The need for tax reform in Iraq

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Preface

The basic economic functions of the government are the macroeconomic stabilization, to keep the economy moving, unemployment low, and inflation under control; income redistribution; and efficient allocation of economic resources.[1]

Taxation is an important component of these functions. Tax policy affects macroeconomic stabilization, which is aimed at meeting fundamental economic and social objectives (as does general government fiscal policy), taxes have the effect of redistributing income (a progressive income tax), and taxes finance public goods and services that are needed to support economic development and affect the distribution of resources.

This article examines the current Iraqi tax system, identify, problems in this system, evaluate alternatives options and the need for tax reform. It will draw upon the relevant principles to reach an informed decision by providing a brief overview of the concept of tax policy principles and tax reform and the way to achieve it.

Understanding the existing tax system and it deficiencies gives a better understanding of the proposed reform. For this purpose, a look is taken at the current tax system and structures in order to identify these deficiencies and inadequacy.

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[1] Richard A Musgrave, The Theory of Public Finance, New York: McGraw-Hill, 1959

1. Principles Underlying Tax reform

1.1 Tax policy principles

In developing policies for tax reform, issues like equity, simplicity, and neutrality should be addressed. Equity in the tax system means that individuals are taxed according to their capacity to pay tax, so those who are similarly situated (those whose income is equal) are taxed the same, (horizontal equity) and those who have the most resources pay the largest share of the tax (vertical equity). Simplicity means a relatively simple tax system with few rates, exemptions, deductions, and exclusions. Neutrality means a minimal interference with business decisions i.e. taxpayers decisions are made on the basis of economic merit and not on tax benefits.[2] The details of the tax law may change constantly. However, these principles remain unchanged because they reflect the equilibrium of the tax system.

These principles are useful to decide the design of the technical tax base, the definition of the tax unit and the attribution of income to it, the rules relating to the period of income measurement (tax year), the tax rates, and the tax administration. These technical tax provisions establish the basic structural elements of the tax system.

The challenge for the Iraqi government is to design an efficient, fair and simple tax system based on these principles. We know that some taxes are more equitable than others, some are more efficient than others, some simpler to administer than others. But, an optimal tax system should examine the trade-off between neutrality, equity, and simplicity. [3]

These criteria do not apply to the evaluation of tax expenditures. Tax expenditures are implicit government spending programs and, therefore should be evaluated using budgetary criteria, not tax criteria.

[2] Shome Parthasarathi, Tax Policy Handbook, IMF (1995), p.30
[3] Louise Levonian, for the USAID Tax and Fiscal Reform Project in Armenia, April 17, 2001.

1.2 Tax expenditures

Tax expenditures are used as alternatives to direct government spending for achieving government policy objectives. Tax expenditures may take the form of reduction in tax liabilities that result from preferential provisions in the tax system such income exempt from taxation[4], certain deductions in computing the taxable income[5], or some tax credits in computing the tax payable[6]. Tax expenditures reduce the budget in the same way that direct expenditures reduce the budget available for other purposes.

Tax expenditures may take the form of tax incentives. The government uses tax incentives in order to increase investment. Various schemes tax incentives may be employed with divergent results. Apart from a broad tax base and low tax rates, countries use one or more tax methods to achieve its goals, such as Tax holiday (i.e., corporations pay either no tax or a reduced rate of tax); tax allowances (e.g., investment write-offs and investment tax credits), and accelerated depreciation.

Under the former regime, several tax incentives has been adopted such as:

- Resolution #767 (10/1/1987): Exempts foreign companies and their non-Iraqi employees from all taxes and levies on development projects under contract after 10/1/1987;
- Resolution #106 (21/6/2000): Exempts from tax 100% of profits for a period of up to 10 years on projects that produce machinery and products using imported materials;
- Law # 20 (18/7/1998), amended by Resolution #83 (11/5/2000): Exempts from income tax various percentages, ranging from 10% to 30%, of the annual profits of industrial projects that produce goods for final consumption or produce capital goods, for the first five years and reduced by ½ for the next five years;
- Law #62 (23/11/2002), Law of Arab Investment: Exempts from customs duties stamp fees, vocational fees, real estate taxes on some investments.
- 5 to 7 year income tax exemption for 5 and 4 star hotels;

[4] Income exempt from tax, see Income Tax Law # 113 (1982) section 7.
[5] Legal allowances, Income Tax Law # 113 (1982) section 12 as amended by CPA Order section 2.
[6] Foreign tax credit, CPA Order section 12.

- Various agricultural exemptions;
- Depreciation of 100% of equipments used by financial institutions;

Tax expenditures impact directly on revenues and administration, and thus should be taken into consideration when discussing tax policy and tax reform. Therefore, the government must consider the economic effects of such decisions on the budget and social and economic impacts. In deed, there are some negative impacts to tax incentives: first they cause a lost of revenue for the government; second, they may imply a distortion in the distribution the income tax burden among different taxpayers, and thus violate the equity principle; finally, they may imply a deviation from the neutrality principle of the tax system.[7] For these reasons, policy makers in Iraq should review the existing tax incentives and adopt measures appropriate to the new Iraqi economy.

2. Analysis of the current tax system

Iraq has adopted the first income tax law #52 in 1927 after the foundation of the modern Iraqi state in 1921. The first income tax law was greatly inspired by the *Modal Income Tax Ordinance* of 1922, which Great Britain had prepared for use in its colonies. Since 1927 and until the adoption of the current income tax law # 113 in 1982, there was no real improving or modernization of the tax system. The law #113 did not undergo any real upgrade or update except few particular laws with meaningless effect on the tax system as a whole. The existing tax laws in Iraq suffer from a lack of coherent principles and structure. This problem is associated with a fragmented tax policy process that has resulted in a series of ad hoc amendments over several decades.

After the fall of the former regime, the Coalition Provisional Authority (CPA), under the laws and usages of war,[8] and U.N. Security Council resolutions, including Resolutions 1483 and 1511, issued the Order Number 37 and 84 suspending the tax system[9] from January 1st, 2003, to the end of the calendar year 2003.[10] When tax system was reinstated

[7] Plasschaert, S., Schedular, Global and Dualistic Patterns of Income Taxation, IBFD, Amsterdam, 1988.p.64
[8] Geneva Convention # 4, 1949
[9] With some exception, Sales Tax wasn't suspended for instance.
[10] CPA Orders #37 and #84

on May 1, 2004, The CPA Order 49 reduced the income tax rates, increased the allowances, and subjected the government employees to income tax alike the private sector employees, but kept the existing laws in effect.

However, the tax reform is not limited to lowering tax rates and broadening tax base, or improving tax administration. Iraq needs major changes to the current tax system to break up with the past hazardous policies of the former economic regime and pave the way to a modern market economy. In order for such changes to stand, they should be based on orderly policies. Hence, resuming the existing tax system should be just an interim measure pending the completion of the tax reform process and the reform of the tax administration.

2.1 Tax system Structure

Income tax system can be designed on either a global, under which incomes from different categories are combined together and a tax rate (progressive tax rates) is imposed on the total income; or a schedular system, in which separate tax rates are imposed on different sources of income. Global tax systems are generally used in developed countries, while Schedular income tax systems are more used in developing countries.[11]

Iraqi income tax law enumerates different types of income, section 2 Law #113. Section 13 Law #113 imposes the appropriate tax rate on the total.[12] From this point of view it is a global system. However, the Iraqi tax system also imposes various taxes on various sources of income separately, (e.g. real estate rental income which is subject to the Real Estate Tax Law #162) and from that point of view still has major features of a schedular tax system or dual system.

[11] Some countries have proceeded to reschedularization of their global income tax systems, e.g. Sweden, Denmark, and Norway. See Leif Mutén et al., Towards a Dual Income Tax: Scandinavian and Austrian Experiences, Foundation for European Fiscal Studies, (1996), p. 9

[12] Section 13 of the Law # 113 has been modified by section 3 of CPA Order 49 reducing the tax rates.

The schedular income taxes, which differentiate between categories of income, should be replaced by a global income tax where all sources of income should be taxed the same, regardless of its source. The real estate income as a property income should be incorporated in the new income tax law. However, certain features of the schedular income taxes should be retained because of their efficiency. For instance employment income should continue to be subject to the wage withholding tax. The taxation of other income, such as rental, interest, dividends should also be subject to withholding. In these cases, taxes withheld would be credited against the global income tax. In the case of wage withholding tax, it should be simplified so that employees with no other source of income- the majority of taxpayers- would not have to file an income tax return in order to ease the burdens on the tax administrations.[13]

2.2 Personal tax

Tax is imposed on individual income in almost all countries.[14] The country should have a personal income tax mainly because it gives the appearance of being progressive, taxing the rich and leaving the poor with the little they have.[15] In addition, where there is a corporate income tax, there must be a personal income tax. Otherwise, the tax system would discourage the corporate form of business and would encourage other business forms that might not be desirable (Neutrality principal).

Before the liberation of Iraq, only employment income of private and mixed sector employees was taxable income. Since May 1, 2004 section 11 of CPA Order #49, corrected this inequity and subjected employment income of government and state owned sector employees to income tax.[16] The case for taxing government and state owned enterprise sector employees like private and mixed sector is justified to ensure that the tax burden is shared by all sectors of the society (equity principal), there should be no

[13] IMF, Tax Policy Issue and Recommendations, p.20
[14] Except some Tax-haven countries like Bahamas, Monaco…
[15] Section 15 of the new Iraqi constitution states that persons with low income should be exempted from taxes.
[16] Section 11 CPA Order # 49

distinction between private, mixed, state owned enterprise, and government sector employees. [17]

The tax on employment income must be collected either under a withholding system or an assessment and invoice method. The ministry of Finance issued the Wage Withholding Tax Instructions No.1, 2005 to collect the income tax payable on employment income on a current basis by withholding by the employer. It is important that the tax be withheld by the employer as a final tax on as broad a number of workers as possible. This would simplify tax administration since employees with only wage income will not be required to file a return.

2.3 Business Tax

Business income and personal income are mixed within the same provisions in the Law # 113. Business income is defined as profits from commercial transactions without recognition of income or computation of taxable base or taxable income.[18] Deductions are broadly defined as expenses related to the production of income, without specifically defining rules governing the deductions of expenses. There is currently no reference made to accounting methods to calculate taxable income in Law #113. There are no specific inventory rules in Law #113.

In a comprehensive tax system, taxpayers are entitled to deduct, from gross income, the expenses incurred in order to earn such income. If the income tax were based on a gross concept, the same income would be taxed twice, both with the payer and the payee of the income, although the production costs paid by one taxpayer represent receipts for another person. For equity principal, such expenses should be deductible before imposing the tax.[19] Deductions rules should refers to identical treatment for tax purposes of income and losses of any given source of income, this is called the *symmetry principle*. If the income is taxable, then the expenses incurred to earn that income should be deductible and so are losses. For example, if a payment is exempt from tax for a payee, then it should not be a

[17] Cedric Sandford, Key Issues In Tax Reform, Fiscal Publications, 1993, p.2
[18] Section 2 Law #113.
[19] Plasschaert, S., Schedular, Global and Dualistic Patterns of Income Taxation, IBFD, Amsterdam, 1988. p.41

deductible expense for the payer. Violating this principle generally leads to distortions and inequities.[20]

A comprehensive tax system requires appropriate procedures for determining the amount subject to assessment. Thus, the annual measurement of taxable income requires accounting rules to allocate income and expenses to a particular tax year, called accounting methods. In the current Iraqi tax system, there is no reference to accounting standards i.e. cash or accrual, tax or financial accounting, other than requiring books and records be maintained "with proper accounting standards" (Reg.#5). The issue of whether method of determining taxable income should apply may arise in the future once the reform effort of having Iraq adopt International Accounting Standards (IAS) is successful. If the IAS are not in place, the Iraq tax law may need to contain definitions or other accounting rules. It may also be necessary for income tax law to include characterization and timing rules, instead of relying on financial accounting.

The depreciation system in Iraq also is outdated. It uses the type of business activity for the depreciation instead the categories of assets unlike most of countries do. There is no provision for useful life in years and based upon percentages established in 1957. It is antiquated regarding technology advancement since 1957, such as computers and software (Reg. #33). Regulations No. 9 of 1994 provide rules for depreciation, however nothing on the depreciation of building. Depreciation should be by straight line or declining balance, and depreciation rates should be uniform by asset class rather than be based on specific industry.

2.4 Tax rates

Prior to the liberation, personal income tax rates ranged from 10% to 70%. CPA Order #49 revises section 13(1) of Law #113 to reduce the top tax rate imposed on a resident individual's taxable income from 40% to 15% and the top tax rate imposed on a non-

[20] Vito Tanzi & Howell Zee, Tax Policy for Developing Countries, 2001 International Monetary Fund March 2001, p.8

resident individual's taxable income from 45% to 15%. The tax rate on corporations profit was progressive, ranging from 10% to 60%, but has been modified by the CPA Order # 49 to a flat rate of 15%. CPA Order #49 creates a four-tier rate structure for individuals, with a maximum tax rate of 15%. The tax rates apply after deductions of legal allowances and allowed expenses. Under CPA Order #49, the new rate structure for both resident and non-resident individuals is as follows:

At the rate of 3% on amounts up to ID 250,000.

At the rate of 5% on amounts over ID 250,000 and up to ID 500,000.

At the rate of 10% on amounts over ID 500,000 and up to ID 1,000,000.

At the rate of 15% on amounts over ID 1,000,000.

Such a low maximum rate limits the progressivity of the personal income system. However, the personal allowance is approximately 80% of per capita income. This high personal allowance increases the progressivity of the personal income tax.

There should be only one corporate tax rate; there should be no zero income tax brackets for corporation. The corporate tax rate should not exceed the top marginal tax on personal income tax. In addition to revenue considerations, the following factors should be taken into account in determining corporate tax rates: Relationship between corporate and individual income tax rates; Effect on investment; and Effect on compliance by discouraging tax evasion, and integration between individual tax the corporate tax.

2.5 Integration between individual and corporate income tax

In general, most countries eliminate or substantially reduce tax on dividends received by legal persons. Other than the United States, most countries fully or partially eliminate the double tax on dividends received by physical persons. To encourage the development of a market economy, it is important to minimize the distortions caused by double taxation of dividends. Double taxation is either eliminated by giving tax relief to the distributing corporation or to the shareholder. So avoiding the double taxation of the same income, once in the hands of the corporation and again in the hands of the shareholder, is called integration. There are two methods to achieve the integration between individual income tax and corporate income tax: the exclusion method and the “gross-up and credit” method. The exclusion method should be adopted, since it is simpler than the gross-up and credit method.

Where there is no integration of corporate and individual income taxes, it is generally recommended that the corporate income tax rate should be approximately 5% points lower than the top individual income tax rate. This differential permits the government to impose a tax on the distribution of dividends without double taxing corporate income. For example, if the corporate rate is 30% and the top individual rate is 35%, the total tax on corporate income (30% plus 5%) will be no higher than the rate that would have applied if the business had been organized as a proprietorship and taxed at the individual tax rate. There is no double tax in this example.

In Iraq, sections 1(5) and 15 of Law #113, provide for integration of corporate and individual income taxes through exclusion of dividends from tax as received by shareholders. It appears that the corporate tax is intended to be the final tax on income. However, the current integration system needs to be revised since it does not work mechanically.

2.6 Personal allowances

All modern tax systems provide some basic personal allowance for social and economic reasons. Personal allowance satisfies social policy by ensuring that an individual with low income will not pay tax.[21] The basic rationale for the personal allowance is that the individual should not pay tax on the level of income needed to cover minimum personal necessities since this portion of taxpayers spend most of their income on personal consumption.[22] Personal allowances also simplify the tax administration by removing many low-income earners from the tax system. Some countries provide for an allowance for a spouse and children in certain circumstances.

[21] Different methods can be used to reduce the tax burden on low-income individuals: Zero rate tax bracket, Personal tax allowance, and Personal tax credit. The personal allowance method results in the greatest reduction in tax burden.

[22] If Iraq adopts a VAT, indirect taxation will impose an appropriate burden on them subject to the exemption of basic products generally stipulated by the VAT law.

CPA Order #49 revises section 12(1)(a) of Law #113 to provide that a taxpayer is granted a personal allowance (exemption) in the amount of ID 2,500,000. Taxpayer is allowed an allowance in the amount of ID 2,000,000 for his wife, and an allowance in the amount of ID 200,000 for each of his children, regardless of the number of children. An individual is entitled to an additional personal allowance for being either, or both, elderly or blind.

The personal allowance of 2 500 000 ID is approximately 80% of per capita income in Iraq. The Iraqi system is comparatively more generous than the system in the many western countries. Therefore, it is not recommended modifying the personal allowance level at this time. Rather, the allowance level should be reviewed after the Iraqi economy begins functioning normally.

2. Objectives of the tax reform in Iraq

The 1982 law # 113 and those changes made in the past two decades were designed for an inward looking economy that was highly centralized and controlled. The current tax legislation suffers deficiencies and inadequacy making its application and compliance difficult, if not impossible in some cases. The lack of logical structure, outdate concepts, and unsatisfactory rules that do not recognize complexities of modern economy mark up the existing Iraqi tax system.

Thus an overall reform of the tax system is needed to break from past actions in taxation and economic policy and to meet the requirements of the modern market economy. Reforming the tax system required changes in many related areas, beginning with the income tax, tax administration, and consumption taxes.

2.1 New income tax law

A tax system with few taxes, a limited number of rates, limited exemptions and a broad base, has proven to be much easier to administer and to result in higher compliance levels than a complex tax system. All income tax provisions should be included in a consolidated new income tax law. The use of special laws or regulations should be limited. Drafting an entirely new Income Tax Law merging the Real Estate Rental Tax Law #162, Law #113, the Vacant Land Law, and the Real Property Tax (Resolution #

120) and any special laws dealing with related issues. These disparate tax laws should be repealed upon enactment of the new law.

The new income tax law should be kept simple; this will help for the interpretation to be consistent and understanding of underlying concepts. This can be achieved through minimization of specific rules and retain as simple a system as possible and avoid features that add complexity specially in the first time after the reform takes place. The easier a tax law is to understand, the lower will be the compliance costs, both for taxpayers and for tax administrators.

The new income tax law must effectively translate the policy objectives into required actions by tax administration and taxpayers, and minimize unintended consequences. This means that the application of the tax to particular transactions should be determinable, predictable, and certain. *"The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person".* [23]

2.2 Adopting a Value-Added Tax (VAT)

The widespread introduction of the value-added tax (VAT) in the latter half of this century is one of the most significant events in the evolution of tax system.[24] Of the twenty-four member countries of the organization for Economic Cooperation and Development (OECD), twenty-one have accepted the VAT as their main consumption tax.[25] Currently VAT is a key source of revenue for more than 125 countries worldwide raising more than $18 trillion – roughly a quarter of all government revenue. About 4 billion people, 70% of the world's population now lives in countries with a VAT. More than 75% of countries adopting a VAT have done so since 1990.

[23] *See Adam Smith, In The Wealth of Nations (Book V, Chapter II)*

[24] VAT was generally accepted to have been introduced first in France in the late 1940s.

[25] Switzerland, and the United States are the only OECD countries that have not yet adopted a VAT.

VAT is a common form of taxation for the 15 member states of the European Union. Because the tax was made a condition for membership, the new entrants to the EC introduced it as well. The border tax adjustments under a VAT agree with the tax provisions of World Trade Organization WTO. VAT has been adopted by Japan, China, Canada, Korea, and many other states in Asia, North and South America, and Africa, besides being adopted in almost all the states of the former Soviet Union.[26]

The particularity of VAT is that it does not distort domestic production and distribution, and is neutral tax with respect to foreign trade. VAT is neutral regarding the production forms or methods by which business is conducted. These features are important attributes of a good tax in economies that leave the optimal allocation of resources to the free play of market forces. VAT interferes very little with the free functioning of business and trade.

Another reason why so many countries have adopted VAT is that it is an exceptionally stable and flexible source of government revenue. Because VAT is collected on a current basis it is a flexible tax; a change in the rate immediately translates into more or less revenue. VAT may be used almost exclusively to generate revenue for the government budget in as neutral and administratively feasible a manner as possible. Whilst the income tax can be employed to achieve distributional objectives and the excise tax and import duties to attain allocative goals. Therefore, the focus of VAT should be on revenue. [27]

Iraq introduced a sales tax in 1997 on first categories and luxury hotels and restaurants services at 10 %. The law contains 5 articles and no details on its application, except a provision providing the issuing of regulations by the ministry of finance. The regulations have never been published. A draft law on mobile phone services is underway. The new consumption tax imposes 10% on the value of the taxable phone services.

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[26] Victor Thuoronyi, Tax Law Design and Drafting, Vol.1, IMF 1996 Cap. 6, p.165
[27] Cedric Sandford, Key Issues In Tax Reform, Fiscal Publications (1993), p. 73

In order for Iraq to have a stable and effective source of government revenue without relying only on the fluctuant oil-revenue, to make national business and foreign investments doing business in Iraq more competitive on international markets, and in order to meet its international obligations, all consumption taxes should be comprised in new VAT law unifying these consumption taxes. The VAT should have only one rate and have a relatively high minimum firm size for the first few years of transition. The exclusion of smaller businesses from VAT can be done through the use of a threshold limit by setting a minimum level of business activity or turnover.

2. Tax administration law

For the tax reform to be successful it must pay due attention to the implementation of the designed tax policies. Tax policy defines the tax laws and methodologies, but it is the tax administration that puts those policies into effect. Tax administration seeks to translate tax laws efficiently and effectively into tax revenue.

The analysis of the Iraqi tax administration functioning shows that the current laws authorizing the activities of the tax administration do not clearly and sufficiently describe the compliance requirements, permitting too much discretion to tax administration officials and inconsistent application. Each tax law in Iraq contains its own tax administration provisions. The different rules are confusing, inadequate and arbitrary.

Generally the principles of administering each tax are those that are broadly applicable throughout much or all of the different taxes. Therefore, rather than repeating each with some confusing and contradictory effect, it is suggested to put them in one place and to make clear that they refer to more than one aspect of the tax administration. Placing the common rules into unified tax administration law makes it more likely that its application will be more uniform. However specific rules to a particular tax may be stated in the law creating the specific tax.

In addition to have a unified tax administration rules, the law should be organized around the different functions necessary for the tax administration. This form of organization is called functional.[28] The functional categories (registration, record keeping, returns, audits, appeal...) should be organized in a way so that they follow a temporal sequence division in tax administration law. This makes the law easier to understand for the taxpayer as well as for the tax administration. The law should be easy to apply difficult to avoid however, this principle should not undermine the principals of equity and economic rationality.

The Iraq tax administration law should put more responsibility on the taxpayer. Moving from a system of official assessment by the tax authorities to a system of self-assessment is a goal of the tax reform with an adequate system of penalties and interest for non voluntarily compliance.

3. How to achieve the tax reform

There is a clear demarcation of duties between policy and implementation. The former should be laid to the Ministry of Finance MoF and the latter to the General Commission for Taxes (GCT). According to this rational, performing the tax reform should lay within the ministry of finance.

Specialized department, Tax Policy Unit (TPU), within the ministry of finance should be created to be in charge of this task. The new department has to develop the policies that will allow the government to achieve the tax reform and design a sound tax policy necessary to the economic growth of the country and generate fiscal revenues to pay the reconstruction cost and the reform efforts. The institution (TPU) should be staffed with persons capable of developing tax policy proposals and tax reform, estimating the revenue and distributional impacts of the changes, preparing the legislation, assisting in the implementation of the policies, coordinating the work with the tax administration and monitoring its performance and impact on the economy.

[28] The opposite of functional organization is organization according to substantive taxes. While Iraqi tax administration is organized in this way, the general trend is toward a functional organization.

USAID - Funded Economic Governance II Project assisted the ministry of finance to set up a TPU. The Iraq TPU has been formally created since August 25, 2005 by the Ministerial Order No. 409 of August 25, 2005.

The operations of the TPU are not limited to tax reform, they cover a wide range of responsibilities, including developing, extending and updating forecasting models, producing periodic written and statistical analyses of the tax system, monitoring tax collections to allow officials to improve the assessment of the current status of the economy.

However, the focus of the work of the TPU for now is on issues of the tax reform and designing an appropriate tax system for the country, review the functioning of the tax administration, and preparing legislative proposals for changes in tax laws (including proposals by business groups, the IMF, the World Bank, etc.) monitoring the tax administration structure reorganization, identifying gaps in the existing collection, accounting and information system.

Conclusion

The current tax system of Iraq suffers from a lack of coherent principles and structure underlying its existence. This problem is associated with erroneous economic and fiscal policies that have resulted over several decades. Reforming the tax system is a complex process, which requires changes in many related areas. The ministry of finance has started this process by establishing the Tax Policy Unit and staffing it with competent people. The process of tax reform will require the designing of fiscal policy that stabilize the economy, and sustain an economic growth. Drafting new consolidated tax legislation as proposed above will effectively translate the policy objectives into required actions effectively and efficiently. Legal changes are also required to introduce modern accounting standards and as well as complimentary measures relating to the rights and obligations of taxpayers and tax officials.