Republic of Iraq
Ministry of Finance
General Commission for Taxes

INCOME TAX GUIDE

FOR THE

CORPORATIONS

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General Commission for Taxes

INCOME TAX GUIDE FOR CORPORATIONS

This guide has been prepared by the General Commission for Taxes (GCT) to assist corporations to fulfill their obligations under the Income Tax Law #113 (1982) as amended. This guide will help corporations to fill out the Corporate Income Tax Declaration. This document is not a legal document. For further clarification, please contact any branch of the GCT and consult the Income Tax Law.

Please note that all correspondence sent to the GCT and its branches should be in the Arabic or Kurdish language. Also, all amounts of taxes to be paid shall be in Iraqi Dinars.

1. Definitions

Taxpayer:	Any person who is subject to tax under the Income Tax Law #113 (1982) as amended.
Tax:	The income tax imposed by the Income Tax Law #113 (1982) as amended.
Corporation or company:	Is a joint-stock or a limited-liability company incorporated within or outside Iraq which carries on business or has a department, offices or control place therein.
Tax period or financial year:	Tax period or financial year is the calendar year unless the taxpayer fixes another period to close his accounts with the approval of the General Commission for Taxes. The tax period or financial year is the period where the income is calculated in order to establish the amount of tax payable, directly prior the Assessment year.
Assessment year:	Assessment year is the period of 12 months starting the first of January of each year with due consideration to special periods referred in the Income Tax Law #113 (1982) as amended.
Corporation Income Tax:	The term "Corporation Income Tax' is commonly used to express a corporation which is subject to Income Tax Law #113 (1982) as amended.

2. Which Corporations are subject to Income Tax?

Any joint-stock or limited liability company incorporated under Iraqi Laws or other laws where the place of management or control is in Iraq is subject to the Corporation Income Tax as a Iraqi resident person.

Tax is imposed on the income of the Iraqi resident person which arises inside or outside Iraq regardless the place of receipt.

Foreign companies that are registered in Iraq or otherwise have a permanent establishment in Iraq are subject to the Corporation Income Tax only on their income earned in Iraq. A permanent establishment means a fixed place of business of the corporation, such as an office, a branch, a factory, work place, a construction site, a warehouse, a mine, an oil or gas well.

3. How to calculate the Corporate Income Tax?

A corporation has to determine for its tax period its profit/loss according to his income statement determined under General Accepted Accounting Principles (GAAP). In order to obtain a taxable income subject to tax at a flat rate of 15%, positive or negative adjustments have to be made to the profit/loss as determined according to GAAP. For this purpose, Schedules were prepared to help you to make the appropriate adjustments (read section 7.2 of this document).

4. When to file the Corporate Income Tax Declaration?

A corporation must file in duplicate to one of tax branch of the GCT a Corporate Income Tax Declaration, its supporting schedules and financial statements, at the latest on May 31st following the tax period. If the corporation is granted a different tax period from the GCT the deadline for filing the return is 5 calendar months after the end of that tax period. Late filers will be subject to penalties as stipulated in the Income Tax Law.

5. Books and records

A corporation must keep all supporting documents, either in an electronic or written format, such as sales and purchase invoices and books, Customs documents, bank statements, contracts, investment documents, all documentation on business involvement abroad, whether through a permanent establishment or not, available for review by Tax Commission officials. All information used to prepare the tax declaration and supporting schedules must be kept in perfect order.

Corporations should also keep a copy of the declaration and of all documents that they have submitted to the GTC.

All books and records must be retained for a minimum of 7 years unless the GCT grants a formal approval for a lesser period.

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6. Assessment of a Corporate Income Tax Declaration

After the filing period of a Corporate Income Tax Declaration, the GCT examines the declaration and supporting documents submitted to it. The GCT may accept the Corporate Income Tax Declaration as it is and assess tax accordingly, or refuse it and consequently, assess tax on the basis of information collected.

As for corporations not filing a Corporate Income Tax Declaration, if the GCT considers those legal entities liable for taxes, the GCT may estimate its income and assess tax thereon. Such assessment does not relieve the taxpayer for responsibility for non-submission of the declaration at the required time.

When assessed, a notice of assessment is sent to the corporation stating the amount of Corporate Income Tax due. From that date (due date), the interest rate will be that charged by Al-Rafidan bank on overdraft facilities. If the tax is not paid within 21 days of the due date an additional penalty of 5% of the tax due shall be imposed. If the tax due is not paid within this period, a penalty of 10% of the tax due will be imposed after an additional 21 days.

The GCT has to right to re-assess any corporation during the five following years after the concerned tax period.

7. How to complete the Corporate Income Tax Declaration?

The Corporate Income Tax Declaration is made of two main parts,

First part: page one for the identification of the corporation and other basic information;
Second part: page two for the calculation of the taxable income and corporate income tax including the schedules that supports the information provided on page two of the declaration.

7.1 Identification and information page

Line 1: Enter the Tax Period or financial year. Usually the Tax Period is the calendar year unless you are authorized by the GCT to follow a different period. Enter the first date and the ending date of the year at line [1a]. If your financial year is different than the calendar year, then enter the first and last date of your financial year at line [1a]. For assessment year, enter the year that follows your financial year at line [1b].

Line 2: Enter the corporate Taxpayer Identification Number (TIN). This should be the number of 9 digits assigned to you by the GCT. If you don't have a TIN, you should contact one of the tax branch and fill out a registration form in order to register your corporation and get a TIN.

Line 3: Enter the corporation's name. This should be the full name as indicated in the registration application or incorporation documents.

Line 4: Enter the address of the company as it is indicated in the incorporation documents or in the registration application.

Line 5: Indicate the full name of major shareholder of the company and its percentage of ownership.

Line 6: Enter the full name of the managing director of the company and a phone number.

Line 7: Enter the name of the accountant or of the bookkeeper that can provide information regarding to the declaration and a phone number.

Line 8: Enter an 'X' in the appropriate box: *Original Return* is to be crossed when you wan to file an original return for the first time for a tax period; *Amended Return* is to be crossed when you want to amend a previously filed return.

Line 9: Enter gross figures according to the financial statements for gross revenues and total assets.

7.2 Calculation of the taxable income and Corporate Income Tax

Line 10: Profit /loss per financial statements comes from the Income Statement, sometimes called "Statement of Profit and Loss" or "Profit and Loss Account". This should be the financial profit determined according to the General Accepted Accounting Principles. If you have a loss instead of a profit on your income statement, place the amount within brackets. For example, if you have a loss of ID 10,000,000 on your income statement, write (ID 10,000,000) on line 10 of your declaration. Also,

do not forget: An Iraqi resident has to report income from all sources, both inside and outside of Iraq. All income from another state must be included in the income statement and it should be in Iraqi Dinars. The conversion must be made using the conversion rate applicable on the day a payment was received or, if the amount was paid at various times throughout the year, you may use an average annual rate. You must be prepared to demonstrate how you calculated the average annual rate. You can obtain the exchange rate from the Central Bank of Iraq at the following website: www.cbiraq.org.

In order to obtain a taxable income subject to tax at a flat rate of 15%, positive or negative adjustments have to be made to the profit/loss as determined according to GAAP. Lines 11 to 16 of the corporate income tax declaration are positive adjustments. Lines 19 to 23 are negative adjustments. For this purpose, schedules are designed for most of the adjustments. You must prepare all the schedules that apply to your business. Make sure that you read each section that pertains to each schedule and that you determine if it applies to your situation or not.

Line 11: Complete schedule A and enter the amount of depreciation for tangible assets that you have included in Income Statement, either included in the cost of goods or presented separately, on line 11 of the declaration. Usually, companies do apply their own depreciation rates or methods according to General Accepted Accounting Principles. You are also allowed to do so if you choose, but do not forget, the law has delegated the Minister of Finance the authority to issue administrative instruction on defining the allowable depreciation rates and methods. Actually rates and methods indicated in Regulations #9 of 1994 have to be used for determining the accepted amount of depreciation for the purpose of the Income Tax Law. If there are discrepancies between the two rates you have to add the amount of depreciation included in Income Statement on line 11 and subtract the amount of depreciation allowed on line 20 of the declaration. For more information on the calculation of depreciation for Income Tax, see line 20 hereinafter.

Line 12: Complete schedule B and enter the amount of amortization you have included in the Income Statement for your intangible assets (such as goodwill, customer bases, trademarks, copyrights, patents, and workforce quality) on line 12 of the declaration. If there are discrepancies between the rates or methods that you have used and the ones approved by the GCT you will have to add the amount of amortization included in Income Statement on line 12 and subtract the amount of amortization allowed on line 22 of the declaration.

Line 13: Complete schedule C. Add on line 13 the amount of wages paid to the managing director of a limited liability company, which is included in Income Statement.

Line 14: Complete schedule D. Add on line 14 of the declaration any amount of nondeductible expense for income tax purposes that has been included in Income Statement. For example, if the real estate tax and corporate tax are expenses considered for accounting purposes in the Income Statement, you have to add those amounts on Line 14. All expenses incurred to earn income exempted from income tax have to be added and recorded on Line 14.

Line 15: Complete schedule E. Columns 1 to 4 of the Schedule E is self-explanatory. According the Income Tax Law, a debt is to be considered a bad debt when the two conditions in columns 5 and 6 are met. If this is the case the company is entitled to create a bad debt provision, which is recognized as deductible for corporate income tax purposes. If a debt does not meet the two conditions and it is included in the Income Statement an adjustment is needed to correct the inflated expenditures. For this purpose, enter the amount of bad debts deducted in the Income Statements on line 15 of the declaration and deduct the bad debt amount accepted for Income Tax purposes on line 18 of the declaration.

Line 16: Complete schedule F. Enter any amount, which has not been included in Income Statement and that would increase the taxable income or any amount deducted in the Income Statement that would increase the taxable income. For example, a corporation sells a building and obtained a loss on asset sold (selling price minus its book value) that is deducted from the Income Statement. The amount of loss on asset sold (except on inventory) is not tax deductible, so it should be added on Line 16 of the declaration. Another example, if the corporation were a member of a partnership, you would add the part of income allocated to the corporation on Line 16 if any of it was included in the Income Statement.

Line 17: Sum up the amounts of line 11 through line 16 and enter the result on line 18 of the declaration.

Line 18: Refer to schedule E and line 15 of the positive adjustments.

Line 19: Complete schedule G if your company has had any of the income listed in this schedule. Such income is exempted from tax and if it is included in Income Statements it is should be excluded by subtracting the same amount from profit/loss as per Income Statement.

Line 20: Depreciation for tangible assets other than land

Under Regulations #9 of 1994 "System of depreciation and amortization", taxpayers can choose to apply one of the following four methods of depreciation for all of its assets.

Straight-line method;
Declining balance method;
Productive unit method; and
Re-estimation method.

The taxpayer must receive permission from the GTC to use one of the last two methods. Once chosen by the taxpayer, the method cannot be changed without permission of the GCT.

For determining the rates of depreciation of tangible assets other than building, consult the Tables attached to Regulations #9 of 1994. In order to determine the rates of depreciation applicable to buildings, consult the rates indicated in the tables attached to Financial Instructions #11 of 1988.

In any case, the value of vacant or used land, real estate subject to tax according to the Law of Real Estate Tax #162 of 1959 as amended and all assets used to earn a tax exempt income cannot be depreciated.

The following is an example of the two most common used depreciation method:

<u>Straight-line method:</u>

The straight-line method allocates the cost of the asset in equal amounts over the productive life.

Example:
A corporation buys in February of a fiscal year an ID 100,000 equipement.
This asset has an estimated productive 60 months life. At the end of the 60 months period, this asset will not be productive used anymore.

This asset is not listed in the specialized tables #2 to #10 provided in Regulations #9 of 1994 regarding the system of Depreciation. Accordingly the depreciation rate to be used is the one indicated in Table #1 for the common assets is 10%.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Original cost	100,000	100,000	100,000	100,000	100000	
Depreciation rate	10%	10%	10%	10%	10%	
Adjustment in year of acquisition (Art. 5 of Instructions #9)*	10 /12	12/12	12/12	12/12	12/12	
Depreciation amount	**8,333**	**10,000**	**10,000**	**10,000**	**10,000**	51,667**

*: Number of months following the month where the asset is placed in service divided by 12 months.
**: According to paragraph 3 of Article 3 of Regulations #9, the book value is fully depreciated in the last year of productive work in the straight-line method. No part of book value shall be considered to have been cancelled during financial year 2003 and for the first three months of financial year 2004.

<u>Declining balance method:</u>

The declining-balance method requires that, for each consecutive year after the first, the percentage allowed as depreciation is taken from the balance left after the depreciation deduction. When using this method, the percentage of depreciation indicated in the tables attached to Regulations #9 are doubled.

Example:
Using the same data provided in the example for the straight-line method above. The depreciation rate is doubled from 10% to 20% by virtue of the third paragraph of Article 3 of the Regulations #9.

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
1	Book value at the beginning of the year (line 7 of previous year)		83,333	66,666	53,333	42,666	34,133
2	Acquisition of assets during the year	100,000					
3	Allowable cost for depreciation (line 1 + line 2)	100,000	83,333	66,666	53,333	42,666	34,133
4	Depreciation rate	20%	20%	20%	20%	20%	20%
5	Adjustment in year of acquisition (Art. 5 of Instructions #9)*	10/12	12/12	12/12	12/12	12/12	12/12
6	**Depreciation amount** (line 3 X line 4 X line 5)	**16,667**	**16,667**	**13,333**	**10,667**	**8,533**	**6,827**
7	Book value at the end of the year (line 3 – line 6)	83,333	66,666	53,333	42,666	34,133	27,306

*: Number of months following the month where the asset is placed in service divided by 12 months.

For year 7 and the following years, the corporation continues to deduct a depreciation amount as shown for years 2 to 6.

Enter the results of depreciation allowed by virtue of Regulations #9 on the Schedule B for all assets per group having the same uniformed account number as indicated in the tables attached to Regulations #9.

If the corporation used this method in 2002, it must compute the depreciation deduction for financial year 2004 by reconfiguring the opening book value of each asset account as of April 1st, 2004, like this:

Book value of the asset account at 2002/12/31:	XXX
Plus: Cost of assets bought during 2003 and first 3 months of 2004:	XXX
Minus: Book value of assets sold during 2003 and first 3 months of 2004(1)	XXX
Book value of the asset account at 2004/04/01:	XXX

(1): No tax depreciation is calculated for the period of 2003/01/01 to 2004/03/31.

How to fill out Schedule A:

Let's suppose the same data than indicated before for the declining balance method. The asset is sold in July of year 7 for a selling price of 75,000 ID.

Category of Depreciable Assets (Name)	Uniformed account # according to tables attached to the valid Depreciation Regulations	Book Value at the beginning of the year	Cost of acquisitions during the year (new assets must be available for use)	Cost of assets sold during the year	Total depreciation allowed by the valid depreciable system	Accumulated depreciation of assets sold during the year	Book Value at the end of the year (3 + 4 – 5 – 6 + 7)
1	2	3	4	5	6	7	8
equipment	113	27,306		100,000	2,730*	75,424**	0
Total:					2,730		

*: Book value at the beginning of the year X 20% X 6 months / 12 months.
**: Total of depreciation for the equipment sold for year one to year 6 (72,694 ID) plus the depreciation for year 7 (2,730 ID) for a total amount of accumulated depreciation of 75,424 ID.

Line 21: Enter the amount of allowed amortization for income tax purposes of intangible assets as indicated on column 5 of Schedule B. Table 1 attached to Regulations #9 states that amortization rate is 10% for intangible assets. When using the declining-balance method, the rate of amortization is 20%.

Line 22: Enter the maximal amount allowed by the Income Tax Law for the payment of salary, allowances, rewards, commissions and bonuses paid to a managing director of a limited liability company.

Line 23: Complete Schedule H “Other Negative Adjustment”. Enter any specific non-taxable income which has been included in Income Statement and that would decrease the Taxable Income or any amount that would also decrease the taxable income. Record the negative adjustment amount on line 23 of the declaration. For example, if a corporation has included a capital gain because it has sold a building with a profit and if this profit is included in the Income Statement, the amount of capital gain can be recorded on line 23 of the declaration. For Financial year 2004 only, you may enter on Shedule H, 33.33% of the amount of depreciation allowed for tax purposes claimed on line 20 and amount of amortization claimed on line 21.

Line 24: Sum up the amounts of line 18 through line 23 and enter the result on line 24 of the declaration.

Line 25: Line 10 plus the positive adjustments of line 17 minus the negative adjustments of line 24. This result is the taxable income of the corporation before losses from previous years. If line 25 is negative, it constitutes a tax loss that can be carried forward to one of the five following years. Indicate the amount of tax loss of line 25 of the declaration on column 1 and 4 of the first line of Schedule I.

Line 26: Complete schedule I. Enter the accumulated amount of loss carried forward from the previous five tax periods. Do not forget that the losses incurred during 2003 and for the first quarter 2004 cannot be carried forward. Also, financial year 2003 shall not be taken into account in determining the 5 consecutive years to which losses may be carried under the Income Tax Law. Losses may not offset more than half of the taxable income of each of the five years.

Line 27: Line 26 minus Line 25. That amount represents the taxable income for the corporation subject to tax

Line 28: Multiply the amount of line 27 by 9/12 for year 2004 only since tax was suspended for the first three months of the year. For year 2005 and beyond, enter the same amount of line 27.

Line 29: The tax rate of 15% shall be applied to the amount of Line 28.

Line 30: Complete Schedule J. If you have earned income outside Iraq and you have paid income tax in a foreign state on this income, you are entitled to a foreign tax credit for the income tax you have paid provided that the amount is not higher than the amount you would have paid in Iraq and does not exceed the amount indicated on line 29**.** An official certificate from the Tax Authority of the foreign state is required proving the amount of foreign tax paid. You can also carry forward the excess tax paid in the foreign country and not credited with previous tax returns. The maximum foreign tax that can be credited for a year cannot be more than the amount of tax that would be paid in Iraq for this foreign income. Therefore you must multiply the taxable profit converted in ID in column 6 by 15%.

Line 31: Complete Schedule K if your corporation was subject to withholdings on certain of its contracts as per Instructions #4 of 1993 (rates of withholding were updated since 1993) and withholdings were remitted to the GCT by the withholding entities.

Line 32: Add line 30 and line 31.

Line 33: Line 29 less line 32. If this amount is positive, then you are liable to tax due (record the same amount of line 34). If this amount is negative, then you are entitled to a refund (record the same amount as a positive amount on line 35).