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By Universitas Muhammadiyah Sidoarjo

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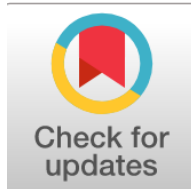
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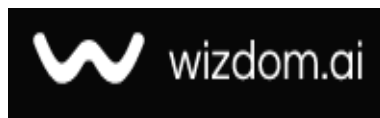
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The Low Income Tax in Iraq Causes and Treatments for the Period 2013-2016: Pajak Penghasilan Rendah di Irak: Penyebab dan Solusi untuk Periode 2013-2016

Pajak Penghasilan Rendah di Irak: Penyebab dan Solusi untuk Periode 2013-2016

Kareem Obayes Hassan Al-Azzawi, bus.kareem.obayes@uobabylon.edu.iq, ()

Department of Finance and Banking, College of Administration and Economics, University of Babylon, Babylon, Iraq

Mohammed Madlool Ali Al-Sultan, bus.mohammed.madl.ool@uobabylon.edu.iq, ()

Department of Finance and Banking, College of Administration and Economics, University of Babylon, Babylon, Iraq

⁽¹⁾ Corresponding author

Abstract

Background: Tax revenues, particularly income tax, are a fundamental component of national budgets and serve as a more sustainable funding source than volatile oil revenues or external borrowing. **Specific Background:** In Iraq, reliance on oil revenues has overshadowed the role of income taxes, resulting in unstable fiscal capacity and limited public service delivery. **Knowledge Gap:** Despite Iraq's fiscal challenges, little research has systematically examined the relationship between income tax revenues and broader economic performance, especially GDP. **Aim:** This study investigates the causes of low income tax revenues in Iraq between 2003 and 2016 and evaluates their relationship with GDP growth. **Results:** The findings reveal that income tax contributed on average only 1% to GDP, far below comparable countries, due to excessive exemptions, weak administration, low tax awareness, and dependency on oil. Granger causality tests indicate that income tax revenues significantly influence GDP, while GDP growth also affects tax revenues. **Novelty:** This research provides one of the first empirical analyses of the bidirectional relationship between income tax revenues and GDP in Iraq during the post-war recovery period. **Implications:** The results underscore the need for comprehensive tax reforms, reduced exemptions, and improved governance to diversify Iraq's fiscal base and enhance sustainable economic development.

Highlight :

- Income tax revenues in Iraq remain low compared to GDP.
- Strong dependence on oil reduces diversification of revenues.
- Tax exemptions and weak administration hinder revenue growth.

Keywords : Income Tax, Iraq, Public Revenues, GDP, Oil Revenues

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Introduction

Study the income tax proceeds in Iraq came through the importance of this tax at the level of financing public expenditure with the development of the sectors of trade and industry in this country and the emergence of new types of wealth is real estate wealth and on the level of no social and economic with the development goals of the Iraqi state and its intervention spiraled state in reliance upon the structure of taxation in the country, in order to maintain the outcome of sufficient income tax purposes must intensify all administrative, legal and executive efforts and even media awareness in order to achieve this goal, the service for the efforts of construction, development and upgrading of the level of services for citizens [1].

The Importance of Research

The importance of research stems from attention to the role of income tax proceeds with the rest of the sources of tax revenues in providing sources of funding development plans and reconstruction and providing basic services and the advancement of this away from dependence on the rest of the volatile resources such as oil income, which fluctuates in international markets and therefore the need to think about diversification sources of Iraqi Treasury [2].

Research Problem:

Income tax revenue in Iraq is not compatible with the size of how many services and Haj data and basic projects and the amount of familiar it to contribute to the public treasury of the Iraqi state in light of the widening spatial and demographic development map as the attempts to raise the toll in Iraq lacked scientific realism and professional In order to overcome the results of their decline.

The Hypothesis of Research:

The premise of the research from the following:

- 1.The growth of income tax revenues in the natural and legal form is a vital necessity for the success of the functions of the state in providing services and public projects and providing the state treasury.
- 2.Leaving administrative, legislative and procedural obstacles, and adhering to national identity, tax awareness, and avoiding legal and other circumvention, will provide tax revenues that meet the need [3].

Objective of Research:

The research aims to:

- 1.Studying the indicators of income in Iraq and its relevance to the goals set for it and the general role of its economic, financial and social functions.
- 2.Stop at all obstacles to this outcome and study and find out the causes of outbreaks in order to proceed with the process of treatment to reach the required outcome is adequate.

Spatial and temporal boundaries of research:

Iraq for a period of 2003-2016 m Structure of the research: To reach the goal of the search and then divided into 3 investigations are:

Chapter one/ theoretical input

Chapter Two/ income tax proceeds in Iraq

Chapter Three/ measuring the relationship between income tax revenues and GDP

Recommendations

Conclusions

Methodology

First Chapter: Theoretical Input

First: The tax:

A monetary obligation paid by the individual in a compulsory and final manner to the State or one of its public bodies as a contribution to the public burdens and the expression of social solidarity.

Importance of taxes:

1. It is a major source of public revenue to finance public expenditure, ie it aims to achieve a financial objective.
2. It aims to achieve economic purposes, ie contribute to economic guidance and stability as well as social purposes, which contribute to the social orientation.
3. It is one of the tools of fiscal policy that contributes to the handling of fluctuations in the economic cycle in the case of recession tax cuts and in the case of recovery tax increases.

The tax system there are two concepts of the tax system one narrow and the other is widely known tax system in its narrow sense that (the set of legal and technical rules that enable tax deduction in the successive stages of the legislation to link to collection).

The broad concept of it is (a group of ideological elements, legal, economic and technical which lead to a specific tax entity that represents one aspect of the existing economic system, which features from one country to another) vary.

Tax structure: means (types of taxes, rates, and applied in its veins country) (2).

Types of taxes: There are many taxes and each of the advantages and disadvantages and therefore try to choose the optimal mix of these taxes, which achieves the economic objectives, financial and social society in addition to a thorough understanding of the advantages and disadvantages of all types of taxes and therefore we find that the tax structures vary between countries due to differences in earned tax types and here we come to the fact that the tax structure is only part of the tax system in general taxes can be divided according to several criteria for discrimination, but the division that serves our research supports three types:

1. Income taxes consist of the following taxes :

A. Personal Income Tax

B. Property tax

C. Agricultural land tax

2. Wealth tax is made up of two types of n:

A. Inheritance tax

B. Land tax

3. Spending taxes include two sub-categories:

A. Customs taxes on imported goods

B. Taxes on consumption

Second: Income Tax: There are several definitions showing what this tax means and all agree

on the basic elements of the tax, income tax components, and purposes, methods of estimation and collection as well as legal adjustment... These definitions:

1. Income tax: - direct tax imposed on persons (whether natural or legal persons such as companies) who engage in occupations and activities (trade, services etc...) which increases their income for a certain amount of money per year where the state deduct part of the profits if people increased for a certain extent.

2. Income Tax: A sum of money collected by the financial authorities from the taxpayer for the account of the public treasury and represents part of the net income (profit) achieved during the year proceeding the estimated year.

3. Income tax is imposed on the annual income of individuals and institutions, where each taxpayer must exceed his income to a certain limit to pay a percentage of his income to the government as a tax. The salary he receives from his work within the institutions is net salary after deduction of debts and fees. In short, the income tax means deduction from the cash income produced by all Entities within State authorities and under applicable law at regular intervals.

Income tax components: Income tax is imposed on all the following types of incomes:

□ Wages for work including compensation, allowances and bonuses.

□ Profits resulting from the exercise of an agricultural, industrial, commercial or service activity.

□Real estate profits whether arising from the sale or sale of a property (land or building).

□Income resulting from the deposit of funds in banking institutions and investment in securities.

The role of income tax in achieving economic objectives: income tax is an important instrument of fiscal policy In order to achieve many objectives, especially the economic objective of the highest case of economic balance and employment and the economic objectives achieved by the imposition of income tax on the taxpayers are:

1- Income tax as a tool to address:

The problem of unemployment and by identifying the gap between GDP is possible and between GDP actual and then use the tax policy and to close that gap by reducing the tax rate or revised upwards. If the gap is positive, this indicates that there is a deflationary gap you need to expansionary tax policy by reducing the tax rate. If the gap is negative, it involves an inflationary gap that requires a tight fiscal policy, which is to increase the tax rate.

2- Income tax as a tool to deal with the problem of inflation and stagnation:

Inflation means the increase of the mass of cash from the value of the commodity cluster, which can be produced by the production device at the level of full operation resulting in higher prices because of the imbalance between the cash flow and the current commodity. Meeting the increase in demand the tax policy can be used to address inflation by raising tax rates or introducing new taxes in order to reduce the aggregate demand for imbalance with the supply of goods and services. This policy reduces the incomes of individuals, Thereby reducing the purchasing power of individuals, and vice versa. The tax policy works in a recession.

3- Income tax means to stabilize price levels:

The increase in the tax rate or the imposition of new taxes, as we said in the previous point will lead to a reduction in aggregate demand because the direct entry of individuals reduces them and thus reduce the total demand, which is reflected in the price levels and vice versa, that the decline in aggregate demand leads to lower prices levels and in this case the state In order to address this problem by reducing taxes to raise demand, which will in turn reflect the prices that will rise as a result of the tax policy pursued by the state.

Third: Tax revenue: The meaning of this research is the income tax only, which means the collection of final income tax income, which is returned to the state treasury from all sources of income tax. It is known that the tax revenues differ in the amount of state-to-state depending on the degree of development of the productive structure and the degree of dependence of these countries on the resources of rent and resources stemming from the core of the production process within the community and it is clear that the tax revenue in developed countries because there is considerable flexibility in the tax project to increase of the value and size of taxes, as well as the high cost of the mandate of the taxpayer and all this is due to the level of productive activity in the developed societies, which reflects positively on incomes and then on the obligations of individuals in those communities and vice versa regarding the tax revenue in the country developing.

It is well known that tax revenue has also explained the importance of a single tax of the most important financing of the general budget sources because they represent a general reaches of the revenues used by the state to cover expenses as well as a means to satisfy public needs, where exercise multiple functions, economic, social, cultural, service and security and military has increased the importance of the outcome of taxes and taxes in general in recent decades as one of the tools of financial policy and increasing interest in taxes in various countries of the world not only being the main source of public revenue, but also for considerations of the most important tools of economic policy used to guide economic activity and influence it. Several attempts were made to put the limit that stabilizes when tax revenue sees, a mainstream economists that the state cannot deduct more than 10 of national income through taxes because government expenditures financed by taxes affect private consumption and investment, and the role of each of the. The public and private sector in the economy of each country. Clark also called for the updated economists to not exceed the deduction rate more than (25%) of national income in the form of taxes, and the physicists claimed that the proportion of tax deduction should not exceed (20%) of income national (a) It is well known that there are several factors that affect the tax revenue such as tax price, tax evasion, estimated tax energy national tax allowances as well as tax administration Pal as well as with a secondary effect of factors such as general inflation for the economy, supporting information and tax work systems, the base charge, duplex tax and others.

Result and Discussion

Second Chapter: Income Tax in Iraq

First: Income tax in Iraq

Income from direct tax has been imposed for the first time in Iraq under law No. 52 of 1927 has been replaced by Law No. 39 of 1939, which continued to work in it to 1956. In 1959 issued the income tax act No. 95 of 1959 one of the new principles brought about by the new law, according to a rationale for its issuance reasons is the introduction of inputs subject to income tax and belonging to the costly one where subjected to a uniform scale of ratios rather than multiple tables, which the previous law was mentioned thirty - five times the law was amended during the period of its application (1959 1982) [4].

In 1982, the Income Tax Law No. 13 was enacted and is in effect in the fiscal year 1983 (s)'Many amendments have been made to this law, whether by laws, decisions or orders that have dealt with many of its provisions [5].

Which concerns us in this law some of his vocabulary as follows:

1. Income sources to which the tax is levied Article 2 of the law stipulates:

A. Profits of trades, trades or occupations, including undertakings and obligations.

B. Interest, commissions and profits from trading in shares and bonds.

C. Agricultural land lease allowances.

D. Salaries, pensions, remuneration, wages, work, allowances, allotments, and assessed and estimated amounts for housing, food and accommodation [6].

Table 1 any other source is not exempted by law and is not subject to any tax in Iraq.

2. The tax is levied according to Article 5 on the income of the resident and non-resident who receives it in Iraq and is not imposed on non-Iraqis who receive income outside Iraq.

3. There are tax allowances for the wife and children and the taxpayer also to ease the tax burden according to Article VI of the law as well as there are exemptions for some incomes according to Article VII [7].

4. The last amendment to Law 113 was the 2008 amendment in which the deduction ratios

were adopted and the table below

The ratio	Income	Slide	Tax
3%	Up to 500,000	500,000	1500
5%	Up to 1000,000	500,000	2500
10%	Up to 2000,000		