



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

IRAQ

General Commission for Taxes: Strategic Direction
for Prioritized Reforms

April 2024

Prepared By

Fadia Sakr, Sabine Corm, Patrick De Mets and Lydia Sofrona

Fiscal Affairs Department

DISCLAIMER

The contents of this document constitute a high-level summary of technical advice provided by the staff of the International Monetary Fund (IMF) to the authorities of Iraq (the "CD recipient") in response to their request for capacity development. Unless the CD recipient specifically objects within 30 business days of its transmittal, the IMF will publish this high-level summary on IMF.org (see [Staff Operational Guidance on the Dissemination of Capacity Development Information](#)).

2024 International Monetary Fund HLS/24/11

High-Level Summary Technical Assistance Report Fiscal Affairs Department (FAD)

Iraq: General Commission for Taxes: Strategic Direction for Prioritized Reforms
Prepared by Fadia Sakr, Sabine Corm, Patrick De Mets, and Lydia Sofrona

The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: The Government of Iraq has embarked on a considerable modernization journey for the General Commission for Taxes (GCT) with the goal of expanding the revenue base following a tax/GDP decline of 1 percentage point in 2022 (from 2 percent in 2020). Taking into account the internal and external challenges, and the findings of the 2022 Tax Administration Diagnostic Assessment Tool (TADAT) and the existing plans of the authorities, the report highlighted core reform areas to be included in a reform plan for the GCT. The report also included an indicative integrated FAD/METAC mid-term capacity development (CD) plan for the next three years.

JEL Classification Numbers H2, H20

Keywords: Large Taxpayers, Reform, Self -Assessment

Background

In response to a request by the Minister of Finance (MoF) of Iraq, Ms. Taif Sami Mohammed, which was confirmed during the IMF-World Bank Group Annual Meetings in Marrakesh in October 2023, a joint Fiscal Affairs Department (FAD)-Middle East Regional Technical Assistance Center (METAC) team conducted an offsite diagnostic mission for the Iraq General Commission For Taxes (GCT) in Istanbul, Türkiye, during the period December 4 - December 15, 2023. The mission was to support the GCT in developing a tax administration medium-term reform plan and propose appropriate reform governance arrangements. This included activities to address the weaknesses identified by the 2022 Tax Administration Diagnostic Assessment Tool (TADAT) assessment led by the World Bank (WB) in which FAD participated, and prioritization of the various reform projects (active or planned), and other reforms as identified by the mission team and authorities.

The tax/GDP ratio declined to 1 percent in 2022 from 2 percent in 2020. There is a strong drive by the government to modernize the GCT and improve the administration of taxes. The Council of Ministers has approved two major reform projects for the GCT: a new Integrated Tax Administration System (ITAS) and amendments to the Income Tax Law (ITL) but a holistic approach is needed.

Summary of Findings

The GCT is operating in a very challenging environment that impacts its performance, including poor infrastructure, highly manual operations with no information technology (IT) system in place, high staff turnover, political instability, etc. Additionally, the GCT's institutional and operational structure is outdated, making it difficult to identify key roles and resulting in overlapping mandates.

The GCT's actions to address institutional and operational challenges identified by METAC and other development partners (DPs) have been limited to date. For example, there has been little progress with addressing the shortcomings identified in the 2022 TADAT assessment with no comprehensive reform plans, with specific actions, deliverables, and timelines, formulated. Initiatives to implement a taxpayer self-assessment (SA) regime have begun, however, a simplified administrative assessment system remains in place. Multiple donors and DPs are set to support Iraq's tax reform efforts, yet a lack of formal coordination mechanisms poses a risk of duplicated activities.

Summary of Recommendations

Based on a carefully tailored approach, a medium-term reform plan, built around six core reform areas has been developed for the GCT. Those areas are: (i) Establishing a reliable taxpayer base; (ii) Improving core functions through implementation of the SA system; (iii) Focusing on large taxpayers' compliance; (iv) Organizational design and workforce planning; (v) Transitioning to a digital environment; and (vi) Reform governance.

As a priority, the registered taxpayer database must be completed, accurate, and up to date; GCT should also consider implementing a taxpayer registration IT system until an exhaustive IT system is in place, as this will enable for substantial strengthening of the tax core processes.

Further steps are needed to transition to a "fully-fledged" SA and to start a gradual implementation within the Large Taxpayer office.

To be in line with international good practices, GCT has to consider adopting the proposed function-based organizational structure, coupled with segmentation for LT. To apply the ongoing reforms, a comprehensive workforce reconfiguration has to be undertaken by the GCT in the medium term.

An integrated FAD/METAC mid-term capacity development plan has been developed to meet the growing needs of Iraq and respond to local circumstances and absorptive capacity, adjusting swiftly to changes when required.