

VAT to Diversify Iraqi Revenue Sources: Obstacles and Components: A Case Study

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Abstract

The sharp decline in oil prices in mid-2014 had profound and cumulative effects on the fiscal policies of many rentier states, with Iraq among the most severely affected. The reduction in oil revenues, coupled with the substantial costs of the war against ISIS, led to a significant federal budget deficit and placed the Iraqi economy under severe strain, resulting in a deep economic crisis. This crisis reflects Iraq's rentier economic structure, as oil exports account for approximately 97% of total exports, diminishing the relative contribution of other sectors to GDP. In the absence of a clear policy to diversify revenue sources, the economy remains highly vulnerable to fluctuations in oil prices, deepening structural imbalances. To overcome the rentier trap, effective strategies are required to diversify revenue sources and establish a solid economic base insulated from the risks of volatile oil markets. At this stage, implementing value-added tax (VAT) measures and strengthening the role of the private sector in economic activities represent appropriate strategies for revenue diversification, while ensuring exemptions for essential goods to protect vulnerable groups.

This research employs a descriptive-analytical approach to clarify the nature and significance of VAT, highlight the necessity of private sector participation in economic activities, and identify the key obstacles and components involved in diversifying Iraq's economic base.

Keywords: Value-Added Tax (VAT), Economic Diversification, Foreign Trade, Rentier Economy, Revenue Diversification, Private Sector, Iraqi Economy, Fiscal Policy.

Introduction

Since 2018, some oil-exporting countries have sought to introduce a value-added tax (VAT) as part of broader fiscal reforms, aiming to diversify their revenue sources amid declining oil prices and revenues. The significant drop in oil prices exposed many rentier economies to economic crises, the effects of which varied

across countries depending on the degree of economic diversification and the extent of their dependence on oil revenues. This situation prompted several countries, including Iraq, to review their economic policies to reduce budget deficits. In Iraq, the economic crisis was compounded by interrelated political, social, and security challenges, intensifying the search for alternatives to crude oil and strategies to diversify sources of revenue.

Economic diversification involves expanding the scope of economic activities, both in the production and distribution of goods and services, and enhancing the economy's capacity to generate opportunities across various sectors. This process aims to establish a resilient economic base built on a solid and broad foundation, less vulnerable to fluctuations in oil revenues.

Importance of research

The importance of the research is that it highlights on the reality concerning Iraq's economy in light of the dominance of oil revenues and the weak diversification of the production base, due to Iraq's dependence in estimating its budgets on the price of oil in the international market and the amount of oil exported. This in turn deepens structural imbalances and creates difficulty in adapting to shocks... The importance of the research also highlights the mechanisms that must be available for the enforcement of value-added tax in Iraq to be adopted as a main source of diversification of revenues in addition to oil revenues.

Search problem

The excessive dependence on oil revenues led to the continuous dependence on the import of cheap goods and equipment, which was reflected in the local production sector, especially in light of the current investment environment and regulatory framework, which caused a limited capacity of the Iraqi economy to diversify and broaden its productive activities and remain within the circle of the rentier economy, which lost many opportunities for economic advancement on the one hand, and on the other hand, the almost total dependence on oil revenues formed a defect in the ability of the Iraqi economy to face financial bottlenecks resulting from fluctuations in oil prices.

Research Hypothesis

The research is based on the premise that the successful implementation of VAT depends primarily on adopting a new economic vision in which the domestic private sector serves as the primary driving force of the economy. Achieving this requires the provision of an appropriate business environment, along with targeted policies and clearly defined features aligned with actual economic needs.

Research Objective

According to the above hypothesis, the research aims to identify the importance of the private sector and its actual necessity in economic diversification, with a focus on the statement of weaknesses and strengths in it, in addition to addressing the most prominent obstacles that prevent the application of VAT as required.

Research Methodology

To achieve the research hypothesis and objectives, this study adopts a descriptive approach, providing a clear depiction of the realities of the Iraqi economy and the requirements for its development. To ensure a comprehensive examination of all relevant aspects, the research is organized into three sections. The first section presents a conceptual overview of value-added tax (VAT) and economic diversification, along with a review of selected previous studies. The second section focuses on the current state of the Iraqi economy, emphasizing the impact of oil price fluctuations on the federal budget. The third section examines the mechanisms necessary for the effective implementation of VAT within the Iraqi economy.

The first topic: the conceptual framework of value-added tax and economic diversification

First: The conceptual framework of VAT:

Value-added tax (VAT) is a levy imposed on the incremental value added to goods and services at each stage of production and distribution. It is also considered a form of consumption tax, collected progressively throughout the economic cycle and applied in proportion to the level of consumption. In other words, VAT

represents the amount paid by the consumer to obtain goods and services. A common question arises as to why it is referred to as a “value-added tax” rather than simply a “consumption tax.” According to Hobeika (2000, p. 9), imposing a tax solely on final goods could result in multiple taxation of the same product during its various production stages. To prevent this issue, VAT is levied at every stage of production, ensuring that taxation is applied only to the value added at each step, rather than repeatedly on the entire product. Under this system, the output at each stage is taxed (War, 1999, p. 142), regardless of the final use of the product.

To ensure that the tax burden falls only on final consumption, taxes paid on inputs used in production are refunded to the entities that purchased those inputs. Hence, VAT is applied comprehensively throughout the production process but ultimately affects only the net value added at each stage. This value is calculated as the difference between the selling price of goods or services and the costs of inputs used in their production.

VAT is considered a modern taxation system, unlike earlier indirect taxes, which were traditionally imposed on specific goods such as cigarettes and alcoholic beverages, or through retail sales taxes. VAT first emerged as a response to governments’ growing need for sustainable revenue sources, especially as turnover taxes were found to create severe distortions in economic decision-making (Cumbers, 2006). The tax was first introduced in France in 1948 (Daniel & Mitchell, 2005), and its adoption rapidly gained momentum worldwide (Bickley, 2005). A major factor behind its widespread implementation in Europe was its designation as a prerequisite for accession to the European Union, which encouraged not only member states but also non-member countries like Norway and Switzerland to adopt the system.

Today, all member countries of the Organization for Economic Cooperation and Development (OECD) with the exception of the United States have implemented VAT (Simon Games, 2006). During the 1990s, VAT adoption surged globally, especially among countries undergoing economic transition, reflecting the urgent need to reform traditional revenue sources. Similar to other developing nations,

several Arab countries adopted VAT as a fiscal tool to strengthen state budgets and reduce reliance on rentier income such as oil revenues and foreign grants. Currently, eight Arab countries apply VAT: Algeria, Egypt, Morocco, Tunisia, Lebanon, Jordan, Palestine, and Mauritania (International Dialogue Conference, 2005, p. 159).

However, in Iraq, the introduction of VAT faces significant multidimensional challenges that could hinder its successful implementation. These include weak tax awareness among citizens, widespread practices of tax evasion and avoidance, and the lack of a comprehensive national framework to integrate tax policies effectively. Additional difficulties relate to limitations in accounting systems, which struggle to provide solutions for expected complications, as well as weaknesses in tax administration, particularly in the area of tax auditing (Amin, 2002, p. 33).

1.1 Problems facing the implementation of the VAT system, A. Jayakumar 2012:

- **The problem of not issuing tax invoices:** This represents one of the major challenges in implementing the value-added tax system, as invoices are essential for registrants to claim tax deductions on inputs. Moreover, the invoice must clearly separate the price of the good or service from the value-added tax amount.
- **Heterogeneity problem:** This problem appears when taxable entities deal with non-subject entities, or entities registered in the value-added tax system deal with entities not registered in this system, whether they are natural or legal persons, which leads to the non-registration of some companies or individuals to unfair competition with companies and individuals registered with VAT, in addition to the negative impact on VAT revenues (Wondwossen Jerene, 2016)
- **The problem of new industry franchise:** Some tax systems grant privileges to emerging industries, such as the VAT system in India, without establishing clear conditions for receiving these benefits. This lack of regulation poses challenges to the implementation of the VAT system.

- **The problem of multiple taxes imposed by the state:** Citizens feel the increased burden of VAT, along with other taxes imposed by the state, which pushes them not to comply with the value-added tax system.
- **The problem of lack of infrastructure:** This problem is manifested in by the lack of information technology that helps the successful implementation of the VAT system.
- **The problem of multiple goods subject to taxation:** This problem is manifested in the presence of varying tax rates applied to different goods, whether based on a relative percentage or a fixed amount determined by the weight or quantity of the commodity.
- **The problem of e-commerce:** A study (McClure, 2003) showed that the problems of e-commerce when applying value-added tax on e-commerce in the European Union, and these problems are the difficulty of imposing value-added tax on products that are traded electronically, in addition to the difficulty of registering dealers in the e-commerce system, and international e-commerce is associated with a set of problems related to value-added tax, and the tax invoice is the basic tool for the transaction that is subject to For VAT, e-commerce does not include paper documents, so it is difficult to track e-commerce transactions, and it is difficult to collect tax from unregistered companies, and the tax administration can use software, information technology and electronic examination to reduce tax evasion (Rosenberg, 2008)

1.2 Advantages and disadvantages of VAT:

In recent years, a significant number of countries have transitioned from traditional sales tax systems to value-added tax (VAT) systems. What is meant by VAT is usually not just a value-added tax, but a consumption tax. This tax is levied on all stages of production or sale. But with the provisions of some mechanisms that allow companies to compensate this tax that they pay on their purchases of goods and services by the tax they take on their sales of goods and services. The arguments in favour of VAT relate to the impression that it leads to greater homogeneity and creates more incentives for paying taxes, and there is also an

argument that VAT is a tax that has no distorting effect. (GOSH, 10, 2007) Although, Value-added tax (VAT) systems are generally consistent or even applied at a uniform rate, they can also operate with different rates. This uniformity makes VAT a regressive tax, as it disproportionately affects lower-income groups by increasing the prices of goods and services they consume. While exceptions to VAT rates may be introduced to mitigate this impact, they can disrupt the VAT chain and create challenges for enforcement and compliance, thereby increasing the risk of tax evasion and administrative inefficiencies (Gendron & Bird, 2006). Moreover, varying tax rates across goods and services often result in additional administrative complications.

Currently, more than 120 countries implement some form of VAT system, yet the evidence regarding its fiscal and distributional impacts remains highly mixed. Although VAT is often promoted as a comprehensive tax intended to replace other forms of taxation, many countries that have adopted VAT continue to impose additional levies, such as internal taxes, excise duties, and luxury taxes. This coexistence of taxes may lead to a decline in overall tax revenue if VAT fails to fully compensate for the revenue losses from the reduction or elimination of these other taxes.

An International Monetary Fund (IMF) study found that, in low-income countries, VAT compensated for less than 30% of the revenue lost due to the abolition of commercial taxes, highlighting a significant gap in revenue replacement (Baunsgaard & Keen, 2005).

Other significant challenges have arisen from the introduction of VAT in developing countries, particularly those with a large informal or “black market” sector (Emran & Stiglitz, 2005). VAT primarily targets the formal sector and is generally unable to encompass informal economic activities, such as small-scale farming, household enterprises, street vendors, retailers, or service providers. Consequently, VAT may inadvertently impede development by encouraging informal activities to persist outside the formal economy, rather than transitioning into it, where their contributions would be more accurately recognized.

In response to revenue shortfalls, governments may attempt to increase taxes on

the formal sector, which can inadvertently push more economic activities into the informal sector. This dynamic is especially pronounced in many developing countries, where individuals and organizations across different income levels maintain varying degrees of involvement in informal economic activities.

This implies that VAT in most developing countries cannot be considered non-distorting. In economies with a substantial informal sector, VAT may produce distortions by creating disincentives for businesses and individuals to transition to formal, registered economic activities, despite government efforts to encourage such transitions. In many developing countries, it is virtually impossible to impose taxes on all goods and services. VAT demands considerable administrative capacity and entails relatively high collection costs even when coverage is partial. Additionally, VAT returns are often complex and costly to manage, so the transition from other tax systems to VAT can lead to a reduction in overall tax revenues, particularly in small, open economies. Today's international standing is determined by its main advantages in improving living standards, developing international trade and establishing a free market, and this is what globalization determines. (Albana ,2023,175)

In larger developing countries with federal systems of government, additional challenges arise, such as the division of taxation authority over consumption between central and local administrations. This division can generate complex issues, complicating the management and implementation of effective tax policy.

1-3- Goods exempt from VAT: These include: www.almaal.org:

- All medical and pharmaceutical products
- Basic foodstuffs
- Books and educational materials
- Baby Products
- Fertilizers (locally produced), agricultural and veterinary medicine, agricultural machinery and agricultural transportation equipment Imported plants and machinery for use in the export processing zone or free trade zone
- All spare parts of aircraft and commercial aircraft imported for use in the

country.

- Therefore, many medical supplies and services can be exempted from value tax, as well as services provided by the post office, so when you buy a stamp book, you do not pay any value-added tax.

1.4 The importance of VAT:

VAT can perform these tasks:

1. VAT ratios (e.g. payroll and wage to value added ratio, value-added to sales ratio and tax-to-value added ratio) are a useful diagnostic and estimation tool. Studying the trends of these ratios and comparing them with another facility will be of greater benefit.
2. The value-added list means the management accepts its responsibilities towards users as it is responsible towards shareholders, it displays the value (wealth) formed by employees, capital and management, and the distribution of this value, which is as a measure of performance better than the ratio of profit to capital used.
3. The value-added list can be a tool to link the company's accounts with the national income accounts, as the value added by the company shows the extent of the company's contribution to the national income, and being a link between the financial statements and macroeconomic data, it helps to exchange experiences and data from economists and accountants and enhance the accuracy of macroeconomic data, which leads to improved economic estimates. (Ayoub et al., 331,2011)

Second: Reference review of some previous studies of VAT:

A study (K. Alavuotunki et al, 2019) aimed to show the impact of value-added tax on government revenues and inequality among members of society, this study found that value-added tax led to an increase in total government revenues, which in turn increased expenditures on essential public services directed toward low-income households and value-added tax led to inequality between people with different income levels, This tax created differences in savings rates.

The study of Hussein Sayed Hassan Abdel-Baqi, 2019, "Challenges of the Implementation of the Value Added Tax Law in Egypt", found that there is a significant impact of economic, social and administrative challenges on VAT revenues, and that the strongest inverse correlation between social challenges and revenues from VAT, has reached the degree of correlation (0.754) and that social challenges are one of the most important challenges affecting VAT revenues in Egypt.

As for the study conducted by Saraa Salem Daoud and Uday Salem Ali (2018), titled "Value Added Tax and the Possibility of Its Application in the Tax System of Iraq," it highlighted that the contribution of tax revenues in Iraq was modest in financing the state budget due to the heavy reliance of the Iraqi economy on oil revenues. These revenues are highly volatile and subject to fluctuations over time. The study suggested that it may be necessary to introduce a range of taxes, including a value-added tax, to align with global developments such as the liberalization of international trade, as well as to respond to internal economic changes that require the state to implement reforms and improvements to Iraq's tax system.

Third: Economic diversification in Iraq:

The study of economic diversification necessitates examining the degree of dependence on a single resource in rentier countries. It begins with the fundamental premise that a country's ability to diversify its sources of income first requires reforming the management of its financial surpluses. It involves expanding and developing the resource base through qualification, training, capacity building, and the integration of modern technologies. Therefore, the focus should be directed toward these two core areas, as they represent the primary obstacles hindering the replacement of the dominant resource with viable alternative sources of income in the future. They are the problem of surpluses that are concerned with ways to manage them and their negatives, and the problem of resources and their employment, and the truth is that the difficulty lies in the possibility of achieving successful solutions in both problems, and perhaps countries with the only rentier resource will not be subject to such problems only,

but they are subject to other problems in which we deduce the restrictions that push in a contrary direction to raise the level of diversification in them, the meaning of diversification goes to the desire to achieve a greater number of basic sources of income in the country, Which would enhance its real capabilities within the framework of global competitiveness through attempts to raise productive capacities in various sectors, without requiring those sectors to have a high comparative advantage, in the sense that economic diversification is the process that refers to the adoption of an increasing group that shares the composition of output, and diversification can be referred to the diversification of sources of GDP, Or that the diversification of sources of revenue in the general budget or the diversification of markets such as internal markets or export markets (Marzouk, 7,2013), that changing the structure of the Iraqi economy and achieving the changes obtained by Iraq after 2003, we find that the Iraqi state did not use the large financial resources derived from oil exports in accordance with the principle of rationality and rationality according to the theories of development in developing countries on the need to diagnose the source that generates the economic surplus in the developing country and employ it in the development of productive commodity sectors and other activities Which creates added value to achieve the process of capital accumulation necessary for sustainable development, as the commodity economic sectors (industry and agriculture) are among the leading sectors of the economy, which actually contribute to activating and activating the vitality of the Iraqi economy through its relationship to macroeconomic variables on the one hand and its direct impact on the growth movement of economic sectors on the other hand, as oil is a depleted wealth that may be lost in the future, While these productive sectors (industry and agriculture) remain the permanent balance of the livelihood of future generations and are the basis for the formation of capital accumulation necessary for development, where the absence of an important development goal (as long as forgotten by the planning budgets that have been developed since 2003 and subsequent years, and this goal lies in knowing what is the target growth rate for the productive economic sectors, which is a logical and objective goal within this stage and in what direction can be developed and developed these sectors in light of the state's

orientation (towards the market economy and its variables) and what are Economic policies and mechanisms required to activate the effectiveness of the performance of these sectors in order to add new components to the economy (counting oil) in the next stage (Hassan, 2017-6-10) Therefore, it can be said that the diversification of the Iraqi economy is the appropriate climate for comprehensive development, so that each sector has a clear and important role in the development process through the division of labor, so that diversification provides the appropriate climate for positive competition between institutions and achieves front and back interdependence between sectors and institutions, forming that economic cluster that works to achieve harmony between the interests of Each of them to achieve the desired goal, which is the common good, because the common good is the sum of individual interests, unlike the adoption of a single source of development (oil), which may deviate the growth of the economy from its desired course as a result of the strong correlation between fluctuations that occur in the oil industry and the widespread and frequent shocks that affect the global economy (Kazim, 2017,49).

The second topic: the impact of the application of value-added tax on foreign trade

First: The importance of foreign trade and the application of value-added tax:

Foreign trade is the criterion for the development and balance of countries in securing their needs of importing and exporting goods to the world, foreign trade is the one that governs in numbers the direction of the impact of the activities of various internal and foreign policies, as foreign trade indicators reflect the structural structure of the national economy, and express the level of development of that economy and the policies followed in various economic sectors, and its position in the field of trade exchange, In view of the importance of foreign trade, countries seek to follow specific policies in imposing taxes on exports and imports, and the value-added tax has singled out exports and imports with a specific mechanism due to the existence of a large link between trade and the revenues of this tax, and each country seeks to take appropriate action from this mechanism, and this mechanism depends on the fact that the value-added tax

affects the product sold or the service provided to the final consumer, Therefore, the tax of this consumer country, or as experts call it, the tax of the intended country is the one that must be adopted, hence the urgent need not as a result of the settlement at the borders, so that value-added taxes are organized as taxes on the basis of allocation, and this means that the tax is imposed in the country where consumption occurs and not where there is production, and according to "Therefore, VAT is not imposed on export deals and the tax incurred on the inputs used, not the product of exports, is refunded. Imports are subject to full taxation, and the study of the impact of VAT on exports and imports should be seen whether this tax will be added to existing taxes, or will replace sales (consumption) taxes in the country that will apply this tax (Hadiwa, 126,2009).

Second: The impact of VAT on foreign trade:

Clarifying the impact of value-added taxes on trade imposes on us the need to explain and study the experience of countries that approve and depend on value-added taxes, where the guide to the effects of value-added taxes on exports and economic openness was studied, as this method was adopted in analyzing the impact of value-added tax on international trade on sources covering comprehensive economic data at the regional level, International tables (Mihir A.Desai, 2002) were used to rely on the preparation of standards, namely:

- Economic openness measure: It was determined as total trade (exports + imports) distributed according to the total GDP.

Measures of exports and imports at traded and fixed prices, these metrics are used separately to assess the impact of value-added taxes on trade.

Per capita income measures: used to monitor the diversity of regional advantages.

A standard set of geographical variables that are related to commercial power.

Import duty metrics taken from the World Development Indicators are used to compare the impact of value-added taxes and tariffs.

The method depends on the occurrence of a decline of these measures of international trade on the illustrative variables that include indicators of the use of

VAT in order to match any independent effect of VAT has been studied three separate patterns of the guide are:

- Total trade behavior in 2000 for 136 countries.

Total trade behavior in a biased table for 168 countries from 1950-2000.

It is a guide of business conduct for foreign subsidiaries of U.S. multinational corporations in 52 countries in 1999.

The results were as follows: the dependent variable in this study was the degree of a country's trade openness, while the sole explanatory variable was a dummy variable, assigned a value of one if the country applied a value-added tax and zero otherwise. The findings indicated that the implementation of a value-added tax is associated with a decrease in both imports and exports. In other words, there is a negative correlation between the presence of value-added taxes and trade openness. This suggests that the impact of VAT on international trade patterns can vary depending on differences in tax administration and management practices across countries. Furthermore, the evidence revealed that low-income countries face greater practical challenges than other nations in deducting taxes on exports. The negative relationship between trade openness and VAT also reflects the way economies respond to economic stimuli, with this relationship becoming stronger as per capita income declines. When including GDP variables to monitor the effects of income differences and the introduction of geographical variables, the coefficient indicated that the greater dependence by 10% on value-added taxes as a source of government revenue is associated with weakening openness by 8%. Henceforth, it is one of the components of openness, where the dependent variable is the ratio of exports to GDP, and the independent variables are the same when studying economic openness, but in the case of high-income countries, the result is that reliance on value-added tax has a positive impact on economic openness when fixed effects have been included, where a large number of economic and political variables have the potential to influence international trade models, This makes it impossible to monitor all its effects while estimating the impact of value-added taxes.

The second pattern: the study and the studied empirical evidence show that countries that use VAT to finance their government in 2000 are less open "and have fewer exports than countries that do not use VAT, so it is useful to study the behavior of the table of countries over a much longer period of time in order to determine whether these associations will last over time, so when studying the declines at the level of 168 countries during a period of time extending from 1950 to 2000, The dependent variable in these declines was economic openness and other previous variables (Hadiwa, 2009,132).

Third: The State of the Iraqi Economy and the Influence of Oil Prices on the Public Budget. Oil holds strategic importance in the economy of Iraq, ever since its commercial discovery in the 1920s. This significance is evident in its substantial contributions to the gross domestic product (GDP), national income, total public exports, and the general budget, as well as its vital role in driving economic development. Oil revenues represent the primary source of financing comprehensive development programs, making the Iraqi economy highly dependent on oil. In fact, Iraq's economy can be described as primarily oil-based, with petroleum revenues providing a major share of government resources and contributing significantly to building the country's foreign exchange reserves. The strategic role of oil in Iraq's economic structure can be highlighted through several key aspects (Al-Bassam et al., 2012).

1. The Percentage of Oil Contribution to the GDP: The oil sector plays a dominant role in Iraq's economy. In 2008, the percentage of oil contribution to the gross domestic product (GDP) reached 65%, which represents a significantly high level (Ministry of Planning, 2009). The relative importance of the oil sector in the GDP is commonly used as an indicator to measure the degree of economic diversification. A higher percentage indicates lower economic diversification, reflecting the country's heavy dependence on a single resource. Conversely, a decrease in the oil sector's relative importance signifies an increase in the contributions of other productive sectors to the GDP, which is a positive sign of economic diversification and resilience.
2. The Percentage of the Contribution of Oil Exports to Total Exports: Oil exports represent a very high percentage of Iraq's total exports, which reflects

a low level of diversification in the country's export structure. In 2008, oil exports accounted for approximately 99% of total exports (Ministry of Planning, 2009). This overwhelming reliance on oil exports indicates that Iraq is highly dependent on oil revenues for generating foreign currency reserves. Such a situation creates economic vulnerabilities, as the country's external income is tied almost exclusively to the oil sector. This lack of diversification stems from deep-rooted structural problems in the economy, the most critical of which is the exclusive linkage of Iraq's economy to oil-generated cash income, leaving other productive sectors underdeveloped and underutilized.

3. The ratio of oil revenues to total revenues: The percentage of oil revenues contribution to the public revenues of Iraq is very high, it reached (97%) in 2008, and the reason for this is due to the exacerbation of the problems suffered by other economic sectors, such as the industrial sector and the agricultural sector, and this led to a decrease in the percentage of its contribution to achieving public revenues, and the rise in Iraq's oil exports, which amounted to about (850.1 million / b) In the same year, this heavy dependence on oil exports had a significant impact on the rise in their relative importance, reinforced by the continuous increase in oil prices since 2004, which in turn led to a substantial growth in Iraq's oil revenues.
4. The Role of Oil in the General Budget: The general budget in Iraq has relied almost entirely on oil revenues since the commercial discovery of oil until the present day. This heavy dependence is evident in the data of the general budget for the year 2007, where oil revenues contributed approximately 97.7% to the total final revenues of the budget (Ministry of Finance, Economic Department, 2007).
5. The Role of Oil in Financing Development: The financing of development programs in Iraq, at all stages, has relied almost entirely on oil revenues Since 1931, this dependence was reflected in the issuance of urban business curricula, with eight investment approaches introduced between 1931 and 1949 (Kajaji, 2002, p. 59). The significance of oil increased substantially after 1952, when the government began formulating comprehensive economic development plans. During this period, oil revenues accounted for

approximately 8.98% of the funding for reconstruction initiatives and development plans, highlighting the sector's pivotal role in supporting Iraq's economic growth.

Prior to the Corona pandemic and the decline in oil prices the countries of the Middle East were suffering from a slowdown in their economic growth due to the decline in oil prices to levels much lower than the preferred price to cover expenses and achieve a balance between revenues and expenditures, as Iraq is the largest oil producer in OPEC, it faces very serious challenges as a result of the low oil prices on the country's food security, the mass of salaries and efforts to combat Corona, On the one hand, Iraq is almost entirely dependent on oil, and on the other hand, the impact of regional conflicts, and the International Monetary Fund has expressed its readiness to provide assistance and cooperation with Iraq in order to develop a financial plan and prioritize public spending (Arab Center for Research and Policy Studies, 6,2020).

Fourth: The mechanisms that must be available to apply the added value in the Iraqi economy:

The removal of all restrictions on foreign trade in accordance with the vision of international institutions for tax reform, specifically the import aspect, led to the entry of low-priced goods from all origins into the Iraqi market, and therefore, all factories stopped because they could not compete with the foreign product, which made the relative contribution of the main activities of the economic sectors except (extractive industry) low, the impact of tax reform towards the liberalization of foreign trade on the structure of the main economic sectors, and in order to show the reflection of tax reform measures towards the investigation of Trade is based on the structure of the main sectors (Careem, 168,2015), and its relative contribution to the GDP in Iraq for the period (2004-2016) we review the data of the table below.

Table (1) Relative Contribution to GDP of the Main Activities of Economic Sectors measured at current prices in Iraq for the period 2004–2016

Relative contribution of the oil sector %	Relative contribution of the industrial activities sector %	Relative contribution of the service activities sector %	Relative contribution of the agricultural activities sector %	Years
58.9	1.8	32.5	6.8	2004
58.7	1.5	33.7	6.6	2005
56.9	1.6	36.9	4.6	2006
53.9	1.9	39.7	4.5	2007
56.3	1.6	38.7	3.4	2008
46.4	2.4	47.0	4.2	2009
48.2	1.2	46.4	4.2	2010
56.3	1.7	36.6	5.4	2011
55.1	1.5	39.2	5.2	2012
49.7	2.9	43.4	4.3	2013
48.9	2.2	45.8	3.1	2014
56.4	1.7	38.3	3.6	2015
56.1	1.6	38.9	3.4	2016

Data prepared by researchers based on:

- Data from the Iraqi Ministry of Planning and Development Cooperation and the Iraqi Central Bureau of Statistics, Annual Statistical Bulletin, various years.
- Central Bank of Iraq, annual economic reports and statistical bulletin from 2003 to 2016, miscellaneous pages.

The above table indicates that the relative contribution of economic activities during the period (2004-2016) was very low, as these percentages ranged for activities (agricultural, service and industrial) without oil between (1-6), which indicates a low relative importance of these economic activities and sectors compared to the relative contribution of the oil sector, which was the percentages ranging between (46-58) in the gross domestic product throughout the period from (2004-2016). Therefore, based on the data presented in Table (1), we conclude that the relative importance of agricultural and industrial activities without oil does not constitute any importance in the Iraqi economy.

Foreign trade in Iraq after 2003 is moving towards joining the World Trade Organization and applying the guidelines of other international institutions in the field of tax system and foreign trade, which would affect the tax and customs system due to the reduction or abolition of customs taxes, and therefore requires the creation of tax mechanisms as proposed scenarios to compensate for the significant reduction of customs taxes. This underscores the necessity of

amending and reforming the tax system in Iraq, with particular emphasis on the implementation of value-added tax and environmental tax, due to their significant impact on prevailing economic and social conditions. This requires the following measures: the application of value-added tax in the Iraqi economy (Al-Khorsan, 2010, pp. 5–7; Nehme et al., 2019, pp. 117).

Primarily, it can be observed in Iraq that the implementation of value-added tax faces multifaceted challenges that may hinder its effective enforcement. These include low tax awareness, widespread forms of tax evasion, and issues related to tax administration, particularly in the areas of audit and inspection. In addition, broader economic challenges in Iraq, as well as the persistent coordination issues between local governments in the provinces and regions and the central government, further complicate the situation. Several critical prerequisites must therefore be addressed before the successful imposition of VAT, which are outlined as follows:

- Integrity of tax policy design.
- Efficient monitoring and regulation of goods movement in border areas.
- A tax authority capable of administering taxes efficiently, however at minimal cost, supported by straightforward laws and procedures, an appropriate organizational structure, and sufficient resources.
- Implement tax compliance strategies through a balanced combination of awareness campaigns and audit programs.
- The design of the value-added tax and the procedures for its implementation, including the determination of the specific method and its application to all goods and materials produced in Iraq according to the principle of origin, necessitate the application of value-added tax to crude oil exports.
- Coordination between the local tax administration and the customs administration to administer VATS :As far as Iraq is concerned, the most appropriate way to manage this tax is to benefit from international experiences, as most countries of the world have established independent offices for value-added tax and the organization of a tax cadre based on a functional basis and

the experience of Indonesia is one of the most successful experiences in the world in this field, as value-added tax was imposed in 1985 at a rate of 10% on all locally manufactured and imported goods and the number of registrants increased and the tax collection for this type of tax rose from 1% of GDP to 3.5% during the same period (Shendi et al., 65, 2015) The application of value-added tax on foreign trade in Iraq is considered one of the most straightforward methods to generate revenue, particularly in countries facing weak tax administration and underdeveloped market institutions. VAT also contributes to the recovery of taxes previously paid on inputs, while its implementation enhances the competitiveness of national products in global markets. Given the significance of foreign trade, countries adopt specific policies regarding the imposition of taxes on exports and imports, and decisions must be made as to whether this tax will be imposed in addition to existing taxes or will replace sales and consumption taxes in the implementing country (Hadiwa, 2009, p. 129).

- If VAT is added to the existing taxes, here it should not affect export prices, in other words, there is no net change in taxes on exports, but for imports, VAT may increase the price of imports in line with the increasing prices for internal production competing with imports.

If VAT is replaced by other taxes (other sales taxes or corporate taxes in some countries), it can have a short-term impact on export and import prices, but it is generally assumed that in the long-term price rates may adjust to exports and imports.

The repercussions of the application of value-added tax in the event of its application in Iraq by keeping pace with international and regional developments as it responds to the requirements of the global economic system and the creation of abundant proceeds for the state treasury, and thus increase economic growth, as integration into the global economy leads to the development of tax systems and make them a stimulating tool for existing productive activities, as well as encouraging local and foreign investments and thus improving export levels, as integration into the global economy leads to the abolition of a set of taxes And

indirect fees as stipulated by international agreements and organizations, which affects the proceeds of tax revenues, so the need has emerged to secure alternative resources other than oil revenues, and perhaps the value-added tax is the most appropriate alternative to the many advantages it enjoys, as previously mentioned, and thus increase revenues and achieve a flexible and abundant outcome of the state's general treasury for the capacity of its tax base, which helped the government to activate various economic activities, which contributes to increasing economic growth and promoting foreign trade (grace and others, 2019, 120)

Fifth: The experiences of Arab and Western countries in the application of value-added tax:

Many Arab countries have shown increasing interest in the application of value-added tax and in this area the Arab countries are divided in terms of their position on the application of value-added tax into three groups: a group that applies the value-added tax system and includes (Morocco, Tunisia, Algeria, Mauritania, Sudan, Jordan and Lebanon, and a group that recently moved to apply this tax and includes the Arab Republic of Egypt, and a group preparing to develop it within its tax system, led by the group of countries of the Cooperation Council for the Arab States of the Gulf, It should be noted that eight out of 22 Arab countries apply VAT, which indicates a slowdown in the spread of its application at the level of the Arab region compared to the countries of the European region, Africa, sub-Saharan Africa and the Asia-Pacific Group of States (Arab Monetary Fund, 14,2017). The countries with the lowest tax rates are primarily in the East Asia and Pacific region, where rates range between 3% and 5%, followed by the United States, where the highest state-level rates remain below 7.5%. In contrast, European countries exhibit the highest rates, ranging from 20% to 25%, while some countries such as Russia apply 18%, Morocco up to 20%, and Jordan 16%. Tax rates are moderate in Japan and South Korea, reaching 8% and 10%, respectively, and among neighboring countries, Iran has the lowest rate at only 6% (Riyadh Chamber, 2017, p. 13).

Table (2) Value-Added Tax Rates in Selected Countries and Regions

Tax Rate (%)	Country
3 - 5 %	Asia and Pacific Region (including Singapore and Taiwan)
20-25%	Western European countries (including Norway, Denmark, and Sweden)
20%	North Africa (Morocco)
16%	Jordan
14%	Mauritania
5%	Yemen
6%	Iran
0-7,5%	America
20%	Britain
20%	France
19%	Germany
8%	Japan
10%	Korea
18%	Russia

International Monetary Fund (IMF), Tax Policy Reforms in the GCC Countries: How and Now? Cooperation Council Annual Meeting of Ministers of Finance and Central Bank Governors, Doha, Qatar, November 10, 2015, pp. 12–13.

The nineties have witnessed a boom in the rate of adoption of that tax, as adopted by all countries of economic transformation and among the 184 member states of the two economic organizations (the IMF and the World Bank), 136 (74%) of them apply the value-added system. These groups include all European nations, the majority of countries in the Americas, most Asian nations, and half of the African countries, whereas only five Arab countries, including Algeria, have adopted it. This tax represents a significant contributor to public revenue globally, making up approximately 25% of tax revenues and about 5% of the total GDP.

Denmark applies VAT at a single standard rate, with the current rate reaching 25%, placing Denmark among the countries with the highest value-added tax rates, alongside Norway and Sweden, while exempting certain services such as public transportation, healthcare, newspaper publishing, rental services, and travel agencies.

Finland: The standard rate of VAT was 22% and then increased to 23% in 2010 along with other rates, except for zero at the time 17% for food and 8% for

passenger transport services, film screenings, books and pharmaceuticals, health, educational, financial services, insurance, some transactions by the blind, steel translation services for the deaf and others.

In Iceland, VAT is applied at two rates: 25.5% for most goods and 7% for certain goods and services, including newspapers, magazines, books, food items, and home heating supplies.

Norway: VAT is divided into three sandwiches, 25% is the value-added tax and 8% for the transport of people, books and newspapers, in addition to the zero rate.

Sweden: There are three levels, 25% for most commodities, 12% for food, and 6% for publications.

In the United States of America, most states impose a sales tax that is ultimately collected from the buyer, unlike a value-added tax. Sales tax rates range from 0% to 13%. Michigan is unique among U.S. states in implementing a form of value-added tax known as the single-stage labor tax, making it the only state in the country to utilize VAT.

Further analysis indicates that countries that have implemented VAT tend to be relatively more advanced, with a higher ratio of international trade to GDP. In contrast, among countries that do not apply VAT, approximately 30% have populations of less than one million (Abdeslam, 2017, p. 226). Revenues from value-added tax constitute a significant portion of total state tax revenues, helping to cover public expenditures. Moreover, VAT implementation contributes to the rationalization of the tax administration and control structure, making tax evasion difficult due to its multi-stage process.

Conclusions and Recommendations:

Conclusions:

- 1- The value-added tax is calculated on the variation between the selling price of produced products and services and the costs encountered by productive users in the manufacturing process at every manufacturing stage. Several difficulties arise from the implementation for the value-added tax system, such as problem related to heterogeneity and the increasing numbers of taxes are imposed, and

so on.

- 2- The diversification of the Iraqi economy is the appropriate climate for comprehensive development, where each sector has a clear and important role in the development process, as it provides the appropriate climate for positive competition between institutions and achieved front and back interdependence between sectors, forming that economic cluster that works to achieve harmony between them to achieve the desired goal for the public interest.
- 3- There are eight out of 22 Arab countries that have implemented VAT, which indicates a slowdown in its spread and application at the level of the Arab region compared to the countries of the European region, Africa and the group of Asian and Pacific countries.
- 4- The repercussions of applying the value-added tax in Iraq and in response to the requirements of the global economic system are to find abundant proceeds for the state treasury and secure alternative resources other than oil revenues.

Recommendations:

- 1- The implementation of VAT requires economic measures and reforms to keep pace that related to the global economy to achieve the advantages of VAT.
- 2- To implement VAT, you need an accurate database and a technical infrastructure for tax collection with experience for tax collection workers.
- 3- To implement VAT, public education must be conducted by government authorities about the concept of tax and what are its returns on the local economy.
- 4- Taking into account the objectives of the value-added tax to achieve social and economic justice in the event of an increase in the value-added tax rate for sales of goods and services.

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