery and administrative and financial corruption.

3- Providing the tax administration with technical elements with expertise, efficiency and a high level of qualification.

4- Forming special committees to set up an integrated system for the performance of employees that carry out periodic inspection procedures between departments and ministries and prepare relevant reports.

5- Providing oversight systems that are characterized by accuracy and speed in detecting violations of violating devices and imposing appropriate penalties to ensure the progress of work.

6- Providing wages that ensure that the employees of the tax administration receive wages commensurate with the nature and dimensions of the responsibilities they undertake, and incentive rewards and incentives for the distinguished among them.

7- Activating the management of services, meaning that it affects all departments, public institutions and municipalities, that is, giving priority to services departments related to the public.

8- Strengthening the tax system through modern mechanisms of computers and advanced devices necessary to speed up the completion of work, which generates in the taxpayers the conviction that the tax administration is an

effective tool and has the desire with the taxpayers so that the psychological barrier between the citizen and the tax administration is broken.

5- Working with the principle of transparency in all state facilities and institutions.

6- Amending some paragraphs related to penalties. The taxpayer who seeks to evade tax must inevitably balance the benefit that he derives in the event of evasion and the punishment that he will be subjected to in the event of discovery of evasion. The imposition of a penalty (such as imprisonment), for example, would constitute a deterrent that reduces tax evasion.

7- Working to find the necessary ways to get out of the tunnel of evasion and without falling into a vicious circle represented in starting to repair the massive destruction in the value system.

8- Expanding the field of collecting data related to taxpayers by applying scientific methods so that the General Authority for Taxes has necessary data to help it determine the true position of the taxpayer.

9- Expanding the scope of cooperation with state departments and the Office of Financial Supervision.

10- Reducing the phenomenon (method of estimation) whenever possible.

11- The state obliges the taxpayers to reveal their properties outside the country for the purpose of tracking and monitoring them.

12- International agreements between countries reduce evasion between those countries through the exchange of information that is useful in imposing and collecting taxes and preventing evasion from them.

CONCLUSIONS:

1- The problem of tax evasion is one of the main problems that society suffers from, as there are several obstacles that prevent the taxpayer from complying with his tax.

2- Weak tax awareness and tax culture in society.

3- One of the effects of tax evasion is the reduction of public revenues that contribute to financing the increasing public expenditures.

4- The absence of sufficient and deterrent penalties, or their existence, but they are not deterrent, which made the phenomenon of tax evasion a common phenomenon.

5- The lack of ability of the tax administration employees to control some cases of tax evasion because they do not have the capabilities and means to detect.

6- The existence of loopholes in the tax legislation and laws deepening the phenomenon of tax evasion.

RECOMMENDATIONS:

1- Reviewing tax legislation: this is done on a regular and continuous basis, so as to introduce new financial legislation that reduces the chances of the emergence of legal loopholes for the practice of tax evasion.

2- Spreading tax awareness among individuals and preparing widespread media programs aimed at educating taxpayers, and awakening the spirit of patriotism in supporting their countries in continuing to carry out their duties towards providing public services.

3- Achieving tax justice: in terms of tax comprehensiveness so that it affects all incomes so that the taxpayer does not feel that there is someone who

achieves revenues and does not pay the tax, reform the tax organizational structure.

4- Expanding the scope of cooperation with state departments and the Office of Financial Supervision.

5- The state obligating the taxpayers to reveal their properties outside the country for the purpose of tracking and monitoring them.

6- International agreements between countries reduce evasion between those countries through the exchange of information that is useful in imposing and collecting taxes and preventing evasion from them.

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