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**"Challenges of applying Value Added Tax to diversify the revenues of the State Treasury in Iraq \_ Proposed mechanism"**

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**Dr. Suaad Adnan Noaman Al-Shammari, Dr. WasanYahiaAhmed, Dr. Ahmed Taherkadhim Al-Anbagi. Challenges of applying Value Added Tax to diversify the revenues of the State Treasury in Iraq \_ Proposed mechanism-- Palarch's Journal of Archaeology of Egypt/Egyptology 18(4), 3610-3621. ISSN 1567-214x**

**Keywords: tax, value-added tax, value-added tax.**

**Abstract:**

The current research aims to achieve a set of objectives represented by discussing tax in general and value tax in particular. The research problem stems from the existence of an urgent need to develop the current local tax system, as the tax is important because it is one of the main resources for the state's public treasury, as well as an important source of funding for the establishment and construction of the state's infrastructure. In addition, there is a set of local studies that confirm the existence of deficiencies in the current tax systems that do not apply the value added tax. The research is based on a main hypothesis that "The application of the value added tax system leads to the creation of a fair tax climate in the tax community with the expansion of the tax base on the one hand and works to diversify and increase the imports of the state's public treasury on the other hand."

To achieve the objectives of the research, the main and secondary challenges facing the application of the value-added tax locally were discussed, and a mechanism was proposed for the application of value-added tax in Iraq. The research reached a set of conclusions the most important of which were

The weakness of the local tax and supervisory authorities at the present time, which makes the imposition of the value-added tax law unprepared in addition to the political and economic conditions that the country is going through. As for the most important recommendations, they were represented Forming committees and supporting studies and research on imposing a value-added tax law and the extent to which this law can be applied in the local environment.

## **Introduction:**

In general, taxes are considered one of the basic resources of the state and one of the most important tools of fiscal policy, as well as one of the important sources for financing and establishing the state's infrastructure. This research aims to achieve a set of objectives represented by discussing tax in general and value tax in particular. As well as a review of the most important benefits that can be obtained if the value-added tax is applied. Finally, he presented the most important challenges facing the value-added tax legislation and suggested solutions to these challenges by presenting a proposed mechanism.

And based on a main hypothesis that: "The application of the value added tax system leads to the creation of a fair tax climate in the tax community with the expansion of the tax base on the one hand and works to diversify and increase the imports of the state's public treasury on the other hand." On the other hand, the research problem is represented In the presence of deficiencies in the current local tax systems that do not apply the value added tax. Which led to the lack of a tax balance and the inconsistency of the tax legislation with the prevailing economic and social conditions and there are a set of challenges to apply the value added tax locally on the other hand. In addition to the weakness of local tax administrations.

The research derives its importance from the importance of the tax resource, which represents one of the important and basic resources in financing the state's public treasury, as well as the importance of value-added tax as one of the means that achieve a fair and balanced tax climate

In addition, the current local tax system suffers from many shortcomings, which will negatively affect the contribution of tax resources to financing the state treasury.

## **VAT - theoretical framework**

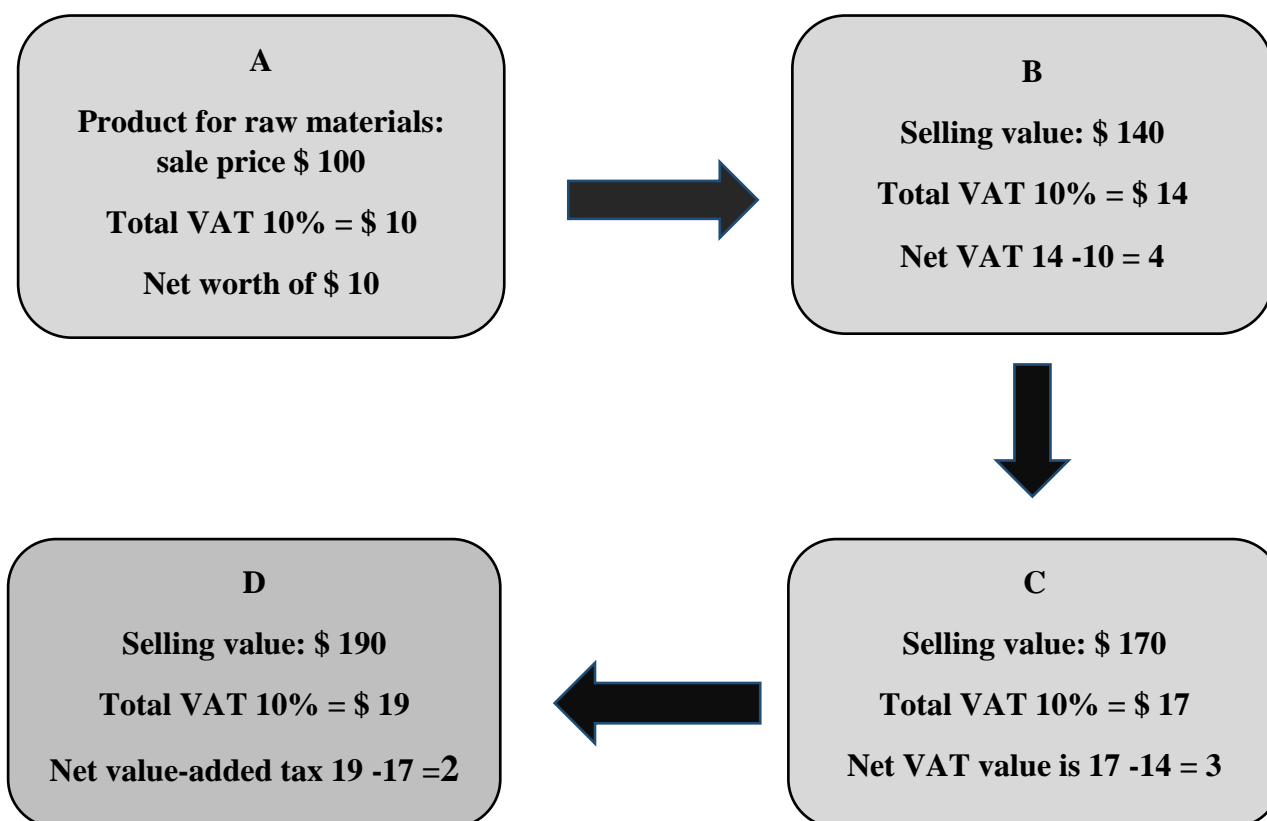
### **The concept of value-added tax**

The tax is generally considered an amount of money that the state imposes on taxpayers as joint members of a common policy (the state) with the aim of securing public services and social and economic reform (Al-Mahayen, 2003: 260). As for the benefit, economists agreed that added value means wealth. As the productive value added by a specific economic unit and contributed to it together with other units in the creation of the national product (Anbaki, 2014: 6). As for the participation of the two previous terms (tax and added value). it means the value added by the producers of goods and services, that is, before these products are sold to others, meaning that they represent the difference between the value of production sold (or evaluated at the market price) and the value of intermediate consumption (Fadlieh, 2010: 162).

The value-added tax was also known as ((a tax imposed on an increase in the value of goods and services at every stage of its economic production)). The value-added tax (VAT) is cited by (Al-Tamimi and others: 2017) as a mandatory contribution imposed by the public authority in order to cover the costs of its activities without returning to its payer a special return and used for

the public good (Larry & Quarshie, 2009: 13). It is also defined as a value-added tax in the various stages of manufacture and distribution of goods and services (Ravindra Jripathi, 2011: 34). Hence, it is necessary to differentiate between production and sales tax on the one hand and value-added tax on the other hand,

At first glance, it is clear that the value-added tax is imposed on goods and services when selling or even when evaluating final production at the market price. However, the Iraqi legislator imposed a production tax on consumer goods at the stage of their production locally and on this basis the fact is the fact of production while the sales tax imposed by the legislator on all services provided by hotels and restaurants of the first and first class according to Article 1 of Law No. 36 of 1997 while the value added tax in The truth is imposed as much as the value of the addition made to the goods or services at a certain stage of production. As for how to calculate the value-added tax (Ravindra et al: 2011) presented a scheme representing the calculation of value-added tax, which is grouped in four stages, as follows:



Thus, the VAT has become the following

$$10 + 4 + 3 + 2 = 19 \$$$

Ravindra , jripathi , amblikasinha , swetaagarwal " the effect of value added taxes on the Indian society " journal of accounting and taxation , VOL 3 (2) , 2011.

### **Value-added tax application:**

Although value-added tax differs in terms of details, rules for its application, rates, and inclusiveness in different countries that apply it, it has common general characteristics in these countries and according to its political system and its economic, financial, and social reality, and in what follows are the most important characteristics of VAT implementation (Fadlieh, 2010) : 170):

- 1- Fair, as the tax burden is distributed among the largest possible number of citizens and is not limited only to the working group in society, as well as being applicable in varying proportions or with a discriminatory exemption and at zero rate according to the nature of goods and services and the directions of economic and social policy of government authorities. In addition to its impartiality, it is imposed on both local and imported goods and services.
- 2- Neutrality over saving and the cost of production, because the investor can recover what he paid for his commodities and capital inputs, as well as their compatibility with the philosophy of market economy, freedom of trade and the transfer of capital.
- 3- The best tax in terms of economic efficiency because it reduces tax evasion if the necessary infrastructure is available to implement it.
- 4- It has a positive impact because it is imposed only on locally consumed goods and services.
- 5- Pay segmented and in stages. It is based on the principle of deduction that permits withholding of the tax paid from the collected tax.

The imposition of value-added tax has several goals, including expanding the state's revenue base, making it less dependent on oil exports, and the ease of collecting taxes collected by companies or institutions instead of the government, as well as expanding the tax base (Igweonyia, 2011: 43).

As for locally, (Amin: 2002), he sees that what can be observed initially is that the scope of implementing VAT is not without problems of different dimensions. There may be several problems, including weak tax awareness, the spread of various manifestations and forms of tax evasion and avoidance, and the failure to fully embody the national dimension of tax, in addition to various problems, some of which relate to the ability of accounting applications to find solutions to expected problems in this field, as well as with regard to tax applications, Specifically in the area of tax audit and examination (Amin, 2002: 33).

### **The disadvantages of value-added tax:**

Despite the advantages mentioned above, there are many disadvantages in value-added tax and the following are the most important:

- 1- The implementation of the value-added tax requires several conditions, the most important of which are a good self-assessment of the amount of the tax, and the integrity and description of it by the taxpayers, and efficient, effective, impartial and impartial tax agencies. In addition to comprehensive, simple, clear and flexible tax legislation (Fadlia, 2010: 172).

2- The difficulty of applying the value-added tax in some sectors, such as agriculture, housing, financial services, and the informal sector, due to the difficulty in estimating the value-added (Al-Issawi, 2014: 19).

3- The value-added tax is somewhat complicated in application, as it requires an advanced accounting system in economic units. Those bearing the brunt of the burden are well-organized economic units, while small and medium units can easily evade these taxes (Al Khursan, 2010: 6).

4- There is a set of expected reasons when implementing audit programs for VAT, which is insufficient preparation required from highly skilled auditors, and the lack of sound institutional traditions regarding the proper practice of accounting auditing, the financial authorities' concerns about the possibility of collusion between taxpayers and auditors. Calculations, insufficient preparations at the start of the implementation of VAT, because the consequences of the failure of the audit are not immediately recognizable, the lack of clear political support for tax administration in particular and for tax systems in general (Alan, 2000: 67)

### **Challenges of implementing a value-added tax**

Local economic units play a very important role if the value-added tax is applied, as they work to collect the aforementioned tax and deliver it to government agencies, and this requires the units to be ready for this difficult task, which imposes new challenges on the units that they are able to face, especially completing the calculations. The challenges in implementing the value-added tax have been divided into primary and secondary challenges. The following are the most important of those challenges:

#### **1- The main challenges of implementing the value-added tax:**

1- Good self-assessment of the tax amount and its integrity, as it is difficult to prepare and prepare the taxpayers and make them able to submit a self-tax report for each stage of production with the accuracy required by the tax authorities, so this matter requires raising the sense of responsibility and the spirit of citizenship with the taxpayer and making it pay off what he owes. Taxes, as well as being convinced of the benefit due from the collection of VAT.

2- Providing an efficient, effective and impartial tax system, as when applying the value-added tax, many amendments must be made to the existing tax legislation and make it able to meet the challenges of application, so the challenge in this case is before the tax legislator and his ability to formulate the value-added tax law in a simple, clear and flexible manner. Without the occurrence of double taxation, on the one hand, and on the other hand, it does not give way to tax evasion, as well as taking into account the social and economic situation and all the circumstances surrounding the state.

3- Developing tax system administrations and making them able to cope with the changes that occur in the tax system as a result of implementing the value-added tax, as well as preparing an advanced and efficient staff capable of collecting the value-added tax without causing economic or social problems.

4- The existence of an advanced computerized tax system capable of applying value-added tax at every stage of the life of the product or service on a regular basis according to previous standards prepared for this purpose and commensurate with the nature of each economic sector.

In addition to that, there are some questions, "Is the Iraqi tax system capable of enacting a value-added tax law" "Does the Iraqi General Tax Authority have an administration capable of implementing the value-added tax law if it is enacted?"

And "Is there a possibility to provide an advanced tax cadre capable of The application of value-added tax in every stage of the life of the product or service "as well as the provision of devices and equipment that help the Iraqi tax assessor to calculate the value-added tax with the kind of accuracy required and try to get rid of relying on the personal estimates of tax evaluators."

**2- The secondary challenges of implementing the value-added tax**

1- The Iraqi economy’s dependence on the oil sector and basically makes the application of the value-added tax not feasible.

2- The extent of the possibility of providing mutual trust between the taxpayer and the tax administration, since the value-added tax is based on the principle of self-assessment of the taxpayer and submitting an honest report on his profits actually realized without supervision, which is almost impossible, in addition to the obligation of the taxpayer to present real documents that actually express the activity of the economic unit

3- Work to remove all obstacles facing tax collection, whether facing the taxpayer or facing the tax cadre assigned to collect them.

4- Technological progress and the economic problems that may accompany it, especially the spread of electronic commerce and the extent of the possibility of applying the value-added tax in this field, as well as the lack of tax laws that regulate the work of trade.

On the other hand, the Gulf Cooperation Council presented the challenges related to converting to a value-added tax through the following:

Table (1)

Challenges related to converting to a value-added tax

<b>Purchasing</b>	<b>Accounting &amp; IT System</b>	<b>Sales, Pricing</b>	<b>Human Resources</b>
-Developing new purchasing strategies. -Management of selling companies -Reconsidering contracts and arrangements	-Update financial systems and point of sale systems. - Coding of the value-added tax for the amounts payable and those due for receipt. - Changes in the IT system. - Electronic documentation / information automation.	- Evaluating the impact of value-added tax on market demand and on existing contracts.	-Training of current employees. - Hiring experts in the fields of IT and tax. - Thinking about making changes to the current organizational structure.

Source: GCC Value Added Tax in Enterprise Management (Oracle) programs to facilitate corporate commitment.

As for the implementation of value-added tax by the Gulf Cooperation Council, it is as follows:

Country	Establish country law	Next plan	Effective date
Kingdom of Saudi Arabia	The bill has been prepared, and staff comments are being received	Awaiting approval Pending.	1/January/ 2018
The United Arab Emirates	The law was approved by the Federal National Council	the approval of the head of state	1/January/ 2018
Qatar	The government approved the bill.	Pending the approval .of the Shura Council	1/January/ 2018
Bahrain	The bill has been prepared	-	Mid 2018
Oman	The bill will be prepared soon.	It will be discussed with the State Council and the Chamber of Commerce and Industry	To be announced later
Kuwait	The bill is being prepared	-	To be announced later

Source:hbr.org/ hbr-analytic-services

**3- Challenges of implementing value-added tax in e-commerce:**

E-commerce is subject to the rules for electronic commerce, and in particular to an agreement known as (GATS) (The General Agreement On Trade In Service), which is related to services in terms of international trade agreements, and it eliminates the idea of location or location for commercial activity, and this means the possibility of non-disclosure. On the source of the activity, in turn, it raises problems related to defining the legal system related to the tax relationship or tax center for the parties to electronic contracts, as well as moving electronic businesses may migrate to countries with the easiest and most encouraging tax systems, and this matter the United States of America paid attention to and decided not to impose Taxes on activities, business and electronic commerce (Al-Sahli, 2011: 41).

As for the imposition of value-added tax on electronic commerce, it requires different tax strategies in monitoring, detection, collection, and identification of the facts of realized income, as well as the need for regional and international cooperation due to the nature of cross-border electronic commerce.

**4- Challenges of implementing value-added tax in international trade:**

The value-added tax is imposed on domestic consumption and on the principle of destination, and this principle is always applied by using a zero tax

rate for exports, and imposing a tax on imports, so the result is that the total tax paid on the commodity is determined on the basis of calculating the tax rate imposed in the jurisdiction of the final sale and problems are exacerbated in developing countries Which is transformed economically, because imposing a zero rate on exports means the necessity to provide an appropriate method for reimbursing the increase under the account of value added tax on production inputs to the exporters, which turns out to lead to administrative difficulties, and that its application requires the provision of the necessary organization and means, especially with regard to keeping accounts The system of invoices and the preparation of financial statements and final accounts and the need for an efficient tax system for the purposes of control and good implementation (Muhammad, 2014: 32).

### **5- Challenges of implementing value-added tax in multinational companies:**

The nature of the work of multinational companies raises multiple problems for the tax authorities due to the possibility of misuse of transfer prices by these companies, including mutual loans between them, the distribution of fixed expenses and the determination of the value of trademarks and patents, and there is evidence that some companies have manipulated prices to transfer profits from containers. High-taxed to lower-tax, more convenient containers (Al-Sahli, 2011: 55).

#### **The proposed mechanism for implementing VAT**

Before going into the details of the proposed mechanism for implementing VAT, four main pillars must be defined when implementing it, as follows:

- 1- Tax Law.
- 2- Tax Administration.
- 3- Tax records.
- 4- The taxpayer.

**Tax Law:** When considering the application of value-added tax in Iraq, it is necessary to make an appropriate amendment to the Iraqi tax law and adapt it, as the Iraqi law currently in force No. (113) for the year 1982 does not contain any legal texts related to the value-added tax, as well as its obsolescence and failure to keep pace with technological advances and changes. In the local environment, despite some simple amendments made in 2003, special committees should be formed to amend the Iraqi tax law in general and add special provisions for value-added tax in particular, especially since the aforementioned law did not deal with sales tax in all respects, but merely adding a special paragraph for restaurants and hotels. Premium and first class. After that, it is necessary to think about the sectors exempt from this tax, the reasons for this, and how to determine the appropriate value-added tax rate, and is it fixed on all goods and services, or the percentage is determined according to the sectors, their importance, the possibility of imposing the tax on them and the appropriate time to apply it. In addition, the application of the value-added tax law in Iraq contributes to increasing the state treasury imports, and this is consistent with the research hypothesis.



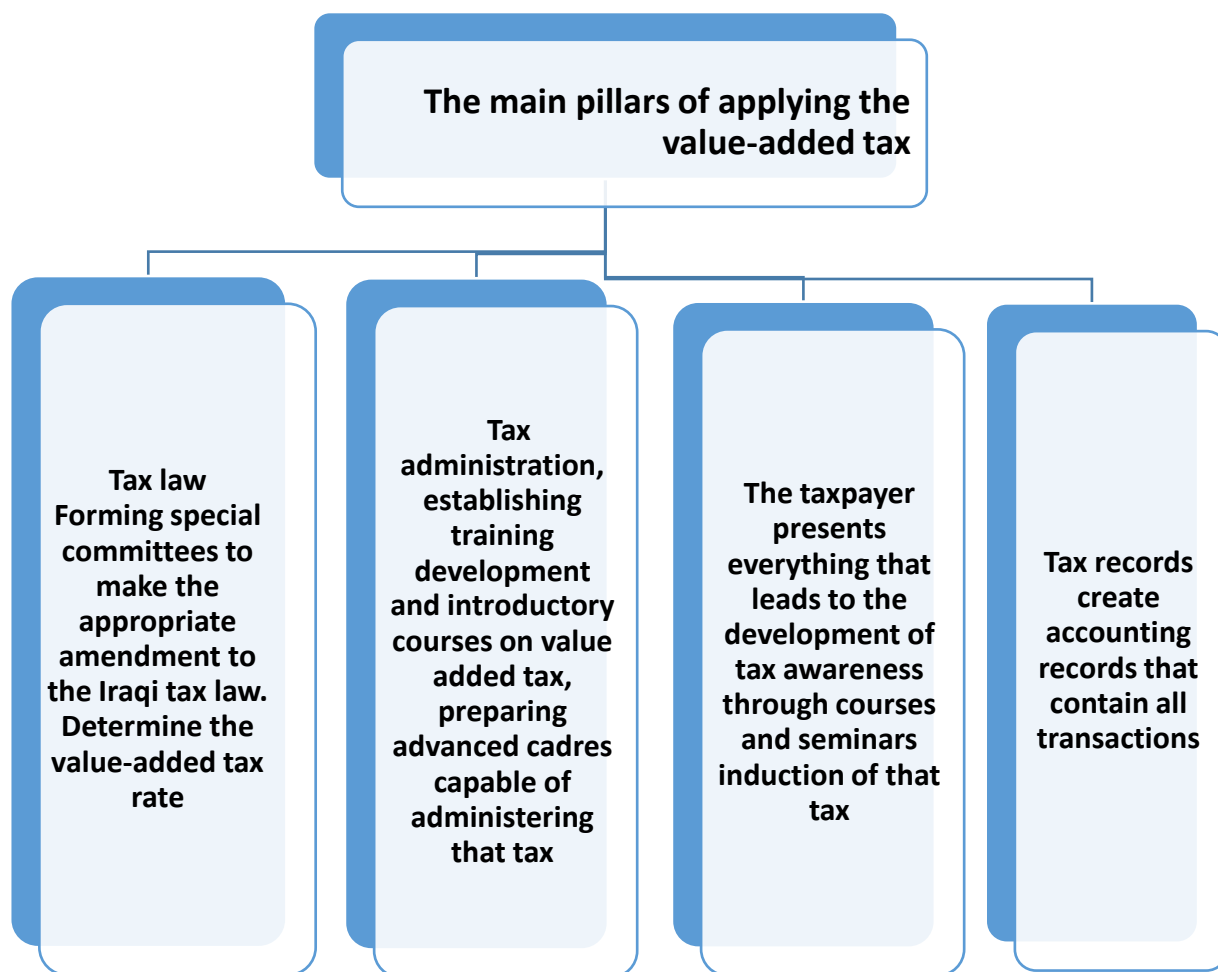
The researchers in this field agree that the tax-exempt sectors are to be defined as well as a different percentage is determined when taxing each sector according to its activity on the one hand, and on the other hand the researchers believe that the rate of imposing value-added tax in the first years of application is small or marginal, and then it is studied. The possibility of increasing it as well as studying the possibility of imposing it in the tax-exempt sectors at the beginning of implementation.

**Tax Administration:** The application of the value-added tax requires a high-level tax administration, whether it is the knowledge level of the tax collector or the General Tax Authority represented by the tax administration, as the application of the new tax requires the automation of the collection processes to help ease and speed of obtaining it, and this requires preparing training and development courses and scientific and introductory seminars on value added tax and its importance to society as a whole And how to calculate it in various sectors to qualify tax collectors and help them understand and apply them, in addition to preparing advanced cadres capable of managing this new tax and determining the correct tax base for the tax after reviewing the financial statements submitted by the taxpayer.

In addition, there is a need to prepare a study on identifying the individuals subject to that tax, whether they are natural or legal, because it requires determining the level of taxation. The two researchers suggest setting a limit for registration in this tax when the capital of the individuals subject to the tax reaches ten million Iraqi dinars for the purpose of helping exempt small enterprises whose sales are often provided to the poor class on the one hand, and on the other hand, the tax administration should be provided with detailed lists containing all goods and services Subject to tax and exempt from it.

**Tax records:** It was indicated in the previous paragraphs that the application of value-added tax requires an accurate billing system in order to accurately record all operations between production stages on the one hand and between producers and consumers on the other hand, and this requires preparing accounting records that are prepared on this basis to facilitate the registration process. Therefore, the researchers suggest defining the form and content of accounting records when applying the value-added tax in the new law that concerns this tax, as well as the possibility of modifying the results of financial data and information in the financial records and lists and converting them into financial tax statements that help in imposing the value-added tax.

**The taxpayer:** The researchers believe that the most important pillar of the application of value-added tax is the tax taxpayer. as it is necessary to develop his tax awareness and make him able to present the self-assessment file with safety and reliability, and this requires preparing the taxpayer to prepare the self-assessment file and for all its details through training and development courses, and this requires Self-assessment: Granting taxpayers the right to recover the tax paid on the amounts of bad debts, provided that the debt is actually written off after the taxpayer hastaken all legal measures to recover the amounts of debts without success, and consequently it is destroyed from his accounting records.



Source: Prepared by the researchers

### Conclusions and recommendations

#### First: Conclusions:

The research reached a set of conclusions as follows:

- 1- The application of the value-added tax law in Iraq requires Iraqi companies to keep all accounting records and documents in an accurate and detailed manner, in addition to their sequencing to help the tax authorities in calculating the value-added tax quickly and easily.
- 2- Lack of interest in forming special committees to present studies on value added tax and study its advantages and disadvantages and the extent of its applicability in the local environment.
- 3- The weakness of the local tax and supervisory authorities at the present time, which makes the imposition of the value-added tax law unprepared in addition to the political and economic conditions that the country is going through.
- 4- The obsolescence and failure of the Iraqi tax law to keep pace with the modern environment and technological progress, as well as its lack of sales tax

except in a simple way, which represents the nucleus for imposing the value-added tax law.

5- There is a set of basic and secondary challenges facing the application of imposing value-added tax locally.

### **Second: Recommendations**

The conclusions reached by the research paved the way for a set of recommendations, represented by the following:

1- The necessity for local companies to keep all accounting documents and records in an orderly manner and submit them to the tax authorities in case they are needed.

2- Forming committees and supporting studies and research on imposing a value-added tax law and the extent to which this law can be applied in the local environment.

3- All studies and research related to imposing the value-added tax should be completed and then imposed in small rates.

4- The necessity of reforming and amending the Iraqi tax law and introducing new paragraphs in it that keep pace with modern technological developments, as well as adding paragraphs related to the value-added tax.

5- Work to overcome the difficulties and challenges that hinder the imposition of value-added tax in Iraq.

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