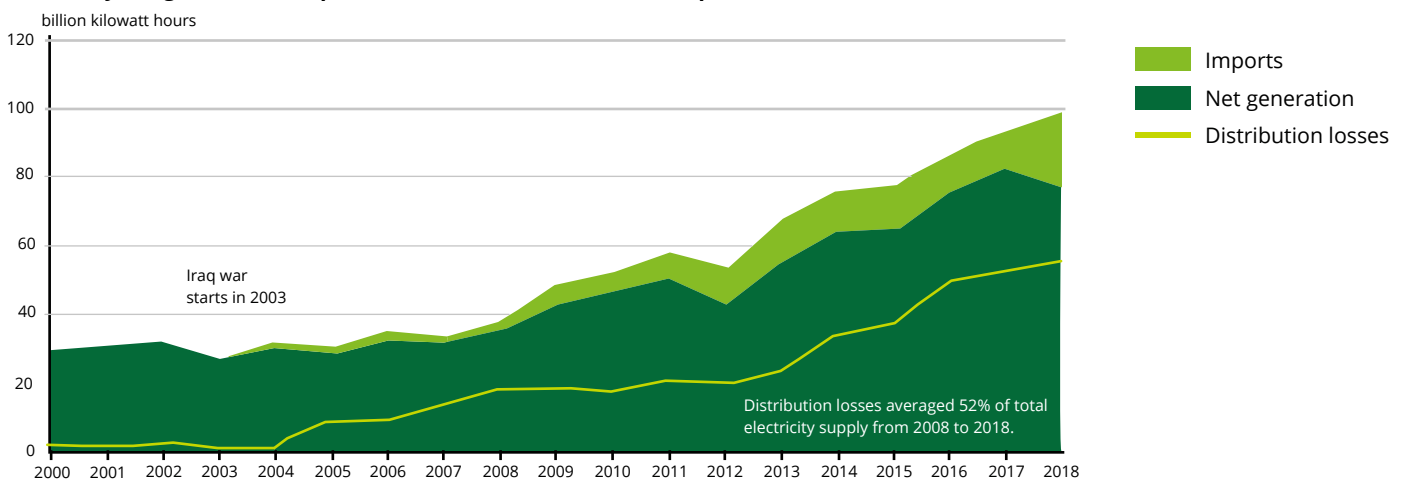




Tax considerations for the power sector in Iraq

Electricity generation capacity in Iraq has been lagging behind demand for several years now. The demand for electricity peaks in summer, resulting in power shortages and blackouts. For example, in 2019, the available peak generation capacity in Federal Iraq was 19.3 gigawatts (GW), much lower than the peak summer demand of 27.5 GW. While net electricity generation has been growing annually, low utilization rates of power plants, distribution losses and lack of infrastructure have all contributed to the inability to bridge the gap between supply and demand.

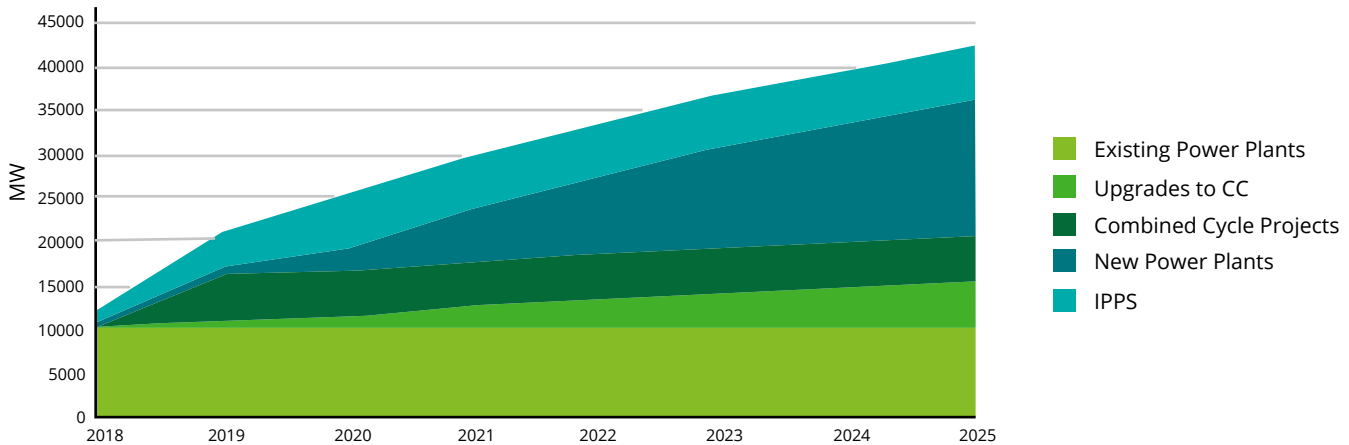
Electricity net generation, imports, and distribution losses in Iraq, 2000-2018.



Sources: U.S. Energy Information Administration (EIA), based on information published by EIA and International Energy Agency.

Iraq has been dependent on electricity imports, primarily from Iran and is now looking to diversify by purchasing electricity from other sources such as the Gulf Cooperation Council (GCC), Saudi Arabia, Kuwait, Turkey, and Jordan. Iraq is also seeking to increase its electricity generation capacity through the development of new power plants and building infrastructure to support the transmission of electricity and reduce distribution losses.

MOE generation plan (2018-2025)



Historically, Iraq has generated electricity from oil and natural gas, however, we are seeing a shift towards renewable energy sources, with the Iraq cabinet approving investment projects for the construction of seven non-conventional power plants in Iraq.

Tax considerations for new entrants

Iraq has traditionally been one of the most difficult jurisdictions to do business in and be compliant from a tax perspective. International companies looking to do business in Iraq should be aware that they are obliged to register a legal entity and complete tax and social security filings in respect of both the entity and its employees on an ongoing basis.

In order to attract international expertise, Iraq has announced a number of tax concessions to projects that contribute to the development of Iraq under the Investment Law and Cabinet Decisions No.167 and 767. The Investment Law and the Cabinet Decisions vary in their application in terms of the duration of the tax concessions and the breadth of the taxes covered. Therefore, international entrants into the power sector should carefully consider the tax implications of their operations in Iraq and potential tax exemptions available to them.

How can Deloitte help?

Deloitte's Iraq tax practice was set up in 2009 and is centrally headquartered in the UAE, with international tax practitioners who are able to leverage from their international tax experience when advising clients. We have registered offices in both Baghdad and Erbil, with a team on the ground who regularly liaises with the tax authority and is aware of the practical positions adopted by the tax authority.

We have significant experience supporting some of the biggest international companies with their Iraq business and have supported a number of clients in the power generation industry to obtain tax exemptions in Iraq. We are familiar with the challenges faced by new entrants into the power sector in Iraq and are well placed to support clients by highlighting potential tax risks and opportunities from a regulatory and practical perspective. Get in touch with one of our team members listed below if you have any queries or need further assistance.



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