



---

**NON-FILER DETECTION PROGRAM  
FOR THE WAGE WITHHOLDING TAX**

---



**USAID-Funded Economic Governance II Project**

**PREPARED FOR:**

**GENERAL COMMISSION FOR TAXES**

**Date: 28 September 2005**

## Non-Filer Detection Program for the Wage Withholding Tax

### 1) Background

Revenues from collection of the Wage Withholding Tax (WWTax) have increased significantly since 2004. In 2004, the General Commission for Taxes (GCT) collected an overall amount of ID 2,329,005,779 of WWTax. From January 2005 to August 2005, GCT collected a total amount of ID 15,225,937,052 averaging ID 1,903,242,131 a month of WWTax. However, when we look at the number of entities complying with the WWTax, the compliance rate is relatively low.

The chart below details the type and number of entities paying the WWTax to the Direct Deduction Department located at Headquarters for the month of June 2005:

Type of entities	ID collected	#
1. Iraqi companies except Mixed Joint Stock and State Companies	54,664,154	31
2. Branch of foreign companies	228,976,767	15
3. Foreign Non-Governmental Organizations (NGO)	24,348,066	5
4. Domestic NGO	316,559	1
5. State-Owned Enterprise (State Companies)	585,736,902	43
6. Mixed Sector Companies	12,398,808	10
7. Self-financed governmental offices <sup>1</sup> (other than 5 and 6 above)	193,163,171	75
Total	1,099,604,427	180

Appendix 1 shows the type of companies actually registered with the Business Registry of the Ministry of Trade. About 30,000 companies are registered in Iraq, of which 2,500 are registered in Kurdistan. It is obvious that an important number of entities doing business in Iraq are not registered with the GCT and therefore not remitting the WWTax.

Considering the low level of staffing of the WWTax department personnel in the GCT that is not actually organized along functional lines, we can nevertheless propose simple steps to be taken in order to improve quickly the WWTax collection figures.

We propose that the GCT conducts a programme to detect entities who are outside the WWTax net and then take appropriate steps to bring them under their control.

When the GCT has made further progress organizing its structure along functional lines, BearingPoint will develop a more detailed programme for detecting non-filers and stop-filers, with the objective of assessing their tax liability and collecting the tax due when the collection department is nearly operative. Non-filers are taxpayers who have never registered for tax and consequently have escaped paying their tax obligations. Stop-filers are taxpayers who have registered at some time in the past, but have stopped filing declarations.

<sup>1</sup>For a more detailed discussion about this issue, see section 3e) of the present document.

The basic keys for such a program to improve compliance are:

- (1) obtaining the information (internal and external data); and
- (2) disseminating information (Taxpayer Education Program).

## 2) Internal data

In order to improve quickly the collection figures from WWTax, it is suggested to the GCT to take actions to inform the companies actually registered within the GCT of their duties and obligations as employers.

The GCT is pursuing to apply recommendations made within the Taxpayer Identification Number (TIN) program. Actually, about 9,500 companies were automatically issued a TIN during the conversion process of the Corporate Tax Department database. However, no TIN certificates were actually mailed to those entities. Furthermore, before the conversion process, it is not clear that the information contained in the GCT database was updated.

We suggest to the GCT to send a letter requesting the 9,500 companies to fill out the business modification registration form #9903 and update their information accordingly (see suggested letter on appendix 2). This simple step will make sure that these 9,500 companies still need to be registered; many of them might just have ceased their operations and therefore should not be registered anymore. A computer printing directly the name of the company with its TIN and address according to the GCT database can easily produce this letter.

Furthermore, in order to determine if these companies must withhold the WWTax from their employees' salaries, the GCT can request them to fill out a simple WWTax questionnaire (see suggested WWTax questionnaire on appendix 3). This simple WWTax questionnaire constitutes the basic tool for the WWTax department to take further actions, such as calling or meeting the employer and eventually, proceeding to an audit.

However, no Regulations exists to assure those companies will comply with this demand and update their information. At the moment, such Regulations would be useless since the Income Tax Law #113 of 1982 only provides for a maximum penalty of ID 500 to any taxpayer failing to submit a statement to the GCT, such as registration form.

Even if Regulations forcing taxpayers to register with the GCT are currently non-existent, the GCT has one important compliance tool in its hands. Indeed, before issuing any document by virtue of Instructions #4 of 1993 "Withholding Tax on Contracts", the GCT should require that the company provides the updated information on the business modification registration form #9903 and fill out the WWTax questionnaire mentioned above.

Furthermore, paragraph (5) of Article 9 of Instructions #1 of 2005 concerning Income Tax by Direct Deduction Method provides for any entity dealing with a contractor (for goods or services) that the latter obtains a WWTax clearance certificate. On an administrative point of view, it was suggested that only contracts over ID 20,000,000<sup>2</sup> must be subject to this rule. The GCT will have

---

<sup>2</sup> As written in the Employers' Guide to the WWTax, version 2005

to develop procedures in order to print such a WWTax clearance certificate. Such procedures can be integrated with those in place by virtue of Instructions #4 of 1993.

We suggest that the chief of the registration desk located within the Headquarter is to be designated as the coordinator for updating the registration information data and track the responses from companies. A case control log is designed to assist this person to control the sent letters to companies and their responses (see appendix 5).

### **3) External data**

#### **3a) Business Registry Information**

Important progress was made with the Business Registry of Ministry of Trade this summer. Director General of Business Registry agreed to share their company's registration database with the GCT. Tax registration clerks now sits within the Business Registry and receive filled out TIN forms from companies according to the procedures established within the Business Registry. This new procedure assures the GCT to register all new companies for tax purposes.

After the analysis of the current GCT database and comparison with the Business Registry database, the GCT will be able to increase their number of registered taxpayers for tax purposes. However, the GCT must pay particular attention to registered companies that are no longer operating their activities in order to avoid registering non-operating companies. The registered number of companies with the Business Registry may look impressive but it does not mean that all those registered companies are still active. According to our advisor working with the Business Registry of the Ministry of Trade, about 10% of registered companies are not active.

For more details about numbers of companies (including State Companies, Mixed Sector Companies) registered with the Business Registry of Ministry of Trade, see Appendix 1.

This comparison with the Business Registry database can be done in a later time when GCT has finished to update its own database as mentioned in section 2) above.

#### **3b) Foreign companies doing business in Iraq**

Branch of foreign companies doing business in Iraq are more likely to hire a lot of local Iraqi employees. According to the Business Registry information, about 800 of them are registered with the Business Registry, while only 15 of them are actually collecting and remitting the WWTax.

The GCT can use immediately the list of foreign branch companies registered as such with the Business Registry and send them a letter requesting their registration for tax purposes (TIN) and details about their employees.

The GCT may also communicate with the Ministry of Foreign Affairs and obtained a list of all International Organization operating their program in Iraq, such as the United Nations (including its agencies), the Arab League.

The GCT can discuss with the Iraq Project and Contracting Office and aware them to the importance of the contractors and subcontractors to fill out their duty as employers of local Iraqi staff.

### **3c) Ministry of Labor and Security Affairs (MOLSA)**

In accordance with a meeting held on August 9<sup>th</sup> 2005 in the GCT Headquarters with Mr. Sami Ibrahim Ali, Director General of MOLSA, MOLSA will participate actively exchanging data with the GCT. This collaboration will lead GCT to increase the number of entities to withhold and remit the WWTax.

We recommend the GCT to pursue in this good collaboration with MOLSA and collect the required data to increase collection of the WWTax.

### **3d) Ministry of State of the Affairs of Civil Society**

According to CPA Order #45 and #61, all Non-Governmental Organizations (NGO) whether foreign or domestic must be registered with the NGO Assistance Office within the Ministry of Planning and Development. Since February 2005, the Minister of State of the Affairs of Civil Society now supervises this Office.

We suggest that the GCT contacts the Ministry of State of the Affairs of Civil Society and obtain a list of all registered NGO. However, particular attention has to be paid only on most important NGO hiring employees. It is not of interest of the GCT to register all NGO. For the time being, only NGO hiring an important number of employees should be registered for taxes purposes and collect the WWTax.

### **3e) Self-financed governmental units**

Self-financed governmental offices are those referred by paragraph 6 of General Statement No. 10S/1472 issued by the Ministry of Finance on 15/12/2004 (see appendix 4). Self-financed offices must remit WWTax to the GCT and the GCT must issue a TIN. Are considered as self-financed governmental offices, for example, Central Bank of Iraq, Amanat Baghdad. However, this term does not include State-Owned Enterprise and Joint Stock Mixed Companies. A list of registered State-Owned Enterprise and Joint Stock Mixed Companies can be obtained either from the Business Registry of the Ministry of Trade or from each Ministry.

According to some discussions with GCT officials, it is our understanding that the ultimate manner to obtain a list of self-financed governmental units is to visit each Ministry and ask them to provide such a list. We support such an initiative undertaken by the GCT about registering self-financed governmental units in order to issue each of them a TIN to be used for their dealings about the WWTax with the GCT.

#### 4) Taxpayer education

Good taxpayer services and targeted publicity campaigns are crucial elements in encouraging taxpayers to comply with the tax legislation. To facilitate voluntary compliance the Tax Administration must provide taxpayers with consistent, impartial, courteous and prompt service. Effective taxpayer services will include such programmes as developing clear forms and instructions, providing points of contact to the public so that people can request and secure information about their tax obligations, and developing educational programmes to inform existing and future taxpayers. The primary objective of taxpayer services is to inform the public of their duties and responsibilities under the tax laws in a way that can easily be understood by even the less educated taxpayers.

To complement a taxpayer education program, a WWTax guide was developed, WWTax forms were designed and an Excel WWTax worksheet was created to assist employers to fill out their obligations of withholding taxes from salaries of their employees. All those tools approved by the GCT are actually available on the GCT website.

The GCT must take appropriate actions to print these documents in sufficient copies and make them available to the Employers as soon as possible. To achieve this objective, the GCT must improve its printing procedures.

Instructions #1 of 2005 concerning Income Tax by Direct Deduction Method must be published in the Official Gazette. Once published in the Official Gazette, Employers will be informed formally of their tax duties and obligations and will have to comply with the procedures written in the Instructions. It is our understanding that the Director legal department of the Ministry of Finance is awaiting from the GCT to pursue procedures to forward the Instructions to the Consultancy Board of the Ministry of Justice, which is a condition to meet before being published in the Official Gazette.

On September 29<sup>th</sup>, the GCT will hold an information session with MOLSA at the Convention Center for foreign companies. This is exactly the attitude that the GCT must adopt in a Taxpayer Education Program. At this point of time, taxpayer education is a key element to have employers comply with the Income Tax Law and Instructions.

The GCT should pursue this education program with the local Iraqi employers. Number of Iraqi companies hiring employees is clearly insufficient. The GCT must hold information session about the WWTax and TIN to the following persons or group of persons and a training schedule should be developed:

- Certified accountants
- Lawyers
- Employers in the private sector
- Employers in the public sector (including self-financed governmental offices)

The GCT must train some of his officials to be able to perform such courses to the persons listed above. More than only one or two individuals are required to perform this task. The GCT must develop a training strategy to enhance qualifications of their staff to be experts of the WWTax and

thereafter these newly trained persons can give information sessions to employers in the private or public sector.

### **5) WWTax Collection figures**

In order to assess the improvement of collection of WWTax figures, we suggest to the GCT to present a detailed table per each tax branch as the one shown on appendix (6) and a final one that is the sum of all tax branches. The GCT should also be able to gather the names of entities complying with the WWTax in order to identify more easily with the ones non-filing. Although, the GCT uses a manual system to administer the WWTax, this information can be easily done considering the actual low numbers of complying entities. This task of gathering collection figures and names of entities complying with the WWTax will be much more facilitated in a new computerized system to be installed with the proposed reorganization of the GCT along functional lines.

These tables are basic information permitting senior officials to take further actions in order to assess the compliance rate.

For the moment, the recommendations made in this document focus on the manner to obtain the information from different organizations to permit the GCT to register non-complying employers and give them the required tools to help them to perform their duties for the WWTax through a taxpayer education approach.

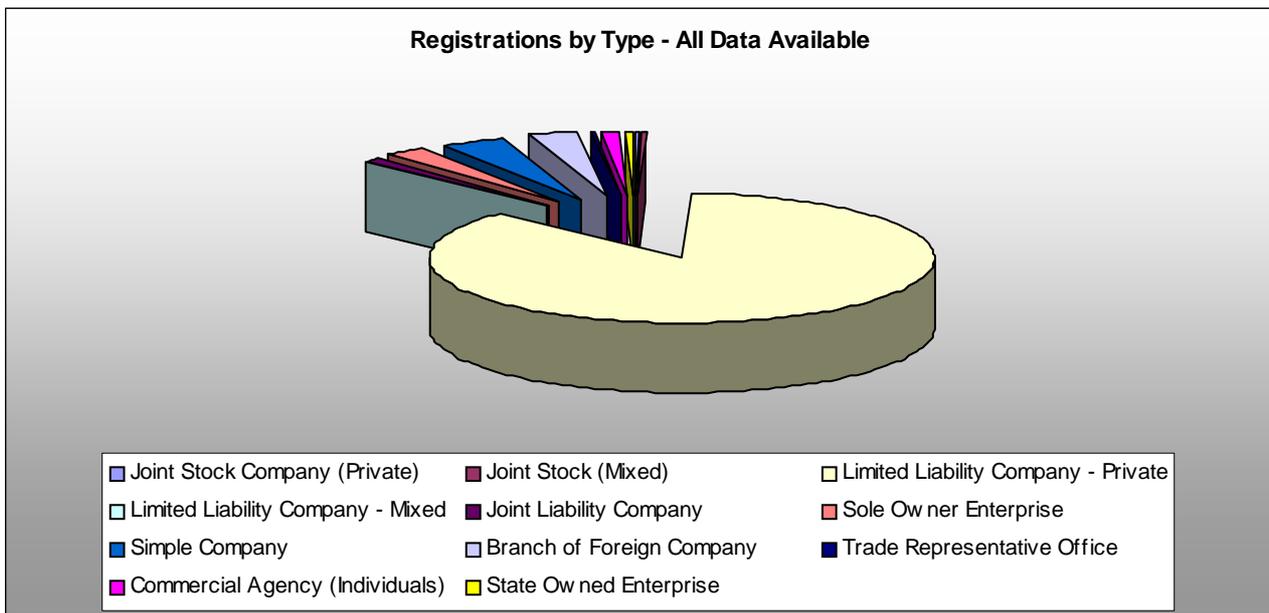
---

**APPENDICES**

---

**Iraq Company Registrations (Business Registry Ministry of Trade) Total**

Entity Type	Up to Dec 31 2004	Jan 05	Feb 05	Mar 05	April 05	May 05	Jun 05	Jul 05	Aug 05	Total/Type
Joint Stock Company (Private)	100	0	0	0	0	1	2	0	1	104
Joint Stock (Mixed)	46	0	0	0	0	0	1	0	0	47
Limited Liability Company - Private	19852	767	769	853	748	899	983	888	683	26442
Limited Liability Company - Mixed	0	0	0	0	0	0	0	0	0	0
Joint Liability Company	218	10	6	12	8	7	9	2	5	277
Sole Owner Enterprise	635	30	18	36	17	12	30	22	21	821
Simple Company	1328	3	1	0	0	0	0	0	0	1332
Branch of Foreign Company	632	30	16	25	42	59	24	15	45	888
Trade Representative Office	117	0	1	0	0	1	0	0	0	119
Commercial Agency (Individuals)	328	0	2	0	0	0	0	1	0	331
State Owned Enterprise	168	0	0	0	0	0	0	0	0	168
<b>Total/Time Period</b>	<b>23424</b>	<b>840</b>	<b>813</b>	<b>926</b>	<b>815</b>	<b>979</b>	<b>1049</b>	<b>928</b>	<b>755</b>	
<b>Total Registered</b>										<b>30529</b>



Prepared by Mrs. Monique Courchesne, Senior Legal Advisor / Business Registry Project

Republic of Iraq  
Ministry of Finance  
General Commission for Taxes



Date: \_\_\_\_/\_\_\_\_/\_\_\_\_

To the management of “Name of Company” (TIN: \_\_\_\_\_)  
Address:

Dear Sir,

According to the information available in our database, we have issued to your company a new Taxpayer Identification Number (TIN), which is shown on the enclosed TIN certificate.

This TIN must be now used with all your communications with the General Commission for Taxes (GCT). The TIN replaces all different tax numbers that might have been issued to your company in the past. Only this TIN is now necessary for dealings with the GCT for all kind of taxes administered by the GCT.

In order to update our files, we kindly request you to fill out the enclosed Business Registration Modification Form #9903. Instructions on how to fill out this form are typed on the back of the form.

If you have employees, you are also subject to withhold income tax from your employee’s salaries and remit the collected amount of tax to the GCT in a timely manner.

We would like also you to fill out the enclosed questionnaire in order to determine us if you must remit Wage Withholding Tax to the GCT.

For more information about the TIN, Wage Withholding Tax or any kind of tax issues, please visit our website at [www.iraqtax.org](http://www.iraqtax.org) or call taxpayer service at Headquarter of the GCT.

Send or remit the form #9903 and the Wage Withholding Tax Questionnaire to:

Mr. \_\_\_\_\_(enter name of Chief Registration desk at HQ)  
General Commission for Taxes, Headquarters  
Al-Jamhurya Street, Baghdad, Iraq  
Aal-Khulani Square behind Amanat Baghdad Building  
Tel: \_\_\_\_\_ (# number of Chief Registration desk at HQ)

If you have ceased to operate the business, please indicate in your response the date of suspension of the activities and a copy of liquidation papers.

Please send your documents to the person mentioned above in a period not exceeding one month following date of this letter.

We thank you for your cooperation.

Ihsan Shamran  
Deputy Director General

Republic of Iraq  
 Ministry of Finance  
 General Commission for Taxes



## Wage Withholding Tax – Questionnaire

1. Name of company		
2. Taxpayer Identification Number		
3. Address of business		
4. Telephone # of business		
5. Describe type of your business activities		
6. Beginning date of your business activities		
7. Name of contact person in charge of your payroll		
8. Telephone # of payroll contact person		
9. Do you hire employees? If yes please continue	YES	NO
10. Total of single employees earning a monthly employment income of ID 208,333 or less		
11. Total of single employees earning a monthly employment income exceeding ID 208,333		
12. Total of married employees earning a monthly employment income of ID 375,000 or less		
13. Total of married employees earning a monthly employment income exceeding ID 375,000		
14. Total of other employees not listed on line 10 to 13		
15. Total of employees for August (Sum of employees indicated on line 10 to 14)		
16. Do you want a tax official explaining your duties as an employer? Check yes or no	YES	NO

Name of person and phone # who has completed this questionnaire: \_\_\_\_\_  
 Signature: \_\_\_\_\_

Send this questionnaire along with your Business Registration Modification Form #9903 to:

Mr. \_\_\_\_\_(enter name of Chief Registration desk at HQ)  
 General Commission for Taxes, Headquarters  
 Al-Jamhurya Street, Baghdad, Iraq  
 Aal-Khulani Square behind Amanat Baghdad Building  
 Tel: \_\_\_\_\_ (# number of Chief Registration desk at HQ)

\*Employment income means the sum of all salaries, wages, bonuses and any kind of allowances paid to the employee, such as transport, clothing, danger, food, and lodging.

العدد: ١٤٧٤ / ١٠  
التاريخ: ١٥ / ١٢ / ٢٠٠٤ م

وزارة المالية  
الهيئة العامة للضرائب  
قسم الاستقطاع المباشر

(منشور عام)

### استقطاع ضريبة الدخل بطريقة الاستقطاع المباشر

تهدي هذه الوزارة اطيب تحياتها ..

لتسهيل تنفيذ تعليمات المالية الخاصة باستقطاع ضريبة الدخل بطريقة الاستقطاع المباشر من رواتب منتسبي دوائر الدولة الممولة مركزياً، والحاكماً بمنشور دائرة المحاسبة رقم ١٠٨٦/١/١٣ في ٢٨/٧/٢٠٠٤ تقرر ما يلي:-

١. تعتبر الوزارة القطاعية المختصة والدوائر غير المرتبطة بوزارة ( رب عمل) لاغراض هذه التعليمات.

٢. تقوم الوحدات الحسابية المطبقة للنظام المحاسبي اللامركزي بتنظيم جداول استقطاع ضريبة الدخل الشهرية من الرواتب والاجور والمكافات والمخصصات وبقية المزايا النقدية والعينية لموظفيها والعاملين لديها بثلاث نسخ مصادق عليها من قبل الموظف المالي المسؤول والمدقق ورئيس الوحدة وتتخذ بشأنها الاجراءات التالية:

٣. بالنسبة للدوائر المرتبطة حسابياً بدائرة المحاسبة/ قسم النقدية - يتم ارسال النسخة الاولى من الجداول الى الهيئة العامة للضرائب/ قسم الاستقطاع المباشر وترفق الثانية مع كتاب طلب التمويل الموجه الى دائرة المحاسبة/ قسم النقدية وترسل النسخة الثالثة الى الوزارة القطاعية المختصة. - تقوم دائرة المحاسبة/ النقدية بتنزيل مقدار الضريبة المتحققة من مقدار دفعة التمويل المطلوبة. وبموجب كتاب التمويل يتم اشعار الهيئة العامة للضرائب والوزارة المختصة بمقدار الضريبة المستقطعة من دفعة التمويل.

٤. بالنسبة للوحدات الحسابية المرتبطة حسابياً بالخزينة - يتم ارسال النسخة الاولى من الجداول الى الهيئة العامة للضرائب والثانية الى الوزارة القطاعية المختصة والثالثة الى خزينة المحافظة المختصة.

التاريخ : / / ٢٠٠٤م

قسم الاستقطاع المباشر

- تقوم الخزينة بعد تنزيل الضريبة وفقاً لجدول الاستقطاعات باشعار الهيئة العامة للضرائب والوزارة القطاعية المختصة بمقدار الضريبة المحتسبة من كل وحدة حسابية مرتبطة بها.

٥. في بداية الشهر التالي لشهر الاستقطاع تقوم الوزارة القطاعية المختصة باشعار الهيئة العامة للضرائب بمجموع مبلغ الضريبة المستقطعة من منتسبي دوائر التمويل المركزي المرتبطة بها ادارياً للتأشير والمراجعة والتحقق من صحة الاستقطاع الشهري لضريبة الدخل.

٦. اما ما يتعلق باستقطاع ضريبة الدخل بطريقة الاستقطاع المباشر من رواتب منتسبي دوائر الدولة الممولة ذاتياً والشركات العامة والمختلطة فينطبق عليها ما مرسوم من آليات للقطاع الخاص وهو محدد بوضوح في التعليمات.

راجين العمل به ابتداءً من ٢٠٠٥/١/١ ونرفق ربطاً مسودة التعليمات التي اعدتها الهيئة العامة للضرائب، للاطلاع والاستيضاح من الهيئة المذكورة عن اية امور ولحين اصدار هذه التعليمات بصورة نهائية.

مع التقدير..

المرفقات/

- مسودة التعليمات
- نماذج استمارات

فهمي جار الله ربيع

وكيل الوزارة

٢٠٠٤/١٢/٢٣





WWTax Collection Detailed Figures

Month	Iraqi companies* except Mixed Joint Stock and State Companies		Branch of foreign Companies		Foreign NGO		Domestic NGO		State-owned Enterprise (State Companies)		Mixed Joint Stock sector companies		Self-financed governmental Offices**		Sole Proprietor		Total	
	(1)		(2)		(3)		(4)		(5)		(6)		(7)		(8)		(9)	
	ID	#	ID	#	ID	#	ID	#	ID	#	ID	#	ID	#	ID	#	ID	#
January																		
February																		
March																		
April																		
May																		
June																		
July																		
August																		
September																		
October																		
November																		
December																		
<b>Total</b>																		

\*: Includes Joint Stock Company (private), Private Limited Liability Company, Joint Liability Company, Simple Company and Sole Owner Enterprise registered as such with the Business Registry at Ministry of Trade.

\*\* : As referred by paragraph 6 of General Statement No. 10S/1472 Other than State-Owned Enterprises and mixed sector companies since they are already included in columns (5) and (6).