



Doing business guide

Understanding Iraq's tax position



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About Iraq



The Republic of Iraq ("Iraq"), is the fourth most populous country in the Middle East and has the world's fifth largest proven oil reserves. Iraq is predominantly a desert, made fertile by the Euphrates and Tigris rivers. Iraq has a rich cultural heritage and in ancient times was referred to as the "Cradle of Civilisation". The official languages of Iraq are Arabic and Kurdish.

Iraq has a federal parliamentary system of government with the country being divided into governorates, four of which comprise the semi-autonomous Kurdistan Region. Iraq has a mixed legal system of Civil and Islamic law.

Market overview

Country - overview

- The global COVID-19 pandemic and the collapse of oil prices contributed to Iraq's economy contracting by around 9.5% in 2020.
- Production cuts following the agreement with OPEC+ negatively impacted Iraq's economy which is heavily dependent on oil revenues, resulting in a significant increase in public debt, pressure on the exchange rate and central bank reserves of the country.
- In response, the Central Bank of Iraq devalued the Iraqi dinar by around 23% in December 2020. Despite anticipated improvement in oil prices in 2021, lack of political stability and the devaluation of the Iraqi dinar are expected to weigh down consumption and disrupt commercial activity in the country.
- The International Finance Corporation (IFC) supported multiple investments in the Iraqi healthcare sector in 2020. The agency is also partnering with the World Bank to promote economic diversification in private sector development and improve the energy, transport, as well as the financial sector in Iraq.
- The macroeconomic outlook for Iraq remains uncertain and will depend on the recovery of the global oil markets, the potential of the Iraqi healthcare system to respond to the pandemic, and its economic reform processes. If the conditions improve, growth is expected to bounce back to 2-7% in 2021-2022, with non-oil economy projected to return to an average of 4% during the same period.
- To offset the economic effects of the pandemic, the Iraqi government is focusing on reforming public finances, and increasing gas explorations, in order to strengthen their power-generation capacity and to fuel industrial expansion.

Government

Geography	
Government type	Federal Parliamentary Republic
Chief of State	Barham Salih, President
Head of Government	Mustafa Al-Kadhimi, Prime Minister
Legal system	Mixed legal system of Civil and Islamic law
Administrative divisions	18 governorates (muhafazat, singular—muhafazah (Arabic); parezgakan, singular—parezga (Kurdish)) and one region; Al Anbar; Al Basrah; Al Muthanna; Al Qadisiyah (Ad Diwaniyah); An Najaf; Arbil (Erbil) (Arabic), Hewler (Kurdish); As Sulaymaniyah (Arabic), Slemani (Kurdish); Babil; Baghdad; Dahuk (Arabic), Dihok (Kurdish); Dhi Qar; Diyala; Karbala'; Kirkuk; Kurdistan Regional Government; Maysan; Ninawa; Salah ad Din; Wasit

Source: Central Intelligence Agency Factbook, The Economist Intelligence Unit

Economy — overview

Oil and Gas

- The Iraqi economy is dominated by the oil and gas sector. Oil accounted for 43% of the GDP, 92% of the government budget revenues, and 96% of the country's exports in 2019. Iraq holds the world's fifth largest proven crude oil reserves at 145bn barrels, representing 17% of proven reserves in the Middle East and 8% of the global reserves. At the end of 2020, Iraq's proven natural gas reserves were the 12th largest in the world, at approximately ~132tn cubic feet.
- Due to an improved security environment and increased investments by International Oil Companies (IOCs), Iraq's crude oil production exceeded the OPEC-agreed ceiling, reaching 4.8mn bpd in 2019 and ~4.4mn bpd during the first half of 2020. However, in the second half, Iraq was obliged to implement significant production cuts to comply with the OPEC Agreement, in response to the oil price crash triggered by the pandemic.
- Iraq's oil exports also witnessed a 15%

annual drop in 2020, averaging ~3mn bpd. Due to the plunge in global prices, annual revenues from oil also declined to US\$41.95bn, the lowest in more than a decade.

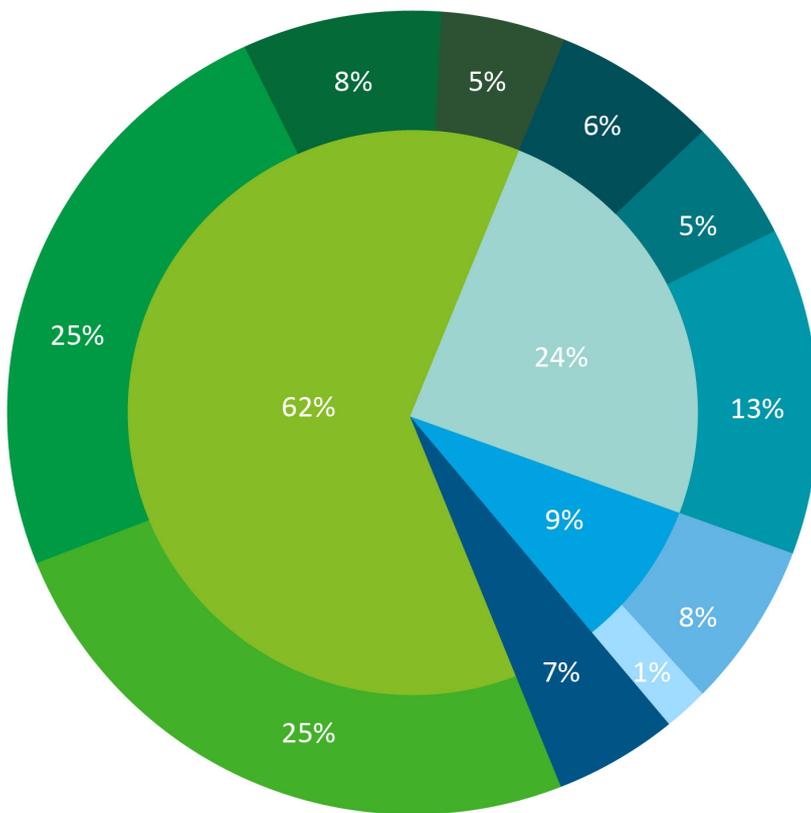
- Iraqi oil output is forecast to partially rebound in 2021, when OPEC cuts are expected to ease; however, it is anticipated that growth will be impeded by infrastructural bottlenecks, poor relations between the government and IOCs, shortage of treated water for oilfield injections at southern fields, and investment instability in the country. Additionally, Iraq's flared gas is the second-worst globally, because of insufficient pipeline capacity and other midstream infrastructure. This deprives the country of the economic benefits of utilizing the gas burned; however, owing to the economic slowdown, Iraq deferred its target to eliminate natural gas flaring to 2025.
- On the other hand, the country is making swift progress with plans to boost its refining capacity by 75% in the first quarter of 2022, in order to reduce its

dependence on imports of gasoline and gas oil. Besides upgrading the existing refineries, Iraq's oil ministry is launching several new refineries, primarily in Basra, Kirkuk, Al-Fao, and Karbala provinces.

- Iraq is also pursuing several projects to capture more natural gas and is negotiating agreements with U.S. firms, for capturing and processing natural gas, generating power, and developing the Ratawi oil field in Basra.

- The country also plans to develop its non-associated natural gas fields with a target to increase its natural gas production by 750mn cubic feet per day, within three years.

Iraq's crude oil exports in 2019



- Asia ■ India ■ China ■ South Korea ■ Other Asia
- Europe ■ Greece ■ Italy ■ Other Europe
- Americas ■ United States ■ Other Americas
- Africa & Middle East

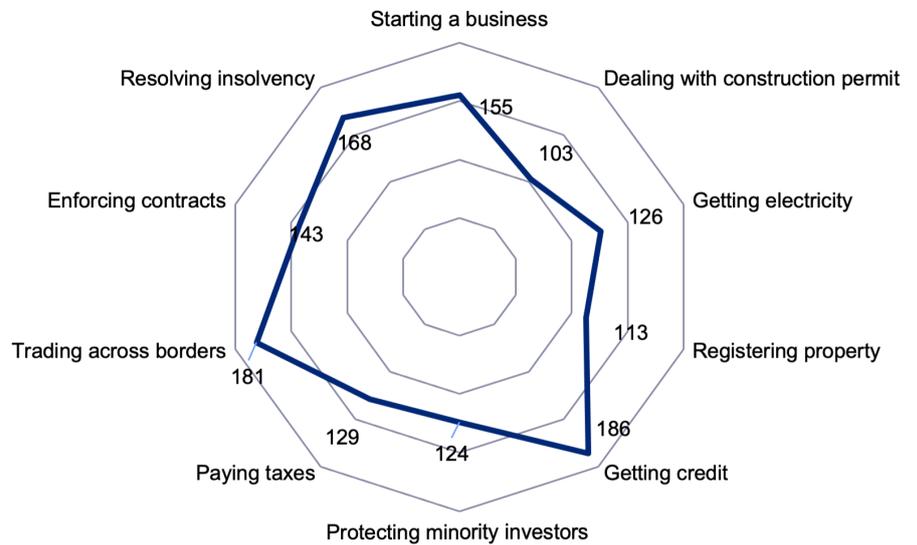
Source: US Energy Information Administration

Indicators for starting a business in Iraq

Indicators	Iraq	MENA	OECD
Procedures (number)	8.0	6.5	4.9
Time (days)	26.0	20.5	9.2
Cost (% of income per capita)	34.2	16.7	3.0
Paid-in min. capital (% of income per capita)	14.6	8.9	7.6

Source: Doing business report Iraq, 2020, World Bank Group

Iraq's ranking on doing business parameters in 2019



Source: Doing business report Iraq, 2020, World Bank Group.

Indicators for starting a business in Iraq

Number	Procedure	Time to complete	Associated cost
1	Reserve a unique company name at the Baghdad Chamber of Commerce	1 day	IQD 250,000
2	Reserve a unique company name at the Federation of Chambers of Commerce	1 day	IQD 250,000
3	Hire a lawyer to draft articles of association	1 day	About IQD 1,500,000
4	Deposit the initial capital at a commercial bank and obtain proof thereof	2 days	IQD 5,000 - IQD 25,000
5	Apply for registration at the Companies Registry	15 days	IQD 250,000 - 350,000
6	Obtain the registration certificate	1 day	Included in procedure 4
7	Make a company seal	2 days	IQD 20,000
8	Register employees for social security	3 days	IQD 20,000

Source: Doing business report Iraq 2019, World Bank Group

Legal and regulatory

Entering the market

Types of legal entity

As a general rule, any non-Iraqi company which is "carrying on business" in Iraq is required to establish an Iraqi legal presence (e.g. company, branch office). While there is no specific definition of what constitutes "carrying on business" in Iraq, typically an obligation would arise when a company obtains premises (including rented premises) in Iraq, or retains personnel on a more than temporary basis. Penalties may apply in respect of failure to register the enterprise.

There are a number of principal business entities in Iraq, including joint stock company, limited liability company, joint liability company, simple company, sole owner enterprise, representative office and branch office. In practice, the most common form of entities for foreign investors are the limited liability company (LLC) and branch office. As per the amended Companies Law, Iraqi ownership of at least 51% is required to establish a new limited liability or joint stock company in Iraq.

Further to the issue of new foreign branches regulation No.2 of 2017, it is now possible for entities that do not have contracts with the government to register a branch in Iraq.

It is difficult to predict the time taken to register a legal entity in Iraq, but a time frame of 6 to 12 months would be typical. It is generally faster and more straightforward to register a branch of a foreign company than an LLC in Iraq.

Permanent establishment

Iraq's income tax law does not recognize the concept of permanent establishment. However, Iraq broadly takes a territorial approach to taxation. In addition, contracts

with non-Iraq residents are also specifically covered by Instructions No. 2 of 2008 (the "Instructions"), which broadly set out tests to define whether the non-resident is "trading with" or "trading in" Iraq. In summary, "trading with" Iraq should not result in an Iraq tax liability, whereas "trading in" Iraq will.

"Trading with" vs. "Trading in" Iraq

Broadly, a non-resident would be considered to be "trading in" Iraq when contracts are concluded in Iraq, payments for the services are made into an Iraqi bank account, or services are physically provided in Iraq. Critically, this may also include cases in which services are provided through a business agent or subcontractor in Iraq.

A contractor "trading in" Iraq will need to register a legal entity in Iraq, register for tax purposes and submit annual corporate income tax filings. Information on the contract should strictly be sent to the tax office, in order for the tax office to determine whether the contractor is liable for tax, i.e. whether the contract is considered to be "trading in" Iraq, and therefore whether retentions should be made on payments under the contract.

As the Instructions are currently drafted, there is no de minimis time limit for provision of services in Iraq – therefore strictly as little as one day spent working in Iraq should be considered to be "trading in" Iraq, and therefore give rise to an exposure to tax in Iraq.

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Broadly, a non-resident would be considered to be "trading in" Iraq when contracts are concluded in Iraq, payments for the services are made into an Iraqi bank account, or services are physically provided in Iraq.

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Taxation in Iraq

Residence

An entity is resident if it is incorporated under the laws of Iraq or has its place of management and control in Iraq. An entity is nonresident if it does not meet the criteria for a resident entity.

Tax administration

The main source of tax law in Iraq is the Federal Income Tax law, Law #113 of 22 November, 1982, as amended in 2003 (the "Federal Income Tax Law").

The tax authority in Federal Iraq is the General Commission for Taxes ("GCT"). The GCT has two main divisions, the Corporate Division which deals with Iraqi companies and the Large Taxpayer Department ("LTD"), which deals with foreign companies.

The tax authority in the Kurdistan Region is the Income Tax Directorate ("ITD"). The ITD has established a Large Taxpayer Department to look after companies classified as "large taxpayers". The tax year in Iraq is the calendar year.

Taxable income

Taxable income is broadly total income less allowed deductions. Taxable income generally includes all income from whatever source. The Federal Income Tax Law provides that expenses incurred in generating taxable income during a period should be deductible in calculating taxable income.

As per Article 2 of the Federal Income Tax Law the following types of income are considered taxable income:

- Profits from commercial activity or from activity of a commercial nature, vocations and professions, including contracts, undertakings and compensation for non-fulfilment thereof if not for making good a loss sustained by the taxpayer;

- Interest, commissions, discount and profit arising from trading in bonds and securities;
- Rental of agricultural land;
- Salaries, pensions, bonuses, wages of specified work in a limited period of time, allowances of workers including payments in cash or allowances for the taxpayer against his services, such as housing, food and accommodation; and
- Any other source not exempted by law and not liable to any tax in Iraq.

Article 5 provides that "tax shall be imposed on income of the Iraqi person resident in Iraq which arises inside or outside Iraq, regardless of the place of receipt." "Person" in this context refers to both natural persons and legal persons (i.e. companies, branches of foreign companies, etc.).

Tax is also imposed on the income of a non-resident which arises in Iraq even if it is not received in Iraq.

Basis of taxation

Entities registered in Federal Iraq are required to prepare annual financial statements, which should be prepared in Arabic and in accordance with Iraqi Uniform Accounting Standards (UAS). According to the tax law, if supporting books and records are maintained, corporate income tax should be calculated based on the accounting profits as per the taxpayer's Iraqi UAS financial statements.

Article 8 of the Federal Income Tax Law sets out certain expenses which are specifically allowed as deductions in calculating taxable income. As a general principle, it is stated that all expenses incurred by the taxpayer in order to produce income during the year shall be deducted in calculating taxable profits. Any deductions which are claimed should be supportable by appropriate documentation and it is common for the authority to request any supporting documentation that they consider is necessary to gain comfort with respect to the financial statements and tax calculation. In practice, the GCT frequently reverts to a deemed profit basis of assessment, by applying a percentage to the entity's turnover to arrive at a deemed profit which is then subject to corporate income tax at the applicable rate. The GCT has produced internal guidance which sets out deemed profit rates for certain industries, which is typically updated on an annual basis. We would note that the internal guidance issued by the GCT is not legislation, and accordingly should not be legally binding on the tax authority or taxpayer.

The percentage to be applied to the entity's revenues can vary, depending on the specific industry and activities performed, but a percentage of around 20 - 25% would be typical. This deemed profit approach is more likely to be adopted by the GCT where the entity is loss-making, or where the audited UAS financial statements indicate low profit margins.

☞ Taxable income is broadly total income less allowed deductions. Taxable income generally includes all income from whatever source.



Withholding tax

Iraq has a complex legislative framework with respect to withholding tax and tax retentions. In practice, there are few final withholding taxes, however specific focus should be given to contracts which fall within the scope of Instructions No. 2 of 2008, concerning contracts with foreign parties, and Instructions No. 5 of 2011, for upstream oil and gas contracts.

Dividends

In practice, there is no withholding tax on dividends.

Interest

A tax of 15% applies to payments of interest from an Iraqi LLC or branch to a non-Iraq resident (e.g. the foreign parent company or non-resident bank).

Rents and royalties

There is no specific legislation that addresses withholding tax on payments for royalties. However, there are provisions in the tax law which the tax authority could use to argue that such payments should be taxable in Iraq i.e. if the income is considered to be "income arising in Iraq." To the extent that payments for management fees, technical services, rent etc. are made by the Iraqi entity to a foreign entity, there is a risk that the tax authority could argue that such payments are subject to tax in Iraq, on the basis that they relate to "income arising in Iraq." In practice, the tax authority generally defers to the legislation regarding tax retentions and we note our comments below in this respect.

Tax retentions**Instructions No. 2 of 2008 – Contracts between Iraqi and foreign contracting parties**

The main provisions regarding tax retentions are set out in Instructions No. 2 of 2008 and subsequent amendments, which require that information relating to contracts with foreign suppliers be disclosed to the GCT in order for the tax office to determine whether the contractor is liable for tax and to confirm the rate of retention.

Retentions of tax on payments for certain contracts must be made by the payer, at various rates up to a maximum of 10% of the gross payments, depending on the nature of the contract/services performed, plus the whole of the final instalment payment.

Tax retentions under Instructions No. 2 of 2008 are not intended to be a "final" withholding tax. Amounts retained on installment payments should be transferred to the tax authority within a period of thirty days from the completion of work. In addition, contracting entities may not pay the final amount to contractors and contracting parties, unless with the written approval of the GCT. Alternatively, where no tax clearance certificate is provided, the party making the payment should be required to withhold 10% of the final instalment payment and remit it to the GCT, before releasing the final payment to the supplier. Tax clearance will only be awarded once the supplier has completed their tax filing obligations and settled any due taxes in Iraq.

Tax retentions are not consistently applied in Kurdistan Region, other than on payments made by the public sector, which often include a 5% tax retention.

Instructions No. 5 of 2011 - Oil and gas contracts

Instructions No. 5 of 2011 and subsequent amendments provide that subcontractors to whom the Oil and Gas Tax Law applies should be subject to retentions of tax on their contract payments at a rate of 7% of the gross amounts, for petroleum contracts and at a rate of 3.3% for non-petroleum contracts.

The Instructions provide that the entity making the payment should remit the retained amounts to the tax authority within 30 days of making the payment, with the amounts to be held by the tax authority to be reconciled with the contractor's final tax calculation. In addition, the whole of the final instalment payment should be withheld from the contractor until the

contractor has completed tax filings and has obtained a tax clearance.

There is no specific legislation that addresses withholding tax on payments for royalties.

Tax exemptions**Investment Law No. 13 of 2006**

Investment Law No. 13 of 2006 provides for certain tax exemptions and benefits for investing in Iraq. The broad objective of the Investment Law is to promote investment and transfer modern technologies in order to contribute to the development of Iraq and diversification of its economy. Key highlights are as follows:

- Exemption from 'taxes and fees' for a period of 10 years. The period of the tax exemption can be further increased to a period of up to 15 years at the discretion of the National Commission for Investment, subject to the level of Iraqi participation in the project.
- Investment licences are granted on a project by project basis – rather than to an entity as a whole.
- The Investment License is granted under restricted conditions.

Exemptions typically apply in respect of corporate income taxes only, and employment taxes in respect of individuals working under the project should remain payable.



Cabinet Decision No. 167 of 2010

Cabinet Decision No. 167 of 2010 provides for an exemption from corporate income tax and Iraq reconstruction tax (i.e. customs duty) and other charges in relation to contracts for projects that contribute to the development of Iraq.

Free zones/neutral zones

The General Authority for Free Zones (GAFZ) was established to manage the free zones in Iraq, and this authority sits within the Ministry of Finance.

Decree No. 170 for year 1998 was issued on 19 October 1998, to exempt investment projects which are conducted within the free zones, and the capital invested in the free zones, from income tax and stamp duty.

According to the Decree:

- Investment projects in the free zones and the capital invested in them along with the profits and annual interest

will be exempted from income tax and stamp duty or other duties. Goods and materials may be imported into the free zones free of customs duties. Non Iraqi employees' income in the free zone is exempt from income tax.

- 50% of the Iraqi employees' income in the free zone is exempt from income tax.

Tax treaties

Iraq currently does not have any tax treaties in force. There is a treaty of the Arab Economic Union Council, of which Iraq is a signatory; however, we do not see this applied widely in practice.

Corporate income tax Registration

Following registration of the LLC or branch of a foreign company in Iraq, the entity is required to register with the GCT in Federal Iraq for corporate tax purposes. For the Kurdistan Region, registration is typically completed for corporate tax at the time of making the first corporate tax filing. i.e. the Kurdish entity will be required to make

its first filing for corporate taxes by 30 June following the year-end and it is typical to complete the registration with the tax authority (for all taxes) at that time.

Filing and payment

The tax year in Iraq is the calendar year. Financial statements must be prepared under Iraqi Uniform Accounting Standards ("UAS") in Arabic and audited by an accredited Iraqi auditor.

The audited UAS financial statements should be submitted to the GCT, together with the corporate income tax return, by May 31 following the year end, with payment due following the tax authority's assessment of the tax return.

In Kurdistan Region, the audited Iraqi UAS financial statements should be submitted to the ITD, by 30 June following the year end. In addition, Large Taxpayers are required to submit the completed self-assessment corporate tax return. Electronic payment of taxes has now been

facilitated in Federal Iraq. In Kurdistan Region, payments of taxes are still made only through certified cheques issued by the government banks.

Tax rate

Under the Federal Income Tax Law, the headline corporate income tax rate is a flat rate of 15%. A separate tax law was passed in March 2010, Law No. 19 of 2010 ("the Oil and Gas Tax Law"), which applies to upstream oil and gas companies, and supporting industries operating in Federal Iraq.

The Oil and Gas Tax Law provides for an increased corporate income tax rate of 35% on contracts concluded with foreign oil companies and their subcontractors operating in Iraq in the field of oil and gas production and associated industries.

A flat rate of 15% applies to all industries in the Kurdistan Region. At the time of writing, it is not expected that the Oil and Gas Tax Law will be enforced in the Kurdistan Region of Iraq; however, this position should be monitored.

Personal income tax

In Federal Iraq, personal income tax applies on employees' salaries at the following rates:

- Up to IQD 250,000: 3%
- Between IQD 250,000 and 500,000: 5%
- Between IQD 500,000 and 1,000,000: 10%
- Amounts in excess of IQD 1,000,000: 15%

Personal income tax is applicable for both Iraqi tax residents, and non-Iraqi tax residents who have Iraq-sourced income. Personal income tax is broadly levied on all employees' income, including basic salary and allowances which are paid in addition to basic salary. Iraq's tax legislation sets out certain exemptions / deductions which are available in calculating taxable income. In Kurdistan Region, a flat tax rate of 5% is applied to employees' salaries. The Kurdistan Region tax authority generally levies income taxes on basic salary plus any allowances in excess of 30% of the basic salary. Individuals are entitled to a tax-free legal allowance of IQD 1,000,000 per month.

Social security

Social security applies to employees' salaries at the rates of 5% for the employee contribution, and 12% or 25% for the employer contribution. In practice, it is possible to apply for a formal exemption from social security for expatriate individuals who are working in Iraq.

The social security contributions in the Kurdistan Region are 5% for employees and 12% for employers.

Filing and payment

Employers are required to withhold taxes on behalf of employees and pay the tax to the tax authorities by the 15th day of each month, and to submit annual tax returns on behalf of their employees. The annual employment tax declaration must be made before 31 March of the year following the tax year.

In Kurdistan Region, taxes withheld from the employees should be remitted on a quarterly basis. The withheld taxes along with the quarterly employment tax returns are required to be submitted within 21 days following the end of the quarter. The annual employment tax declaration must be made before 1 March of the year following the tax year.

Social security contributions should be filed by the end of the month following the month in which salaries are paid both in Federal Iraq and Kurdistan Region.

Penalties

Penalties on unpaid or late paid employment taxes for both Federal Iraq and Kurdistan Region are as follows: 5% of the amount outstanding if payment is not made within 21 days of the due date; an additional 5% penalty if the tax still is outstanding after a further 21 days (i.e. 42 days in total).

In the Kurdistan Region, penalties on late filing generally are limited to an amount of 10% of the tax liability, up to a maximum of IQD 75,000 per year.

Interest on late paid taxes is applied at a rate of 11% per annum on the amount outstanding in Federal Iraq. In Kurdistan Region, interest on late paid tax is applied

at a rate of 1.5% per month.

Late payment of social security contributions attracts a penalty of 2% of the amount of contributions due per month of delay.

Visas/work permits/labor laws

Foreign individuals working in Iraq are required to obtain a visa and work permit. The visa requirements in Iraq are subject to change and therefore it is recommended to obtain specific legal/immigration advice in this respect.



The Oil and Gas Tax Law provides for an increased corporate income tax rate of 35% on contracts concluded with foreign oil companies and their subcontractors operating in Iraq in the field of oil and gas production and associated industries.



Indirect taxes

Value added tax

Iraq levies sales tax on certain consumer products, including five-star hotels, phone cards, tobacco and alcoholic beverages.

Stamp duty

Stamp Duty Law No. 71 of 2012 provides that the signing of contracts should be subject to stamp duty at a rate of 0.2%.

In practice, the payment of stamp duty is not common for contracts between private parties, where the contract is not intended to be presented to a court or official office. In such instances, the parties will not pay the stamp duty at the time of signing the contract, but only if it becomes necessary at a later date to either present the document to a court or an official office.

Conversely, for contracts to which a government is a party, stamp duty will typically be paid at signing unless an exemption is relevant.

Customs duty

In January 2018, The Iraq General Commission of Customs ("IGCC") announced the unification of the classification of goods into 21 main categories and the applicable custom duty rates to be between 0.5% - 30%.

Additionally, the IGCC has announced that effective January 2019, customs duty would be levied on all goods imported into Iraq, including those imported by state departments, public and mixed sectors, civil organizations and private parties.

In practice, the application of the customs duty has been largely inconsistent and subject to the discretion of the IGCC.

Other taxes

Real Estate Tax

Law No. 162 of 1959 and its amendments, Law of the Real Estate Tax, provides for a tax on revenue derived from Real Estate in Iraq. According to the Law, a basic tax of 10% is assessed on the annual revenue for all real estate. The annual revenue for each real estate is discounted by 10% for expenses and maintenance before assessing the tax on that real estate.



Immigration and labor landscape

Unless working directly under a United States Department of Defense (DoD) contract, any foreign company wishing to sponsor visas for foreign nationals in Iraq must establish an entity in Iraq with the Iraqi Ministry of Trade. Foreign companies must have a physical presence in the country or have current visas or work permits tied to a locally-registered business entity that sponsors the employees. Before a company can sponsor employees for a visa, the company must inform the Iraqi Ministry of Interior (MOI) regarding particulars of the sponsoring entity, including who the in-country director of the entity will be.

Work authorization General requirements

All foreign nationals intending to enter Iraq are generally required to obtain an Entry Visa prior to arrival and a work permit to be secured after their arrival. Nationals of certain countries may be eligible to obtain a Visa on Arrival, though additional eligibility requirements apply. Foreign nationals with an Entry Visa or Visa on Arrival may conduct business activities, professional activities, and unremunerated work activities. Upon entry, foreign nationals who intend to perform work activities for more than 10 days should apply for a Residence Permit and a Work Permit (work authorization). Foreign nationals staying in Iraq for more than 10 days are required to undergo an HIV test at a Ministry of Health-certified center.

There are many ways to obtain work authorization in Iraq. It is recommended that companies eligible for OSC-I (Office of Security Cooperation – Iraq) approval seek Residence Permits for both Civilian and Defense employees through this immigration route. The OSC-I method is more reliable, streamlined, transparent,

and efficient than the traditional non-OSC-I route. OSC-I is an American entity in the American Embassy, which serves as a coordination center for American and Iraqi military forces.

Companies that wish to sponsor employees through the OSC-I route must be operating under a US DoD or DoS (Department of State) contract in Iraq. Qualified companies are required to submit an application to the Ministry of Interior, which will verify the company's OSC-I status and issue an approval letter for the employee. Foreign nationals traveling with an approval letter from the Ministry of Interior do not require an entry visa and can enter Iraq at a designated airport and be issued an entry stamp for a fee. Residence Permits with Work Authorization are issued as stamps in the foreign national's passport. Upon entry, foreign nationals must undergo a medical examination and HIV screening. Upon completion of the medical screening, and submission of the results to the Residency Office, the Residency Office will re-stamp the foreign national's passport indicating completion of HIV screening.

In September 2020, the Iraqi Ministry of Labor and Social Affairs has started to impose a mandatory requirement for companies operating in the oil and gas industry including those that are government contractors or supporting government services to secure work permits for their expatriate employees. The work permit application process can be complex.

Employer registration

All companies, local and foreign, intending to conduct business in Iraq are required to register with the Companies Registrar at the Ministry of Trade. Contractors for the DoD or DoS are required to register with the Ministry of Trade, regardless of whether the work conducted is at a US military base or the US Embassy. Additionally, a company legal advisor and an auditor must be appointed. The legal advisor and auditor are only appointed for registration purposes. The legal representative and auditor must receive the minimum salary for one year, which the Iraqi Bar Association has established as US\$ 2,545 per year.



All companies, local and foreign, intending to conduct business in Iraq are required to register with the Companies Registrar at the Ministry of Trade.



Payroll/contract requirements

Payroll/contract requirements	
Payroll requirement	Local payroll
Local payroll	Local contract
Contract requirement	In some cases
Local contract	In some cases
3rd party client site allowed	None

Payroll/contract requirements

Payroll/contract requirements	
Educational and professional requirements	None
Salary requirements	None
Tenure requirements	None
Maximum duration of stay	1 Year
Police clearance	Not required
Medical clearance	HIV blood test required within 10 days of arrival

Work permit duration and maximum authorized period of stay

Residence Permits with Authorization to Work are generally valid for one year. Foreign nationals wishing to stay longer than one year must submit a new application.

Employer compliance

Foreign nationals may begin employment upon arrival in Iraq and receipt of an entry stamp. Foreign nationals are eligible to work while awaiting approval of the Residence Permit. Penalties for noncompliance for foreign employees working in Iraq without the proper permits include detention while working in Iraq and possible detention when attempting to exit Iraq.

Exit requirements

Residence Permits do not need to be cancelled. However, it is recommended that all employers cancel Residence Permits upon completion or termination of an employee's work contract.

Processing challenges

Nationals of Israel are not permitted to enter or transit through Iraq.

Industry specific regulations

The oil and gas industry is regulated by multiple specialized government entities. There are numerous regulatory bodies with authority over the oil and gas industry in Iraq and employers are subject to additional registration obligations when sponsoring foreign employees.

Deloitte in Iraq – how can you benefit?

Deloitte Middle East (DME) is committed to providing client insight and delivering thought leadership to help our clients keep abreast of key developments in the tax landscape. Having been established in 1926, Deloitte Middle East is the longest standing professional services firm in the region. Deloitte's experts are dedicated to providing confidence in markets and finding innovative solutions that contribute to a stronger economy and healthier society. Enabled by a team of local experts based in Iraq and a global network of valued services – built on decades of insight and experience – we can solve tough problems, advise you on the local market and assist you in establishing your business in Iraq while providing a full suite of services and end-to-end solutions. The high quality and efficiency of Deloitte Middle East's services have helped shape the business landscape in Iraq.

Deloitte's Middle East practice has been awarded a Tier One ranking in tax services since 2010 by the International Tax Review's World Tax Awards. Top tier rankings are provided to firms that have "an international network and leading reputation" which is "reflected in the size and quality of transactions" in the relevant jurisdiction.

Deloitte has legal entities registered in Baghdad, Federal Iraq and Erbil, Kurdistan Region with dedicated resources on the ground, available to meet with our clients

locally and to liaise with regulatory and tax authority personnel as required. Our tax practice is centrally headquartered in Dubai, with dedicated tax professionals available to travel as required to meet with our clients in Iraq and the wider Middle East region.

Using our expertise to add value and reduce risk

We understand the risks and challenges that your business faces in Iraq. We have a deep understanding of the Iraqi accounting and tax compliance process and we manage accounting and audit, corporate income tax, withholding tax, employment tax and social security compliance for some of the world's largest companies operating in Iraq.

Knowledge and value

Due to the lack of developed systems and infrastructure in Iraq, the tax compliance process is inherently more challenging than in many of the other jurisdictions in which we operate. Our team has extensive working knowledge of the Iraqi investment and regulatory climate, and accordingly will be well placed to provide support with regards to corporate income tax, employment tax and social security filing obligations, and to create lasting value as your business develops its operations in Iraq.

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 Deloitte has legal entities registered in Baghdad, Federal Iraq and Erbil, Kurdistan Region with dedicated resources on the ground, available to meet with our clients locally and to liaise with regulatory and tax authority personnel as required.

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Want to do business in Iraq?

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Al Mansour, Al Amirat Street
District #601, Street 15
Villa no. 41
Baghdad, Iraq

Erbil

Empire Business Complex
Block C1 – 5th Floor
Erbil, Iraq

Tel +964 (0) 66 257 6200
www.deloitte.com

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The 'Doing business guide' series is supplemented by the Middle East Tax Handbook, which provides a summary of basic tax information in a country-by-country snapshot.



Muhammad Imran Farooq
Iraq Office Managing Partner
mfarooq@deloitte.com



Alex Law
Iraq Tax Leader
alexlaw@deloitte.com



Fernand Rutten
ME Customs and Global Trade
Advisory Leader
frutten@deloitte.com



Brisida Acar
Senior Manager, Tax
briacar@deloitte.com



Srividya Viswanathan
Senior Manager, Tax
sriviswanathan@deloitte.com



Atheer Aljuboory
Senior Manager, Tax
aaljuboory@deloitte.com



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