



**EMPLOYERS' GUIDE**  
**TO THE**  
**WAGE WITHHOLDING TAX**

# General Commission for Taxes

## EMPLOYERS' GUIDE TO THE WAGE WITHHOLDING TAX

This Guide has been prepared by the General Commission for Taxes (GCT) to assist employers to fulfill their obligations under the Income Tax Law #113 (1982) as amended and Instructions #1 of 2005 concerning Income Tax Deduction by Direct Deduction Method (also known as "Wage Withholding Tax"). It clarifies the legal provisions stipulated in the Income Tax Law and respective implementing Instructions. This document is not a legal document. For further clarification please contact any branch office of the General Commission for Taxes and consult the Income Tax Law and valid Instructions concerning Income Tax Deduction by Direct Deduction Method.

The information provided in this guide applies from January 2005 and describes the process for wage withholding tax by employers from the salaries, wages, allowances and other income paid to their employees. Certain income as described further are exempted from taxation, consequently no Wage Withholding Tax is required on exempted income.

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

### 1. Definitions

<u>Taxpayer:</u>	Any person who is subject to tax under the Income Tax Law #113 (1982).
<u>Tax:</u>	The income tax imposed by the Income Tax Law #113 (1982)
<u>The income subject to Income Tax by Direct Deduction Method:</u>	The net income of the taxpayer earned from sources shown in the third section of Instructions concerning Income Tax Deduction by Direct Deduction Method with reference to other source of income mentioned in these Instructions, such as the children's income to be added with the father's income or cases of aggregations of wife's with husband's income.
<u>Fiscal year:</u>	The period of twelve months starting on the 1 <sup>st</sup> of January and ending on the 31 <sup>st</sup> of December of the same year, which is the basis year for the year of assessment itself in respect of salaries, bonuses, wages and allowances.
<u>Employer:</u>	Any natural or juristic person in governmental offices, public, mixed and private sectors who has employed or is employing one person or more for a salary or a wage. Non-governmental organization are considered employer as the private sector.
<u>Principal Employer:</u>	The employer designated as such by the employee on the Form Dhad.D/4A. When an employer is not the principal employer of his employee, he shall not grant to his employee any legal allowances nor deductions (except pension plan and social security contributions) in the calculation of the monthly wage withholding tax.
<u>Employee:</u>	Any worker or official person who has performed or is performing work for a salary or wage and works under the administration and direction of the party employing him.

## **2. Who is subject to the Wage Withholding Tax (hereinafter called “WWTax”)?**

Only individuals that are employees working whether in the private, mixed, state-owned enterprise, non-governmental or the public sector are subject to WWTax.

As stated above, an employee is a person (worker or official) who has performed or is performing work for a salary or wage and works under the administration and direction of the party employing him.

An employer-employee relationship exists if the payer has the right to control and direct the person who performs the services. Generally, the payer exercises control if he has the right to hire, fire, determines the wage or salary to be paid, and decides on the time, place, and manner in which the work is to be done.

Specifically, the payer may control:

- The hours of work,
- The assessment of the quality of the work,
- The worker’s periodic activity reports,
- Training and development.

In short, the payer exercises control if he has the right to decide where, when and how the work will be done.

In a business relationship, however, the payer does not usually control over the worker’s activities. The worker can decide how the work will be performed.

In case of a business relationship, the payer may have to withhold an income tax amount on the value of the contract. Please contact your local branch tax office for further details.

Residents and non-residents of Iraq (as defined by the Income Tax Law) are also subject to the WWTax. Some charging provisions are provided in the Income Tax Law #113 and shall apply to the WWTax accordingly:

1. Resident taxpayer’s taxable income in his name and shall be deducted from his income after granting him the legal allowance.
2. Resident taxable income of the married woman in her name and shall be deducted from her income after granting her the legal allowance.
3. Iraqi Resident’s taxable income which he earns inside or outside Iraq, regardless of the place of receipt.
4. Non-resident’s taxable income which he earns in Iraq even if it is not received in Iraq.
5. The tax shall not be imposed on the income arising outside Iraq for those persons who are not Iraqis but are residing in Iraq.

### **3. Income subject to WWTax**

#### **A) Income paid to the employee:**

The following income paid by the employer to his employee shall be subject to the WWTax:

- Salaries (including vacation and holidays pay),
- Wages,
- Bonuses,
- All types of allowances paid to his employee minus:
  - The amount of food, transportation, clothing, lodging and danger allowances not exceeding 30% of the monthly basic salary or monthly wage of the employee in the private sector. (Non-governmental organizations employees are treated like the private sector for the purpose of this rule).
  - The amount of all allowances not exceeding 30% of the monthly basic salary of the employee in governmental offices, public and mixed sectors.
- Any other amount paid by the employer to an employee that is not related to the expenses of work execution.
- The value of benefits in kind as described in the following section.

#### **B) Value of benefits in kind:**

The value of benefits in kind provided by the employer to his employee are subject to the WWTax and are determined as follows:

##### Free lodging:

A percentage of the monthly basic salary or monthly wage is added to the employee's income subject to WWTax. The percentage, which range from 5% to 20% of the monthly basic salary or wage, depends on the type of lodging provided to the employee. For further details, consult the third section of the Instructions concerning Income Tax Deduction by Direct Deduction Method.

##### Free meals:

If the employer provides meals for his employee, an addition of 10% of his monthly basic salary or wage shall be added to his income, provided that the added amount does not exceed the cost of the monthly meals or the cost of the meals preparation whichever is the lower.

##### Other benefits in-kind:

The value of any benefit in kind not mentioned above received by the employee from his employer which is not related to work execution. For example, if the employer gives a television to his employee, the faire market value of the television has to be added to the income of the employee.

#### **C) Other income to added to the employee's income:**

##### 1) Income of the unmarried children:

The income of the unmarried children, who have not attained the age of 18 years old, shall be aggregated with their father's income, and the tax shall be assessed in the father's name.

- 2) Wife's income to be added to husband's income when a valid request for aggregation is made (either one of the spouse has to have an annual income less than ID 2,500,000):
1. As the married woman is deemed to be an independent taxpayer, therefore, as a general rule, her income is not added to her husband's income, but their incomes can be aggregated if any of the following cases has taken place:
    - a. If the husband has no taxable income
    - b. If the husband's income is below the legal allowance (ID 2,500,000)
    - c. If the wife's income is below the legal allowance, which is determined for her as an independent taxpayer (ID 2,500,000).
  2. The legal allowance for the husband as in paragraph (1-b) means his own and his children's allowances (ID 200,000 per eligible child), and the legal allowance for the wife as in paragraph (1-c) means only her own allowance, for the purpose of applying the aggregation conditions.
  3. When one of the cases mentioned in paragraph (1) above is achieved, the husband shall be granted his own (ID 2,500,000), his wife's (ID 2,000,000) and his children's allowances (ID 200,000 for each eligible child).
  4. The request for the aggregation of incomes has to be signed by both spouses and submitted to the husband's principal employer no later than the 31<sup>st</sup> of January of the same fiscal year. Both spouses have to sign the request on page one of the Form Dhad.D/4A and provide the details of the employer's wife to the husband's principal employer.
  5. The husband's principal employer shall, after ascertaining the conditions of aggregation, aggregate the spouses' income, notify the wife's employer of the aggregation and enquire about the wife's income for the purpose of including it with the husband's income and deduct the income tax from the husband's salary. The wife's employer is obligated to inform the husband's employer about any changes on the wife's income during the year. Consequently, in a valid request for aggregation of income, no tax has to be withheld from wife's salary. In December, the wife's employer or the wife herself must furnish a copy of her own Form Dhad.D/4A to the husband's principal employer so he can make the adjustments required for computing the correct amount of tax to withhold from the husband's salary.
  6. If the causes of aggregation cease to exist during the fiscal year (death, divorce), the spouses' incomes shall be then separated and the tax shall be calculated on their incomes independently in accordance with the general rules. The principal employer, who has performed the aggregation process, shall inform the wife's employer with any change that might occur for the method of tax calculation.
  7. If the marriage has taken place within the fiscal year and the married couple has submitted a request to aggregate their incomes, then the wife's income shall be added to the husband's income as to the date of marriage contract.

3) Husband's income to be added to wife's income when a valid request for aggregation is made (either one of the spouse has to have an annual income less than ID 2,500,000):

1. When the husband is not an employee:

- a. If the employed wife has submitted a certification issued by the GCT, confirming that her husband is not registered in one of the tax commission branches and has no taxable income, then the aggregation request shall be submitted to the wife's employer. This situation covers the situation of a husband whom is not registered because he is:
  - Unemployed;
  - Retired;
  - Student with no income;
  - Earns income exempted from tax.
- b. If the employed wife has submitted a certification issued by the GCT, confirming that her husband is registered and has no taxable income, then the aggregation request shall be submitted to the wife's employer and a copy of the request shall be sent to the tax branch where the husband is registered. This situation covers the situation of a husband whom is registered because he:
  - Carries on a business as a sole proprietor (trader);
  - Carries on a business as a sole-owner enterprise registered as such with the Business Registry of Ministry of Trade;
  - Carries on a business as a partner of a partnership (Simple Company, Joint-Liability Company);
  - Earns other income subject to tax.

In both cases mentioned above, tax shall be imposed in the husband's name but collected from the wife's income after deducting the legal allowances for the husband (ID 2,500,000), wife (ID 2,000,000) and children (ID 200,000 per eligible child). Before January 31<sup>st</sup> of the same fiscal year, the request for aggregation must be submitted to the wife's employer with a copy of a certification issued by the GCT stating that the husband is whether registered or not and he is unlikely to have a taxable income for the current fiscal year. In December, the wife must furnish a statement of income earned by her husband to her principal employer so he can make the adjustments required for computing the correct amount of tax to withhold from the wife's salary.

2. When the husband is an employee:

In the case where the husband is an employee having an income below his legal allowance, and has submitted a request of aggregation of incomes to the wife's principal employer; the husband's employer shall, by a request from the husband, inform the wife's employer with the income of the husband in order to add it to the wife's income and deduct the tax from her salary after deducting the husband's (ID 2,500,000), wife's (ID 2,000,000) and children's legal allowances (ID 200,000 per eligible child).

In December, the husband's employer or the husband himself must furnish a copy of his own Form Dhad.D/4A to the wife's principal employer so he can make the adjustments required for computing the correct amount of tax to withhold from the wife's salary.

#### **4. Deductions from Income subject to WWTax**

The principal employer can take into account the following deductions in order to reduce the liability of his employees to the WWTax provided that they are supported by acceptable documents confirming their occurrence during the year in which the income arose. The accountant of the principal employer has to verify the acceptable documents provided by the employees.

The following deductions can be claimed:

- Pension deductions and contributions determined by the Iraqi Pension and Social Laws,
- Life insurance premiums paid to an Iraqi company not exceeding the amount stated in the valid Income Tax Law,
- Other insurance premiums paid to an Iraqi company, which are not related to the sources of income, not exceeding the amount stated in the valid Income Tax Law,
- The legal alimony ordered by a competent court and paid by the employee to persons for whom he is not entitled to the legal allowances (for example, parents, divorced wife),
- Contributions paid in Iraq to Governmental offices, socialist sector and to scientific, educational, charitable, and spiritual organizations, which are legally recognized.
- Contributions as per subscriptions allowed by the Government.
- Taxes and duties paid except for Income Tax and Real Estate Tax, such as subscription fees in the professional unions, stamps duty from salaries and health insurance duties and others.
- Amounts deducted for the account of the Palestinian National Fund, from salaries and wages of Palestinian officials, employees and workers even if they have obtained another nationality.

#### **5. Income not subject to the WWTax**

The following income is exempted from income tax by direct deduction method:

- The pensions and all types of bonuses granted to the end of employment for Iraqis
- Cost of medical treatment of the employee paid by his employer if he is injured during the performance of his duties.
- Any lump-sum amount payable to the family of the deceased as a bonus or compensation or any compensation payable to the employee, for injury or death.
- Free travel tickets granted to Iraqi officials for works related to their duties.
- Scholarship allowances granted to students.
- Allowances granted to delegates for the purposes of study and training related to work.
- Free travel tickets or actual expenses paid to foreigners, who are employed under contracts, when they are employed for the first time, or their contracts being renewed, or on leaving the country after finishing their work or traveling on leave.
- Delegation or overseas allowances received by foreign employees from their employers abroad or from the company's branch in the country due to their work in Iraq. This exemption should not be more than 25% (twenty-five percent) of the monthly basic salary. This exemption shall be granted on condition that it is proved that the employee is actually receiving the allowance as distinct from his monthly basic salary.
- Salaries and allowances payable by the United Nations Organization from its budget to its officials and employees.
- Salaries and allowances paid by Foreign Diplomatic Representatives to their diplomatic officials, who are not Iraqis, whereas payments to their non-diplomatic officials, and officials

of foreign consulates, who are not Iraqis, could be exempted by decision of the Council of Ministers on the basis of reciprocity.

- Salaries and allowances of the non-Iraqi officials of the International Organizations and agencies that have relation to the United Nations and its Organizations.
- Allowances for health insurance.
- The allowances for lodging, accommodation, transportation, food, clothing and danger provided that they do not exceed 30% of his monthly salary or wage.
- Income earned by foreign (non-Iraqi) employees of foreign (non-Iraqi) contractors and subcontractors in accordance with the CPA orders #17 as amended on June 27<sup>th</sup> 2004 and CPA Order #49 of February 19<sup>th</sup> 2004.
- Amounts exempted by any other special Law or any international agreement to which Iraq is a party.

## 6. Legal allowances

The principal employer of a resident employee must deduct from the income subject to the WWTax the legal allowances as provided by Article 12 of the Income Tax Law #113 as amended. If you are not the principal employer of the employee, you cannot grant any amount of legal allowances to your employee.

The amounts of legal allowances are the following:

- a) ID 2,500,000 (ID 208,333 per month) for a bachelor, a widower, a divorced man or a married man whose wife's income is subject to income tax independently.
- b) ID 4,500,000 (ID 375,000 per month) for a married man, and whose wife is a housewife or whose income is aggregated with his income.
- c) ID 5,000,000 (ID 416,667 per month) for the married woman who has an income subject to tax and whose husband is incapacitated from work and has no income providing she presents confirmation to the Financial Authority.
- d) ID 3,200,000 (ID 266,667 per month) for the independent widow or divorced wife.
- e) The Employee shall be granted an additional allowance of ID 300,000 (ID 25,000 per month) if he is more than 63 years.
- f) ID 200,000 (ID 16,667 per month) to be added to the allowance of the following person for each of his children, irrespective of their numbers:
  - Widower,
  - Divorced man if a competent court has given custody of the children to the father,
  - Married man whose wife's income is subject to income tax independently or whose wife's income is aggregated with his income or whose wife is a housewife,
  - Married woman who has an income subject to tax and whose husband is incapacitated from work,
  - Widow, and
  - Divorcee.

The term "child" shall include daughters lawfully maintained by the employee and sons unable to earn their living owing to mental or physical infirmity, although they have completed their eighteenth year of age. Allowances granted to children who have completed eighteen years of age but are still continuing their studies at a secondary or higher school, shall continue until the child has completed his studies or completed twenty-five years of age whichever is earlier. The Employee shall not be granted an allowance for children who have completed the age of (18) years

and have an independent income exceeding ID 200,000 per annum, even though they are continuing their studies.

When there is a change in the family situation of a person, (getting married or divorced, death of spouse, birth of child or death of a child), the legal allowance is modified only the next month following the event.

Where the resident person is non-Iraqi, he shall be granted the legal allowance for the year in which the income arises in the proportion of the complete number of months of residence in Iraq in relation to the complete months of the year.

No employee who is subject to income tax from several sources of income shall enjoy more than one legal allowance. The Iraqi resident employee shall be granted the complete legal allowance within the year in which the income arises regardless of the date of commencing his work or the date of his death during the fiscal year.

## **7. Tax Rates and amount to withhold**

Income tax is imposed on the resident and non resident employee in respect of each fiscal year at the following rates, after granting the resident the legal allowances:

- 3% up to ID 250,000
- 5% on amounts over ID 250,000 and up to ID 500,000
- 10% on amounts over ID 500,000 and up to ID 1,000,000
- 15% on amounts over ID 1,000,000

On a monthly basis, the amounts in tax brackets are the following (after dividing the annual tax rates above on 12 months):

- 3% up to ID 20,833
- 5% on amounts over ID 20,833 and up to ID 41,667
- 10% on amounts over ID 41,667 and up to ID 83,333
- 15% on amounts over ID 83,333.

The income tax withheld by direct deduction method on a monthly basis and for a particular month is imposed as follows:

The following formula shall be followed for all residents employee of Iraq:

$$\mathbf{A - (B + C + D) + E + F = G}$$

Where

**A** is the total of all amounts arisen in a month that is subject to income tax ,

**B** is the total of all amounts arisen in a month that are exempted from tax (if included in component A),

**C** is the total of deducted amounts that occurred in a month,

**D** is the total amounts of legal allowances that are applicable for a particular month,

**E** is the total amounts of A minus B and C for the employee's wife if her income is aggregated with her husband's income if a valid request for aggregation is made,

**F** is the total amounts of income of the unmarried children, who are under the age of (18) years, although they are pursuing their studies, which should be aggregated with their father’s income.  
**G** is the result obtained from the above formula.

In the case where the employer is not the principal employer of the employee, the amounts provided in D, E and F above are nil and the amounts provided in C above is nil except for pension plan and social security contributions.

If the result amount obtained in G is negative, there is no income tax to withhold.

If the result amount obtained in G is positive, then the amount in G is taxed based on the monthly tax rates as indicated above.

For the non-resident of Iraq, the formula above is the same except that the amounts provided in letters D, E and F are nil.

The employer may use the work chart set forth below in order to determine the tax to withhold from the employees salary, wages and allowances for each month. As an alternative to using the work chart, the General Commission for Taxes has developed withholding tables that an employer may use to determine the tax to withhold from an employee’s monthly wages, salaries, and allowances. These tables and an annex stating how to use them may be purchased from the General Commission for Taxes offices at a reasonable price or can be downloaded free of charge from the GCT website.)

If the monthly taxable income obtained in the letter G of the above formula:

- Is not over ID 20,833, record it on line 2 of column **A** in the table below;
- Is over ID 20,833 but not over ID 41,667, record it on line 2 of column **B** in the table below;
- Is over ID 41,667 but not over ID 83,333, record it on line 3 of column **C** in the table below;
- Is over ID 83,333, record it on line 2 of column **D** in the table below.

	A	B	C	D
Taxable income, see the instructions above:				
	0	20,833	41,667	83,333
Subtract line 3 from line 2				
	3%	5%	10%	15%
Multiply line 4 by line 5				
	0	625 <sup>1</sup>	1,667 <sup>2</sup>	5,833 <sup>3</sup>
Add line 6 to line 7 Income tax to pay monthly				

<sup>1</sup> This amount represents the tax to be paid on a monthly taxable income of ID 20,833  
<sup>2</sup> This amount represents the tax to be paid on a monthly taxable income of ID 41,667  
<sup>3</sup> This amount represents the tax to be paid on a monthly taxable income of ID 83,333

If you are paying your employees in other currencies than Iraqi Dinars, you have to convert the foreign currency paid into Iraqi Dinars at the exchange rate that prevails at the time where the salaries are paid. For this purpose, you may visit the weblink [www.cbiraq.org](http://www.cbiraq.org) and use the exchange rate announced by the Iraqi Central Bank.

Example:

A married employee with 3 children under 18 years old works in the private sector for a principal employer. His monthly salary is ID 550,000. His wife does not work and has no income.

The monthly taxable income subject to WWTax is:

Monthly salary:	ID 550,000
Minus: Social security contributions in the private sector (5%)	(ID 27,500)
Minus: Legal Allowances for the month (ID 375,000 + ID 50,000)	<u>(ID 425,000)</u>

Monthly taxable income subject to WWTax: ID 97,500

Since his taxable income after granting the legal allowances is over 83,333, record it on Line 2 of Column D of the work chart:

	1	A	B	C	D
Taxable income, see the instructions above:	2				97,500
	3	0	20,833	41,667	83,333
Subtract line 3 from line 2	4				14,167
	5	3%	5%	10%	15%
Multiply line 4 by line 5	6				2,125
	7	0	625	1,667	5,833
Add line 6 to line 7 Income tax to pay monthly	8				7,958

The amount of monthly income tax to withhold from monthly salary paid to the employee is ID 7,958.

**8. Monthly WWTax remittances**

The monthly tax withheld from the employees’ income in the manner determined above has to be remitted to either the Direct Deduction Department of the GCT or one of the unit of Direct Deduction at the branches, either in cash, certified checks or through the bank system during the first 15 days of the month that follows the month of tax deduction from the employees. When the fifteenth day of the month is a holiday, the tax may be remitted on the working day immediately after the holiday. The WWTax has to be paid in Iraqi Dinars only.

## **9. Monthly WWTax declaration**

The employer has to file, during the first 15 days of the month that follows the month of tax deduction from the employees, a monthly WWTax declaration in duplicate to either the Direct Deduction Department of the GCT or one of the units of Direct Deduction at the branches. The employer may file amended monthly Wage Withholding Tax declarations in duplicate in order to modify the original declarations previously filed. When the last day of the filing period is a holiday the declaration can to be submitted on the working day immediately after the holiday. For further details, please read the instructions written on the back of the declaration. Monthly WWTax declarations are available at the Headquarter or any branch office of the GCT.

## **10. Penalties and Interests**

Payment of the WWTax made after the due date (the 15<sup>th</sup> day following the month where deductions of taxes have been done or should have been done) will be subject to interest from the day following the due date until WWTax is paid in full. The interest rate will be that charged by Rafidain Bank on overdraft facilities.

If the WWTax is not remitted within 21 days of the due date, an additional penalty of 5% of the WWTax due shall be imposed. If the WWTax is not paid within this period, a further penalty of 5% of the WWTax due will be imposed after an additional 21 days.

Employers can make a request for canceling or waiving late payment penalties by writing to the tax branch where they file their declarations. In this request, the employers must indicate, their TIN, the tax periods for which he is asking a waiver or cancellation and the acceptable reasons justifying why the GCT should waive the late payment penalties.

The GCT may exempt wholly or partially the employer from the payment of this penalty if the GCT is satisfied that the delay in payment is due to an acceptable reason. Acceptable reason includes the following:

- Sickness incapacitating the taxpayer from work;
- Absence of the taxpayer from Iraq;
- Events of force majeure preventing the taxpayer to pay on time.

Constitute events of force majeure:

- Natural or human-made disasters such as flood, heavy storms, fire;
- Civil disturbances or disruptions in service such as strikes or demonstrations;
- Other circumstances beyond a taxpayer's control like death, accident.

For evaluating a waiver of penalties, the GCT will consider whether or not the employer could have had someone else to take care of his obligations. The GCT will examine any supporting documents or evidence to ensure verification of the employer's reasons. It should also be noted that third party negligence or omission, for example, an accountant's error does not constitute grounds for cancellation of penalties.

Interest fees cannot be waived.

It is important to note that the employer is responsible for paying to the Direct Deduction Section at the GCT or to the Unit of Direct Deduction at the branches of the GCT the amount of tax withhold by him under the provisions of Article 17 of the Income Tax Law #113, even though he may not have deducted it from salaries and allowances payable to his employees, and he may recover the tax so paid from amounts which will thereafter become due to his employees.

## **11. Collection of Outstanding Taxes**

The GCT has wide powers, including the seizure of assets and property, to use against tax debtors.

## **12. Registering for the WWTax**

Every employer must have a unique Taxpayer Identification Number (TIN). The TIN is a unique nine-digit identification number issued for each taxpayer to be used in all dealings with the GCT for all taxes administrated by the GCT.

If you are already filing returns and/or making payment of tax to the GCT you will be automatically allocated a TIN and this will be advised to you by letter. However the information on your file may not be updated and we strongly suggest that you fill out the Business Registration Modification Form #9903 in order to have your information updated in the GCT file.

If you are a new business then you will be obliged to register with the GCT and fill out the Business Registration Form #9902. Your local branch office will assist you. Once you have been allocated a TIN you must include this number on all declarations you file and in all communications with the GCT.

Only one TIN is issued to a company even if it has multiple branches. Branches may send individually their payments to the GTC using the TIN issued to the company or the Headquarter of the company may send the total WWTax. In all cases, only the Company's Headquarter must send the monthly WWTax declaration forms and other required forms.

## **13. Books and records**

Employers are required to create and maintain proper books and records in accordance with the rules noted below.

All records must be retained for a minimum of 7 years unless formal approval is granted by the GCT for a lesser period.

## **14. WWTax Clearance Certificate**

According to the Instructions #1 of 2005 concerning Income Tax deduction by direct deduction method, ministries, authorities which are not related with a ministry, and companies in the public, mixed or private sectors shall ask any contractor to submit a clearance certificate for the Wage Withholding Tax when they contract for providing goods or services.

By administrative practice such a clearance is not necessary if the value of the contract is less than ID 20,000,000.

Furthermore, from a practice point of view, there is no WWTax Clearance certificate issued but a contractor gets it indirectly when he needs to obtain a official statement from a tax branch stating that he is registered with the GCT according to Instructions #4 of 1993 " Withholding on contracts". Before issuing such official statement to a contractor, the GTC verifies, among other things, the contractor's compliance to WWTax.

Enter the following information in a register listing all the names of your employees and related amounts for each of your employees:

INCOME							DEDUCTIONS					TAXABLE	Monthly Tax
salaries and wages paid	Special allowances  note (1)	Other taxable allowances	Value of In-kind benefits	Bonuses and other income paid by the employer	Children's income to be added to father's note (2)	spouse's income to be added to other spouse's note (3)	Legal allowances	Pension and social security contributions	Other deductions provided by Law	Special allowances not > 30% of salaries and wages	Exempted income if included in income	INCOME  Income minus deductions	

Note (1): a) For employees in the private sector: Food, transportation, lodging, clothing, and danger allowances.  
 b) For employees in governmental offices, public or mixed sector: any allowances paid by the employer.  
 Note (2): Unmarried children’s income to be added to father’s income if they are under 18 years old.  
 Note (3): Only if a valid request for aggregation is made. One of the spouse has to earn a yearly income under ID 2,500,000.

This register is liable to be inspected by Tax Commission Officials.

**15. Form Dhad.D/4A**

The employer shall apply for a sufficient number of forms Dhad.D/4A at the beginning of the year from the Direct Deduction Department in the GCT or its branches. The Form Dhad.D/4A has to be filled out in duplicate by the employee and employer as follows:

A- First page of the Form Dhad.D/4A:

First:

The employee has to fill out the first page of the Form Dhad.D/4A, sign and remit it to the employer no later than seven days after receiving it.

Employee’s full name shall include his first name, father’s name, grandfather’s name, grand-grandfather’s name and family’s name.

Employee’s Citizen ID Number is the identification number indicated on the Citizenship Certificate issued by the General Directorate of Citizenship of Ministry of Interior. The Citizenship ID certificate number has 2 numbers, one is a file number and the other one is a serial number of 6 digit number. If the file number or serial number has less than 6 digits, indicate sufficient 0 before the number in order to have a 6.

Example: file number is 45930, and serial number is 783412.

Enter the Citizenship ID number as follows: 045930-783412

Second:

After receiving back the Form Dhad.D/4A, the officer concerned (fiscal manager or the concerned accountant, or whoever assumes his post) shall verify by supporting documents (e.g. marriage certificate, birth or death certificate and others) the correctness of the information in order to determine the legal allowances to which the employee will be entitled for the fiscal year in accordance with the Instructions concerning Income Tax Deductions by Direct Deduction Method. The officer concerned shall then number the Forms serially starting with No.1.

Third:

If the employee fails to submit the Form Dhad.D/4A in respect of any fiscal year, he shall be granted the bachelor's allowance for that year until compliance with the above paragraph.

The employee has to inform his employer of any change of his family situation in order to calculate correctly the amount of monthly legal allowances which the employee is entitled to. Indicate directly on the Form Dhad.D/4A changes to family situation occurring during the year.

B. Second page of the Form Dhad.D/4A:

First:

At the end of the calendar year, the employer's accounts officer shall record the employee's total incomes, stating the details in accordance with the items shown on the Form Dhad.D/4A. He then shall calculate the income tax after deducting the non taxable amounts and other deductions as provided by Article 8 of the Income Tax Law #113 of 1982 and the legal allowance to which the employee will be entitled.

Second:

Where an employer is not the principal employer of the employee, there shall not be granted to the employee deductions and legal allowances except for pension plan and social security contributions.

Third:

The manager and the accountant or other authorized persons replacing them, shall certify the correctness of the information stated on the Form Dhad.D/4A.

The information provided on the second page of the Form Dhad.D/4A are needed to proceed to the year-end reconciliation as discussed in the following section and record the results obtained in the Income Tax Deductions Schedule mentioned further.

A copy of the Form Dhad.D/4A has to be presented with the Income Tax Deductions Schedule in duplicate copies to the Direct Deduction Department of the main office of the GCT or in the concerned branches according to the geographic location before the 1<sup>st</sup> of April of the following fiscal year.

**16. Reconciliation to be made in December**

The employer shall make reconciliation in December, by making an adjustment for the increase or decrease of the amount of tax due on the incomes by the employees. In other words, the employer has to make a year-end

calculation of the WWTax due by the employee for the fiscal year considering all the incomes and deductions shown on the second page of Form Dhad.D/4A for each of his employees.

The following example shows how it works:

An employee from the public sector has a housewife earning no income and three eligible children. The employee completed in January 2005 the Form Dhad.D/4A and declared his family status accordingly. The employer has numbered his Dhad.D/4A form as #45 for this particular employee and the employer is the principal employer of the employee.

The monthly salary of the employee is ID 544,000 for all year 2005. Monthly Pension plan contributions are ID 21,760. The employer used the tax tables provided by the GCT and withhold accordingly an income tax of ID 8,350 per month from January to November 2005. The employee has only informed his employer in December 2005 that he had a new child on July 2005. Consequently, the employee is entitled for this new child to a monthly legal allowance of ID 16,667 since the month of August 2005 (ID 16,667 X 5 months: ID 83,333).

The accountant of the employer has to complete the top part of the second page of Form Dhad.D/4A with all the correct information about the incomes subject to WWTax and deductions of the employee for all year 2005 as follows:

### Form Dhad.D/4A

#### Computation of Income Tax to be filled in by the Accountant (at the end of the year)

INCOME		Dinar
1A)	Total of salaries and wages paid during the year (12 months X 544,000)	6,528,000
1B)	Total of clothing, housing and accommodation, food, transportation and dangerous allowances paid during the year for employees in the private sector and total of all allowances received by state, mixed or public sector employees.	
1C)	Total of taxable allowances and other benefits paid during the year	
1D)	Total of in-kind benefits.	
1E)	Bonuses paid to the employee and other incomes from the employer	
1F)	Additional income of children and aggregation of spouse's income if applicable.	
<b>Total Income (1)</b>		<b>6,528,000</b>
<b>The following is deducted</b>		
2A)	Total of monthly legal allowances claimed during the year (12 months X 425,000 + 5 months X 16,667)	5,183,333
2B)	Pension and social security contributions paid during the year (12 months X 21,760)	261,120
2C)	Deductions mentioned in article 8 of the Income Tax Law #113 of 1982 *	
2D)	Amount from (1B) (not exceeding 30% of the amount in line (1A))	
2E)	Exempted income if included in the income section (1) above	
<b>Total Deductions (2)</b>		<b>5,444,453</b>
<b>Taxable Income {Line (1) minus Line (2)} (3)</b>		<b>1,083,547</b>

The employer then complete the bottom part of the second page of Form Dhad.D/4A as follows:

**Calculation of the income tax for the year:**

If the taxable income from line (3) above is:

- not greater than ID 250,000, write it on line 1 of column **A** of the table below
- greater than ID 250,000 but not greater than ID 500,000, write it on line 1 of column **B** of the table below
- greater than ID 500,000 but not greater than ID 1,000,000, write it on line 1 of column **C** of the table below
- greater than ID 1,000,000, write it on line 1 of column **D** of the table below

		<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>
1 = Taxable income, see instructions above					ID 1,083,547
2 = Corresponding amount	Minus	ID 0	ID 250,000	ID 500,000	ID 1,000,000
3 = Subtract line 2 from line 1	=				ID 83,547
4 = Tax rate	*	3%	5%	10%	15%
5 = Multiply line 3 by line 4	=				ID 12,532
6 = Amount of tax from line 2	+	ID 0	ID 7,500	ID 20,000	ID 70,000
7 = Add line 5 to line 6	=				ID 82,532
Income tax to pay for the year					ID 82,532

The total amount of WWTax withhold monthly for the first 11 months of 2005 is:

11 X ID 8,350 = ID 91,850

Compare to the amount of tax to be paid for all year 2005 according to the Work chart provided in the bottom part of second page of Form Dhad.D/4A: ID 82,532

Excess tax for year 2005: ID 9,318

Since there is, obviously, an excess tax for the year, the employer should not withhold WWTax for the month of December and the employee will be entitled to a refund by the GCT (not from the employer) after the latter has made a verification of no tax dues on his other sources of income.

The employer shall complete the Income Tax Deductions Schedule for year 2005 as stated in the following section.

If the income of the employee was underestimated during the first 11 months of the year, the employer has to withhold more income tax from the December employee's pay than it was regularly withhold for each of the previous 11 months of the year.

**17. Income Tax Deductions Schedule**

The Income Tax Deductions Schedule prepared by the GCT / the Direct Deduction Department, shall be organized in duplicate by the concerned accounts officer at the end of each fiscal year, showing all the



example, a foreign company has the following TIN; 900001276 and the employee's number as given by the company is 154, then the Citizen ID No. to indicate would be 900001276154.

For a non-citizen of Iraq, indicate the Personal Identification Number issued to the employee by the GTC.

Upon an employee's request, the employer must issue to the employee a confirmation of the amounts indicated on columns 4 to 11 of the Income Tax Deduction Schedule attributable to him. Also, an employee may ask to his employer for a copy of his final Dhad.D/4A fully completed. This information is usually required by the employee if he needs to file a personal income tax return.

## **18. Offences and penalties**

Articles 56, 57, 58 and 59 of Income Tax Law #113 holds that offences and penalties must be applied when, for example, an employer fails to carry out the duties imposed on him under the Income Tax Law #113 or the instructions issued there under, or refusing or delaying to submit to the Financial Authority any statement or information he was obliged or called upon to submit under the provisions of the Income Tax Law.

If the employer fails to submit the Forms and Schedules within the time limits, the GTC may exempt an employer from late filing penalties if it is satisfied that the delay or violation is owing to an acceptable reason. See paragraph 10 above for more details on what constitutes an acceptable reason.

For further assistance, please communicate with:

General Commission for Taxes, Headquarters  
Al-Jamhurya Street, Baghdad, Iraq  
Al-Khulani Square behind Amanat Baghdad Building  
Phone Number: 01 815 6983, 01 815 6968, Fax Number: 01 815 6970  
email address: iraqtaxcommission@yahoo.com

You can visit our website [www.iraqtax.org](http://www.iraqtax.org) in order to obtain copies of forms and guides related to tax topics, Instructions, Regulations and the Income Tax Law #113 of 1982 as amended.