**How to Cite**:
Al-Khafaji, A. A. K., & Al-Zuhairy, A. M. M. (2022). A proposed model for amending tax controls in Iraq to achieve a better tax outcome. *International Journal of Health Sciences*, *6*(S9), 1411–1420. https://doi.org/10.53730/ijhs.v6nS9.12552

# A proposed model for amending tax controls in Iraq to achieve a better tax outcome

**Prof.Dr Ali Abbas Kareem Al-Khafaji**
Higher institute of Accounting and financial studies, Baghdad, Iraq.
Email: Ali.Kareem@qu.edu.iq

**Ali Mutashar Muhammad Al-Zuhairy**
Higher institute Accounting and financial studies, Baghdad, Iraq.
Email: ali.mtashir1202m@pgiafs.uobaghdad.edu.iq

***Abstract*---**The research aims to determine the impact of changes in the percentage of controls on the tax outcome. Determining the best way to formulate annual controls that reflect the most appropriate method that deals with tax rates ratios in a manner that achieves a balance between tax revenue and social justice through the distribution of the tax burden. The period was characterized by the stability of the application of annual controls at a fixed rate in terms of tax imposition and collection, and on the other hand, due to the different revenues of tax proceeds. Levels of estimation. The committee for setting annual controls should rely on specialized scientific studies when setting annual controls so that the percentages received are more and closer to accuracy, to achieve the greatest amount of achievement and to achieve social justice and at the same time increase state revenues.

***Keywords*---**amending tax, accounting, tax outcome.

## Introduction

The General Tax Authority seeks for its annual "Annual Controls" for a new estimated year according to tables that include (percentages, lump sums, equations) in order to be able to work with them in proportion to the volume of activities in order to determine the tax base (taxable income) to be held accountable with the taxpayers, whether they are persons The method of estimation according to the controls is considered one of the best methods, because this method has acquired a unique status, making it a sacred framework in the eyes of some that may not be exceeded except in cases of extreme necessity.

International Journal of Health Sciences ISSN 2550-6978 E-ISSN 2550-696X © 2022.
*Manuscript submitted: 9 May 2022, Manuscript revised: 18 July 2022, Accepted for publication: 27 August 2022*

1- The basis of the principle of setting controls in the General Tax Authority
The principle of setting annual controls is based on the economic situation of the country, despite the fact that the budgets suffer from a large deficit, which has an impact on the joints of the Iraqi economy, given that the state is the main major joint for the movement of economic activity, which was clearly reflected in the implementation of private sector projects and this was accompanied by a reduction in government spending. Which led to a decrease in the profits of professions and a decrease in the size of the GDP of the non-oil economic sectors (Professional Regulations, 2016: 2), and that these factors lead to direct repercussions on tax revenues, which calls for reconsideration of some profits of absolute sources of income. And treating them in proportion to the factors referred to above (Annual Controls, 2017: 2)

The General Authority for Taxes is keen annually to set the general principles and foundations for dealing with the financial statements (final accounts) of the taxpayers covered by submitting them in the event that these data express the reality of the activity in a way that facilitates the process of completing tax accounting for them, as well as how to complete tax accounting for those who are not covered by submitting it in a fair and uniform manner, as well as These indicators contribute to completing the qualification and experience deficiencies of some assessors and provide a general basis for assessment. They also provide unified and disciplined bases that help reduce disparities in income assessment levels and thus contribute to achieving a better degree of justice in distributing the tax burden among taxpayers (Control Committee, 2018)

The authority, when setting the annual controls, took into account a number of proposals received from the tax branches, and this can be seen by not including real increases due to the absence of large changes in the level of economic activity between the previous and current years and the few changes that occurred due to considerations related to the desire to achieve justice The tax burden in distributing the tax burden by detailing some sources of income that include varying levels of activity (Control Committee, 2019). And based on the responsibility of the General Tax Authority as the implementing agency for tax policy in Iraq by placing the tax at the service of the economic development process and reducing the tax burden on the shoulders Taxpayers with limited activity and horizontal expansion to reach all taxpayers with a focus on broad activity in order to achieve fairness in the imposition of tax (Professions and Business Regulations, 2020: 2).

2- Concept and definition of annual controls (virtual profits)
Many countries have found it difficult to subject small and medium-sized companies, professionals and craftsmen and farmers to keep records and approved accounting documents for calculating the tax, and here the administration becomes very difficult because many of these taxpayers, especially small business owners and farmers suffer from a heavy and complex burden In keeping records and books. Moreover, controlling this large number of taxpayers requires large administrative expenses to manage the tax, which may exceed the amount of the final revenue collected. Most countries may face this administrative problem by focusing on their limited resources on the larger taxpayers and neglecting the smaller ones. Several countries have adopted the (default tax rule)

to solve the problem of imposing tax and controlling these difficulties related to taxpayers' tax. Under this hypothetical system, income is calculated for different categories of small taxpayers, assuming that the calculated income for a particular category applies to all members of that category. This default system aims, in general, to reduce the administrative files of each of the government and the taxpayer, and at the same time provides reasonable amounts and limits the minimum for each category of taxpayers (USAID, 2008: 100).

In Iraq, the annual controls are indicators that the General Tax Authority prepares for the purpose of adopting them in the estimates of taxpayers whose accounts are rejected or who do not have accounts at all. These indicators are financial ratios, so the amount of revenue is taken advantage of and multiplied by the prescribed ratio for the purpose of determining the profit for which the taxpayer is charged or the type of tax is determined The activity and the amount of tax imposed for each activity without based on specific rates, as in “contracting, undertakings, importing, professions, and crafts.” (Al-Dulaimi, 1999: 33).

Therefore, the concept of (annual controls) can be clarified that the origin of the controls is to reach the real profits of the taxpayers and reduce the discrepancy in discretion during the assessment and to draw a general rule for estimating the incomes of the taxpayers in a way that contributes to achieving a degree of justice in distributing the tax burden according to the reality of the situation (professional and business controls, 2021: 3)

3- General conditions for applying annual controls

That the tax authority in Iraq is responsible for estimating the income of the taxpayer, before whom the right of access was made, whether by agreement when accepting his commercial books or according to the annual controls when it does not accept those books. There are several conditions that the tax assessor must abide by when estimating the taxpayer’s income under which they are:

First: Commitment to the assessment of the previous year, starting from:

The instructions for the controls have obligated the branch assessors to estimate the previous year’s acquired degree of definitive if the amount is more than the amount mentioned in the annual controls, due to the delay in issuing controls for the new year, then the estimate is made on the previous year (Ayesh, 2008: 300.(

The third article / paragraph (2) of the Income Tax Law No. (113) of 1982 stipulates the following:

)The financial authority may take the previous year’s income as a basis for estimating if it is not known how much or part of the income is.(

Paragraph (1) of the annual controls instructions for the year 2005 stipulated, “As the tax income of the taxpayer for the estimated year preceding the year of accounting - earned with a final estimate - represents an estimate for the taxpayer that was reached after a series of procedures stipulated in the law and instructions, the assessor must To begin by estimating the taxpayer’s income on the basis of his determined and earned income, the final degree in the estimated year preceding the year of accounting, as a minimum.

In this regard, the tax administration tends to calculate the tax based on the assessment contained in the previous year and is based on a law showing that it is conditional that the administration is not aware of the amount of all or part of the income, but this assessment based on the assessment of the previous year may not match the company's income generated during the fiscal year ( estimated) and then the real (actual) income is not reached, which leads to this effect on the tax outcome (Al-Mayahi, 2012: 32.(

Second: The annual controls are indicative:
The instructions issued by the General Authority for Taxes confirm that the annual controls are only indicative controls, as it was stipulated ... that the controls established by the Center of the General Tax Authority, are only indicative tools for its branches and committees, which they use according to their authority in estimating the profits of sources Income up or down according to the rules of tax justice... (The Authority's Book, 1990: 24.(

And the controls set by the tax authority in Iraq express indicative ratios for the assessor, who has the right to relinquish them if the taxpayer's circumstances require that, in a manner consistent with the fact that they entered or ascended there, if necessary, provided that the approval of the financial administration of the Tax Authority is obtained, provided that it is accompanied by convincing reasons and the necessary justification (Amen, It is worth noting that the hypothetical profits (controls) at the beginning of their adoption were considered a guiding and non-binding issue that may be crossed up or down, but with the passage of time they acquired a unique situation that made them a (sacred framework) and became a basis that cannot be ignored (Kamash, 2008: 7.(

From the foregoing, it can be said that the tax authority is guided by these controls in estimating the income of the taxpayers, before whom the right to view and examine the commercial books was made without complying with them (Al-Shujairi, 2013: 35). This, of course, contradicts the reality experienced by the tax authority from adherence to the letter of controls and its neglect of the results produced by the examination and confirmed by all data of tax technical information (Jabr, 2016: 10.(

Third: Non-applicability of controls against taxpayers who are obligated to keep commercial books:
Where the text of the book of the General Authority for Taxes

Paragraph (2) of the annual controls instructions for the year 2005 stipulated that "the principle in dealing with the financial statements (final accounts) for the taxpayer is to accept the results shown by those data, and these indicators are not applied to the taxpayers covered by the commercial bookkeeping system except in the case of non-compliance Acceptance of the results appearing in the financial statements presented as a result of the tax examination conducted by the branch "meaning that the results of the financial statements do not accurately reflect the financial position of the economic unit.

Since the origin in estimating the taxpayer's tax base is the agreement after his financial accounts show the reality of the financial position he enjoys, and in this case the authority to review the tax does not depend on the annual controls, but in the event of its rejection of his financial accounts that have been proven incorrect and inconsistent with the reality of his financial position, it is It resorts to annual controls that indicate the reality of this center in a hypothetical way that is as close to reality as possible (Al-Mayahi, 2004: 183.(

Also, the relationship between the tax administration and the company is often tainted by doubt and mistrust between them, because the tax administration prepares the results of the accounts submitted by the company that do not have (accuracy, credibility) in expressing the results of the company's activity in order to be able to evade and not pay the tax. The taxpayer is not obligated to take into account the financial statements submitted by the company and certified by the auditor, and usually resort to using hypothetical profits (annual controls) in estimating the income tax (Al-Aboudi, 2012: 81.(

4- Justifications for the reasons for issuing the annual controls to estimate the income taxThrough what has been previously explained to the annual controls, the justifications for resorting to their issuance can be stated as follows

a- It helps the evaluators in estimating the income of the taxpayers, and it also contributes to completing the qualification and experience deficiencies of some evaluators, as well as their varying ability to estimate and personal judgment .

b- It provides unified and convergent foundations for ijtihad that help reduce the disparity in the levels of estimation due to the different capabilities and personal capabilities of the evaluators in ijtihad and personal estimation and in a way that contributes to achieving a better degree of justice in distributing the tax burden among the taxpayers in light of the reality of the situation and the current circumstances (Farhood, 1999: 27.(

c- Because there is a lack of real information available on the economic activity that generates income, work has been done according to the controls to avoid this lack of information.

d- There is a large percentage of taxpayers who do not declare the reality of their tax income, so the administration finds itself compelled to estimate the taxpayer's income according to the controls it has adopted (Al-Anzi, 2004: 40.(

e- The ease of the tax accounting process for those in charge of it, as well as for the taxpayer himself, because it does not require specific efforts or examination procedures, and that providing data is only a formality, except for documents that require accounting operations (Rabab, 2012: 75.(

Based on the foregoing, it appears that the tax administration's refusal of the audited financial statements approved by the auditor that were submitted by the company to the tax administration is not relied upon in the tax accounting process, which led to the assessment under the annual controls that lead to several effects, including those affecting the tax outcome. Sometimes, and other times, the tax justice is affected at other times, as it presupposes the evasion of part of the company's income, in addition to the partial exemption included in the controls. The tax administration depends on "assumption and guesswork" and not seeking to calculate the tax based on real income leads to waste in the tax proceeds, and that Estimation on the basis of controls is based on assumptions that are subject to error and right. Therefore, as much as it is true to talk about waste in the tax proceeds when the controls are less than the amount of real income, the same is true when the controls are more than the reality of the company's activity as it leads to unfairness to the company, and this contradicts with The rule of fairness in imposing the tax, and that reliance on controls may lead to disruption of the motive of creativity on the part of the evaluators as a result of its automatic application, and it may affect on the one hand The relationship between the company and the tax administration, which leads to seizing an opportunity to evade paying the tax, and this will affect the tax outcome (Atiya, 2001: 100.(

5 -The legal basis for hypothetical profits (controls:(

Taxes are considered a sovereign resource. They are not collected or imposed except by a law issued by the legislative authority. Some research indicates that adjusting the amount of tax by increasing or decreasing is a right that does not belong to the financial authority, but rather it is the jurisdiction of the legislative authority. Therefore, any action taken by the financial authority would reduce or increase the tax leads to The characterization of these acts of illegality (Al-Hilali, 2001: 97.(

Article (28) Paragraph (2) of Income Tax Law No. 113 of 1982 states the following: “ The financial authority has the right to investigate and verify the real income of the taxpayer and search for its sources where they are, and it has the right to request information from any person it thinks has something useful in estimating the tax on any of the taxpayers” (Al-Anbari, 2017, 49.(

Likewise, Article (61) of Income Tax Law No. 113 of 1982, as amended, indicated the following:

Paragraph (2) "Appointing the committees and the necessary means for estimating income".

Paragraph (3) "Inspection and investigation of the income and sources of taxable persons".

Paragraph (5) “other points that the financial authority deems necessary to clarify”.

The issue of investigation and verification of the taxpayer’s income carries with it the preoccupation of the financial authority’s suspicion of the data provided by the taxpayer, and thus the controls may find justification for them, or they may come as a direct statement that the means and mechanisms are not available to reach the real income of the taxpayer, and therefore these hypothetical profits are resorted to. (Controls) (Kamash, 2008: 9.(

But there remains an important point that must be remembered, which is “that virtual profits may be considered an indispensable means in countries that suffer from a deterioration in the level of tax awareness and a lack of understanding of the role entrusted to the state to implement as a historical and social necessity whose function is no longer limited to providing basic services only, but rather extended to include economic aspects It relates to achieving comprehensive development and social aspects that aim to achieve a measure of social justice” (Karim, 2006: 4.(

6- The stages of organizing the annual controls are summarized in the following steps:

a- The Director General of the General Tax Authority shall designate a committee that will be responsible for setting the annual controls ratios for all activities (Jabr, 2016: 27.(
b- The committee studies and analyzes each activity for which a percentage must be placed in the controls, taking into consideration the cost, expenditures, revenues, the extent of the popularity of that activity, its location, and the citizens' demand for it.
c- The committee sends letters to all branches of the authority asking them to send their suggestions about the controls and send them to the authority’s headquarters (Al-Shujairi, 2013: 36.(
d- The Controls Committee is taken to study the proposals submitted by the branch managers and unify them with the existing proposals from the

departments benefiting from the controls at the headquarters of the General Tax Authority.

e- The committee discusses paragraphs of the controls paragraph after paragraph with the directors of the branches in order to reach a final result in setting the controls for the year of study.

f- After agreeing on the ratios of all controls, they are submitted to the director general of the authority in order to obtain approval to issue the controls in their final form.

g- The annual controls are circulated to all departments at the authority's headquarters that are based on the controls in their work and a copy of the controls is sent to all the branches of the authority for the purpose of working according to them by the employees on them (Al-Aboudi, 2012: 47).

h- These controls are implemented on the basis of dividing the aspects of economic activity that are subject to tax into three categories (A - B - C), and the financial authority relies on some signs and evidence, including the following: (Al-Dulaimi, 2004: 60.(

- The area in which the activity is located.
- The size of the project or the area of the workplace.
- The nature of the activity practiced by the taxpayer.

In Iraq, the annual controls are organized according to three categories, and they are according to certain indicators that are taken into consideration by specifying it (the area in which the taxpayer exercises his activity, the size of the project, the nature of the commercial activity that he engages in...) and through that what the annual controls for the year (2005 Within the sixth chapter of these categories, which were represented by the following- :

A- First class:
The estimate of the entry of taxpayers in this category is taken with the highest estimate, because the location of their activity is located in distinct industrial or commercial areas and for which the best public services are available (streets, electricity, water, communication lines ... etc(.
With special advantages for the source of income itself, which are represented in terms of space, fame, decoration, number of users, number of assistants (Al-Shujairi, 2013: 36.(
B- The second category:
In which the source of income is located in a residential or industrial area with a good standard of living, and the source is located in a normal location in that area, or the source of income is originally classified into two categories mainly (Jabr, 2016: 29.(
C- The third category:
It falls in the category of source of income in the areas where there are no advantages, i.e. the advantages enjoyed by the above two categories (Jabr, 2016: 29.(
The directives of the estimated year (2005) controls in paragraph (3) of Chapter One also indicated that "the sources of income that are not mentioned in these tables are estimated on the basis of the closest similar sources of income mentioned in them, and if this is not possible, then inquiries can be made from the Department of Business and Professions to discuss it. Independently"

It should be noted that the tax financial authority may change the category into which the taxpayer is included, if it is certain that he has moved up to another category, in order to increase the size of his income and move to another location that provides services less than those enjoyed by that project (Al-Shujairi, 2013: 37.(
7- Form of annual controls:
These controls may take a specific form or forms, such as a lump sum, a percentage of the amount spent, or a percentage of the imported materials. These forms are according to the type of activity, as follows:
A - These controls are either in the form of a lump sum, representing the randomly estimated income according to the division of the three categories for each activity. (Ismail, 2002: 574(
B - The other form of controls is in the form of percentages of the amounts disbursed to contractors during the year, and these percentages vary according to the types of contracts and pledges.
C- The controls may be in the form of certain percentages of the cost of imported materials and according to the amount of taxable income from import and export based on the regulations of the General Tax Authority (Ramadan, 2002: 575.(
D - The controls may take the form of certain formulas or equations that depend on some phenomena or variables. (Ismail, 2002: 577)
by the management.

**Conclusion**

1- The General Tax Authority - Companies Division has achieved a low level of revenues in recent years as a result of its application of annual controls on all companies at a rate of 15% regardless of the volume of revenues for each company, and this in turn results in two decisive cases: the lack of justice between companies whose income is subject to tax profit and the second The impossibility of increasing tax receipts as a result of the equal percentage according to the controls, which amounts to 15% with all companies, whether small or large

2- The quiescent model came to address this failure caused by following the controls and the fixed ratio. The applied aspect of the research showed an increase in the size of the tax proceeds significantly, as well as achieving social justice in calculating taxes, each according to the volume of his income

**References**


1. Abdul, Mayssam Sabri "effect of inflation on tax revenue in Iraq for the period 1990-2010" Letter Higher Diploma equivalent to Master, the Higher Institute of Accounting and Financial Studies, financial studies in the specialty tax, the University of Baghdad, 2013.
2. Al-Anbari, Sabah Sadiq Jaafar, “A Collection of Tax Laws,” new edition 2017.
3. Anzi, Haidar Wahab Abboud "in recognition of the provisions of direct tax legislation" PhD thesis in Law, Faculty of Law, University of Mesopotamia, 2004.
4. Benno Torgler, tax morale and compliance review of evidence and case studies for europe , the world bank Europe and gentral asia region human development , economic unit , 2011 .

5. Dalton H 'Principles of public finance''Routledge,and Keganpaul Ltd,London,1975.
6. Dewi, I. G. A. A. O., Dewi, I. G. A. A. P., Kustina, K. T., & Prena, G. D. (2018). Culture of tri hita karana on ease of use perception and use of accounting information system. International Journal of Social Sciences and Humanities, 2(2), 77–86. https://doi.org/10.29332/ijssh.v2n2.131
7. Dulaimi, Mayada Jafar, "the compatibility between tax accounting and the process of settling accounts tax" research presented Layali board of trustees at the Arab Institute for Accounting and Auditing, as part of the requirements of Neil certificate Legal Accounting, Baghdad 1999.
8. Dulaimi, Saba Farouk Khadr "Duties of the financial authority in charge of the Income Tax Act No. 113 of Iraq's 1982" Master of Laws - Law School - University of Mesopotamia, 2004.
9. Farhood, on the morning of Barzan "availability of accuracy and credibility in the adoption of annual regulations issued by the General Authority for taxes as a basis to reach the taxable income" (theoretical study - practical message) Higher Diploma in Tax Accounting, Faculty of Administration and Economics, University of Baghdad in 1999.
10. Gillis,perkins,Roemrand, Snodgrass,2009:471 .
11. Hasnawi, Ahmed Kazem Sendw "change in tax rates and the slide and its impact on tax revenue" research presented for the Higher Diploma equivalent to Master of Baghdad University, the Higher Institute of Accounting and Financial Studies 2014.
12. Hassoun, a certain Abbas al-Rifai, Imran Hussain and sole, important. (2013). The impact of tax awareness on achieving economic development. Al-Qadisiyah Journal of Administrative and Economic Sciences. Al-Qadisiyah University. Number (2)..
13. Hijazi, Wafa Ahmed Yahya "Tax Accounting", code (245) Banha University.
14. Hilali, Ali Hadi "the adoption of the annual controls in estimating income tax in Iraq," the first scientific conference of the tax for the period 17-18 / 10/2001.
15. Hwaimel, Saad bin Mohammed "tax and zakat accounting in Saudi Arabia," 2013
16. Iweijingi Faith, S. (2022). Demographic change and economic growth in Nigeria: Geographical and health perspectives. International Journal of Health Sciences, 6(2), 965–971. https://doi.org/10.53730/ijhs.v6n2.9081
17. Jabr, Aqeel Shamkhi "following the adoption of the annual tax controls in settling accounts for the owners Mmakhr medicines applied research in the General Authority for taxes for the year 2016.
18. Kadi, Abdul Majeed Kadi "Studies in the science of taxes" Greer House Publishing and Distribution for the first edition of the year 2011.
19. Karim, Salem Kemash "conference tax reform" of 2006.
20. Kemash, Salim Karim, "Is the default profit (controls) option irreplaceable in estimating the tax base" research paper presented to the first tax on 15/11/2008 Scientific Symposium
21. Kobetsky , Michael , International Taxation Of Permanent Establishments , Cambridge University , 2011 .
22. Mahmoud Hamed Mahmoud, the economics of public finance, the first edition, Dar Hmicher Publishing, Cairo, Egypt.2017.

23. Mclaren, J., The Distinction between tax Avoidance and tax Evasion has become blurred in Australia - why has it happened? Journal of the Australasian Tax Teachers Association 2008, Vol.3 No.2, PP 163-141
24. Michael P .Todaro ,Stephen C .Smith "Economic Development" Thirteenth Edition .2009.p.768.
25. Rabab, Rabab matshar Razak slave, the role of the annual controls in the fairness of the tax in the field of settling accounts of income tax, search Higher Diploma equivalent to Master in Taxation, the Higher Institute of Accounting and Financial Studies, University of Baghdad 2012.
26. Raed Naji, d. Raed Naji, "the science of public finance and financial legislation in Iraq," the third edition of the year 2017
27. Ramadan, Ismail Khalil Ismail, "Tax Accounting" Baghdad University, the first edition 2001
28. Roy W. Bahl, "A Regression Approach to Tax Effect and Tax Ratio Analysis, IMF Staff Papers, Vol. XVIII, No.18, Nov 1971
29. Samuelson,Nordhaus,2006:330. Paul A. Samuelson And William D. Nordhaus , macroeconomics ,13ed , Mcgraw – Hill , New York , 1989.
30. Sebastien Jean& cristina Mitaritonna ,determinants and perveness of the "Evasion of Customs Duties " 2010 .
31. Sheffrin, sallivan, Economics – principles and tools, third edition, printer, donnellay Willard, (university of California).
32. Shujayri, Mohammed Khalaf, obstacles to the adoption of the commercial books to determine the income and ways to address them, search Higher Diploma equivalent to Master in Taxation, the Higher Institute of Accounting and Financial Studies, University of Baghdad, 2013.
33. Suryasa, I. W., Rodríguez-Gámez, M., & Koldoris, T. (2022). Post-pandemic health and its sustainability: Educational situation. International Journal of Health Sciences, 6(1), i-v. https://doi.org/10.53730/ijhs.v6n1.5949
34. US Agency for International Development, the second project for the development of the Iraqi economy, a summary in tax policy, monetary review of the Income Tax Law and other laws in Iraq 2008 ..
35. Wilson, JL Reck, SC Kattelus accounting principles2007.