



Wage Withholding Tax for year 2005



Presented To the attention of Employers and their representatives

Date: August 2005

General Commission for Taxes

Course Objectives



-
- **How the Wage Withholding Tax (WWTax) works for Year 2005**
-

How the WWTax works



Introduction

- **Personal income taxes were suspended from January 1st of year 2003 to April 30th of year 2004. (Reference: CPA Orders #37, #45 and #84)**
- **WWTax is a personal income tax applicable to all employees and was reintroduced in May 2004. A brochure was published to explain the mechanism of WWTax in April 2004, which announced changes from original Instructions #3 of 1983**
- **New Instructions #1 of 2005 related to Wage Withholding Tax were signed by Deputy Minister of Finance and are applicable starting January 2005. New Instructions replaced Instructions #3 of 1983, which are explained in this presentation.**
- **The main objective of this course is to explain how the WWTax works so you will be able to provide necessary information to the Employers.**

Who are subject to WWTax



Who are subject to WWT:

- Employees in the private, mixed, state-owned enterprise or in the public sector are subject to WWTax.
- Employee definition:

Any person who has performed or performs work for a wage and works under the administration and direction of the party employing him.

An employer-employee relationship exists if you have the right to control and direct the person who perform the services

Generally, the payer exercises control if he has the right to hire or 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.

Who are subject to WWTax



Specifically, the payer may control:

- The hours of work,
- The assessment of the quality of the work,
- The worker's periodic activity reports,
- The list of clients and the territory covered,
- 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.

Who are subject to WWTax



| Analysis of facts related to control | Payer | Worker | N/A |
|--|--------------------------|--------------------------|--------------------------|
| Who is responsible for planning the work to be done? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Who decides how and how much the worker is to be paid? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Who decides on the time frames? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Who decides how the work is to be done? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Who decides on the hours of work? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Who decides on the work location? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Who assigns the individual tasks? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Who supervises the tasks? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Who sets the standards to be met? | | | |
| - Quality? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Volume? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Time frame? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Who decides whether work must be redone? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Who covers the related costs? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Who is responsible for training? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Who covers the related costs? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Who decides on the territory to be covered? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Who decides on periodic activity reporting? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Who decides if the work is to be done by the worker himself? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Who hires helpers? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

If you answer "Payer" to most of these questions, it means that the payer exercises control over the worker. An employer-employee relationship probably exists. Otherwise, it indicates that a business relationship may exist.

Who are subject to WWTax



Employer definition:

- Any natural or juristic person in governmental offices, public, mixed and private sectors who has employed or employs one person or more for a wage or salary.
- Includes Non-governmental Organizations hiring employees.

Principal employer definition:

- The employer designated as such by the employee on the Form Dhad.D/4A.

When an employer is not the principal employer of the employee, he will not grant to his employee any legal allowances nor deductions except for pension plan and social security contributions in the calculation of the monthly WWTax.



Income subject to WWTax

Income subject to WWTax



Income paid to employees are subject to WWT:

- Salaries,
- Wages,
- Bonuses,
- All types of allowances paid to the employee minus:
 - 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 organization employees are considered working in the private sector.
 - Any kind of 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 are not related to the expenses of work execution.

Income subject to WWTax



Value of benefit in-kind provided to the employee

Free lodging

- For free lodging provided to the employee, a % of the monthly basic salary or monthly wage is added to the employee's income. The % depends on the type of lodging provided to the employee.
 - If the employer has rented a house or built an house for his employees, the following shall be added to the employee's income for free housing:
 - 1. 15% of his monthly basic salary or monthly wage for unfurnished housing.
 - 2. 20% of his monthly basic salary or monthly wage for furnished housing.
 - 3. The amounts added to the employee's income should not exceed the actual annual rent.
 - 4. If the employee is entitled to a fixed housing allowance as per his employment contract and the employer, instead of paying him, has freely housed him, the addition to the employee's income shall not exceed the fixed amount of housing as stated in his contract.

Income subject to WWTax



Value of benefit in-kind provided to the employee (continued)

Free lodging (continued)

- If a part of the employer's premises is occupied as a residence by an employee
 - Addition to the employee's income of 10% of his basic salary for free housing.
- In case of an employer lodges his employees in a hotel, and he does not pay them housing allowances, 20% of the basic salary or monthly wage, shall be added to their income for free housing.
- In case the employer lodges his employees in caravans or portable houses at the work site or at any place selected as a center for housing them in these caravans or portable houses, 5% of the basic salary or the monthly wage shall be added to the employee's income for housing.

Income subject to WWTax



Free meals

- For free meals provided to the employee, an amount of 10% of the employee's monthly basic salary or monthly wage shall be added to the employee's income, provided that the amount does not exceed the lesser of the following:
 - The cost of the monthly basic salary or monthly wages; or
 - The cost of the meals preparation.

Other benefit in-kind

- Fair market value of any other benefit in-kind provided to the employee

Income subject to WWTax



Other income to be added to the employee's income

- **Income of the unmarried children, who have not attained the age 18 years, shall be aggregated with their father's income,**
- **Wife's income to be added to the husband's income if both spouses request an aggregation of income to the husband's principal employer before January 31st of every year (part 3(f) of Form Dhad.D/4A) and one of the spouse has an annual income less than ID 2,500,000.**



Deductions from Income subject to WWTax

Income subject to WWTax (Deductions)



According to Article 8 of the Income Tax Law #113 of 1982, there shall be deducted from the employee's income the following amounts provided that:

- **They are supported by acceptable documents confirming their occurrence during the year in which the income arose.**
- **The accountant of the employer has to verify the acceptable documents provided by the employees.**

Income subject to WWTax (Deductions)



Most common deductions:

Pension deductions and contributions determined by the Iraqi Pension and Social security Laws.

Law No. 39 of 1971 on Workers Pension and Social Security

For employees in the private or mixed sector if employed by companies with more than 3 workers:

5% contribution on the level of basic salary paid in January of every year.

Income subject to WWTax (Deductions)



Most common deductions (continued):

Law No. 33 of 1966 on Civil Pensions as amended by CPA Order 84

For Public and State-Owned enterprises sectors employees:

| Rate | Monthly salary |
|-------------|---|
| 1% | Above ID 69,000 and up to ID 204,000 |
| 4% | Over ID 204,000 and up to ID 574,000 |
| 7% | Over ID 574,000 and up to ID 1,500,000 |
| 10% | Over ID 1,500,000 |

Income subject to WWTax (Deductions)



Other deductions:

Life insurance premiums paid to an Iraqi company

- Life insurance premiums paid to an Iraqi company for a maximum amount of ID 2,000 or any other amount indicated by a valid Income Tax Law.
- Other insurance premiums paid to an Iraqi company for a maximum amount of ID 500 or any other amount indicated by a valid Income Tax Law.

Income subject to WWTax (Deductions)



Other deductions:

- **Legal alimony ordered by a competent court and paid by employees to persons for whom he is not entitled to the legal allowances.**
 - **Example: Parents, divorcee**
- **Contributions paid in Iraq to Government offices, socialist sector and to scientific, educational, charitable and spiritual organizations, which are legally recognized. The Minister of Finance shall issue a notification of the names of these organizations.**
- **Contributions as per subscriptions allowed by the Government.**
- **Taxes and duties actually paid except Income Tax and Real Estate Tax, such as subscription fees in the professional unions, stamp duty deducted from salaries and health insurance duties and others.**



Income not subject to WWT (exemptions)

Income not subject to WWT (exemptions)



Are exempted from tax:

- Pensions, and all types of bonuses granted to the end of employment.
- Cost of medical treatment of an employee if he is injured during the performance of his duties.
- Any lump-sum amount paid to the family of the deceased person as a compensation payable to the employee for injury or death.
- Free travel tickets granted to Iraqi officials for their assigned work.
- Scholarship allowances granted to students or allowances granted to delegates for studying or training if related to their work.
- Free travel tickets or actual expenses paid to foreign employees 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.

Income not subject to WWTax (exemptions)



- **Delegation or overseas allowances received by foreign employees. (limited to 25% of the monthly basic salary)**
- **Income of persons working with foreign and Arab embassies of other than Iraqi Nationality in accordance with the Vienna Agreement for the diplomatic relationship.**
- **Salaries and allowances paid 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.**

Income not subject to WWTax (exemptions)



- **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 (par. (2) of Article 15 of Law #211 of 1975)**
- **Income earned by foreign (non-Iraqi) employees of foreign (non-Iraqi) contractors and subcontractors as described in CPA Order #17 as amended on June 27th 2004 and CPA Order #49 of February 19th 2004.**
- **Amounts exempted by any other special Law or any international agreement to which Iraq is a party.**



Legal allowances

Legal allowances



Legal allowances are granted to resident individuals only.

Legal allowances reduce the amount subject to WWTax for the income earned with the principal employer.

Parents (generally father) can claim legal allowances for their Eligible children:

- **Unmarried daughters who are under 18 years old.**
- **Unmarried daughters who are 18 years old and over with an annual income less than ID 200,000.**
- **Sons who are under 18 years old.**
- **Sons between 18-25 (inclusive) years old with an annual income less than ID 200,000 and continuing their studies.**
- **Sons unable to earn a living owing to mental or physical infirmity.**



- **First Case**

- **ID 2,500,000 (ID 208,333 per month)**

For bachelor, widower, divorced man or married man whose wife's income is subject to income tax independently.

Plus:

- **ID 200,000 (ID 16,667 per month) to be added to the widower, divorced man or married man for each of his eligible children. In case of a divorced man, legal allowances for his children are granted if a competent court has given custody of the children to the father.**

Legal allowances



- Second case

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.

Plus:

ID 200,000 (ID 16,667 per month) to be added to the allowance of the married man for each of his eligible children.

Legal allowances



- Third case

ID 2,500,000 (ID 208,333 per month) for the married woman whose income is independently subject to income tax.

Legal allowances



- Fourth case

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.

Plus:

ID 200,000 (ID 16,667 per month) to be added to the allowance of the married woman above for each of her eligible children.

Legal allowances



- **Fifth case**

ID 3,200,000 (ID 266,667 per month) for the widow or divorcee.

Plus:

ID 200,000 (ID 16,667 per month) to be added to the allowance of the widow or divorcee for each of her eligible children.

Legal allowances



- Additional allowance if employee is more than 63 years old of ID 300,000 (ID 25,000 per month).
- If there is a change in a family situation, Ex. Marriage, separation, divorce, death of a spouse, birth or death of a child, the legal allowance is modified only in the next month following the event.
- If the resident employee is non-Iraqi, he shall be granted the legal allowance for the year in which the income arises according to this formula:

The complete legal allowance X # of complete months of residency

12 months

- For the Non-Iraqi resident, a legal allowance for his family members can only be claimed if they live with him in Iraq.
- Iraqi resident has legal allowance for all year regardless date of commencing his work or the date of his death.



How to calculate the monthly WWTax

Monthly WWTax



Income tax shall be withheld from the employee's income every month of the fiscal year provided for in the manner described in the following slides.

Monthly WWTax



The monthly WWTax for the resident employee is calculated as follows:

$$A - (B + C + D) - E + F = G$$

A= Total of all amounts arisen in the month that is subject to tax,

B= Total of all amounts arisen in the month that are exempted from tax (if included in component A),

C= Total of deducted amounts according to Article 8 of the Income Tax Law #113 of 1982 that occurred in the month,

D= Total of legal allowance that are applicable for the month,

E= Total amounts of A minus B and C for the employee's wife if her income is aggregated with her husband's income,

F= Total amounts of income of the unmarried children under 18 years old that should be aggregated with their father's income, and

G= is the result obtained from the formula above.

Monthly WWTax



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

The result obtained in G is then taxed according to the monthly tax rates as indicated in the next slide.

For the Non-resident employee, no legal allowances are granted

Monthly WWtax



Monthly Tax Rates:

| Rates | Monthly taxable income |
|--------------|---|
| 3% | up to ID 20,833 |
| 5% | over ID 20,833 and up to ID 41,667 |
| 10% | over ID 41,667 and up to ID 83,333 |
| 15% | over ID 83,333 |

Monthly WWTax. How much to withhold:



If the monthly taxable income

is not over ID 20,833¹, record it on line 2 of Column A

is over ID 20,833² but not over ID 41,667³, record it on line 2 of column B

is over ID 41,667⁴ but not over ID 83,333⁵, record it on line 2 of column C

is over ID 83,333, record it on line 2 of column D

Income, see the instructions above :

Subtract line 3 from line 2:

Multiply line 4 by line 5:

Add line 6 to line 7:

Income tax to withhold monthly:

| | A | B | C | D |
|---|----|---------------------|--------------------|--------------------|
| 2 | | | | |
| 3 | 0 | 20,833 | 41,667 | 83,333 |
| 4 | | | | |
| 5 | 3% | 5% | 10% | 15% |
| 6 | | | | |
| 7 | | 625.00 ⁶ | 1,667 ⁷ | 5,833 ⁸ |
| 8 | | | | |

Footnotes: 1: First tax bracket ID 250,000/12 months

2: Same as footnote 1

3: Second tax bracket ID 500,000/12 months

4: Same as footnote 3

5: Third tax bracket ID 1,000,000/12 months

6: Total monthly tax to be paid for first tax bracket (3% X ID 250,000)

7: Total monthly tax to be paid for first and second tax bracket (3% X 250,000 + 5% X ID 250,000)

8: Total monthly tax to be paid for first, second and third tax bracket (3% X 250,000 + 5% X ID 250,000 + 10% X 500,000)

Monthly WWTax. How much to withhold:



Example:

Employee from the private sector married with a housewife with no income and has 5 children aged under 18 years old.

Annual salary : ID 6,072,000

1) Monthly salary : ID 506,000 (ID 6,072,000/12 months)

2) Allowed deductions:

Social security ID (25,300) (ID 506,000 X 5%)

Taxable income before

Legal allowances : ID 480,700

Monthly WWTax. How much to withhold:



| | |
|---|---------------------------|
| Taxable income before Legal allowances : | ID 480,700 |
| 3) Legal allowances: | |
| Taxpayer and housewife (ID 4,500,000/12) | ID(375,000) |
| 5 Children (ID 200,000 X 5)/12 | <u>ID (83,333)</u> |
| Taxable income subject to monthly WWTax | ID 22,367 |

Monthly WWTax. How much to withhold:



If the monthly taxable income

is not over ID 20,833¹, record it on line 2 of Column A

is over ID 20,833² but not over ID 41,667³, record it on line 2 of column B

is over ID 41,667⁴ but not over ID 83,333⁵, record it on line 2 of column C

is over ID 83,333, record it on line 2 of column D

| | A | B | C | D |
|--|-----|---------------------|--------------------|--------------------|
| Income, see the instructions above : | 2 | 22,367 | | |
| | 3 | 0 | 20,833 | 41,667 |
| | 3 | 83,333 | | |
| Subtract line 3 from line 2: | = 4 | 1,534 | | |
| | 5 | 3% | 5% | 10% |
| | 5 | 15% | | |
| Multiply line 4 by line 5: | = 6 | 77 | | |
| | 7 | 625.00 ⁶ | 1,667 ⁷ | 5,833 ⁸ |
| Add line 6 to line 7: Income tax to withhold monthly: | 8 | 702 | | |

Footnotes: 1: First tax bracket ID 250,000/12 months

2: Same as footnote 1

3: Second tax bracket ID 500,000/12 months

4: Same as footnote 3

5: Third tax bracket ID 1,000,000/12 months

6: Total monthly tax to be paid for first tax bracket (3% X ID 250,000)

7: Total monthly tax to be paid for first and second tax bracket (3% X 250,000 + 5% X ID 250,000)

8: Total monthly tax to be paid for first, second and third tax bracket (3% X 250,000 + 5% X ID 250,000 + 10% X 500,000)

Monthly WWTax. How much to withhold



Use of withholding tables:

The employer can use one of the following Wage Withholding Tax tables in order to calculate the monthly WWtax:

- 1) **Single and Married;**
- 2) **Widow or Divorcee;**
- 3) **Divorced man or Widower.**
- 4) **Married Woman with incapacitated husband**

Monthly WWTax. How much to withhold



How the Tax withholding tables work:

- 1) Establish the taxable income per month of the employee before taking into account any legal allowances.**
 - Determine the monthly income of the employee
 - Minus: Deductions provided by Article 8 of the Income Tax Law #113
- 2) Select the appropriate tax table related to the particular status of the employee.**
- 3) Determine the code allowance which the employee is entitled to for the month.**

Monthly WWTax. How much to withhold



How the Tax withholding tables work (continued):

- 4) Under the column “Taxable income per month (before any applicable legal allowance)” of the selected Tax Table, you determine the taxable income per month bracket attributable to the employee.**
- 5) The number in ID that corresponds in the applicable code allowance is the amount of monthly income tax to withhold.**

Monthly WWTax. How much to withhold



How the Tax withholding tables work (continued):

Example:

Employee from the private sector married with a housewife with no income and has 5 children aged under 18 years old.

Annual salary : ID 6,072,000

1) Establish the monthly taxable income before any legal allowances:

Monthly salary : ID 506,000 (ID 6,072,000/12 months)

Minus: Allowed deductions:

Social security ID (25,300) (ID 506,000 X 5%)

ID 480,700

Monthly WWTax. How much to withhold



How the Tax withholding tables work (continued):

2) Tax table applicable to the employee = Married

3) Determine code allowance = 5

4) Under the column “Taxable income per month (before any applicable legal allowances), determine the taxable income per month bracket attributable to the employee.

Tax bracket: ID 480,000 – ID 489,999

5) The number in ID that corresponds in the applicable code allowance column is the amount of monthly tax to withhold.

ID 950

Monthly WWTax. How much to withhold



Why is there a difference between the results obtained in the 2 methods?

- 1) The tax withholding table calculates the monthly WWTax according to the monthly taxable income of the employee before any applicable allowance. In this case, the calculation is made on the average of the following bracket: ID 480,000 – ID 489,999 = ID 485,000**
- 2) The amount of tax corresponding to a monthly income of ID 485,000 minus the legal allowances of ID 458,333 (ID 26,667) is ID 916**
- 3) The amount of tax is then rounded up the nearest ID 50 = ID 950**

Monthly WWTax. How much to withhold



If the employer uses the tax withholding table:

In the month of December,

The employer has to do a reconciliation, so in this example, the employer can use the withholding tax tables for the 11 first months, and will calculate the correct amount of tax for the year according to the second part of page 2 of Form Dhad.D/4A and withhold less taxes from the december's pay of the employee.

The amount of tax that should be paid by the employee for the complete year is: ID 8,424 (702 X 12 months)

The amount of tax paid according to tax tables for 11 months: ID 10,450

(950 X 11 months)

So, no tax should be withhold from December's pay

A refund of 2,026 should be done by the Tax Commission directly to the employee.

Monthly Wwtax. How to remit



Employers have to keep a special register:

- A special register should be kept wherein shall be entered salaries, allowances and wages of their employees.
- Employer shall be responsible for and guarantee the payment of tax, which will be due as a result of non-entry of such incomes in the said register.
- The register is liable to be inspected by Tax Commission officials.

Monthly WWtax. How and when to remit



- **Income tax shall be withheld from the employee's pay every month of the fiscal year.**
- **The tax withheld shall be remitted to the Direct Deduction Department at the General Commission for Taxes (GTC) or one of the unit of Direct Deduction at the branches of the GTC, either**
 - **In cash**
 - **Certified checks**
 - **Bank transfer**
- **With the monthly wage withholding tax declaration in duplicate**
- **Withhold taxes have to be remitted in the next 15 days following the month where the withholding took place.**

Monthly WWtax. How and when to remit



Penalties:

If the tax is not settled on the due dates,

- **an additional percentage of 5% shall be imposed on the employer after the lapse of 21 days from the fixed date,**
- **an additional percentage of 10% shall be imposed if the amount is not paid within 21 days after the expiration of the first period.**
- **Interest fees equal to banking interests current in Rafiden Bank which imposed by Rafiden Bank on overdraft facilities will be charged on the amount of tax due until the date of payment according to Resolution #307 of 1984.**

Monthly WWtax. How and when to remit



Penalties (continued):

■ **Waiver of penalties in whole or part can be done if the GCT considers that the delay in payment is owing to an acceptable reason. Example:**

- absence from Iraq of a keyrole employee.
- sickness incapacitating a keyrole employee.
- other events of force majeure.

■ **Interest fees cannot be waived.**

Monthly WWtax. How and when to remit



- Employer is responsible for paying to the GTC the amount of tax withheld by him under the Law and Instructions, even though he may have not deducted from salaries and allowances payable to his employees.
- Employer may recover the tax paid to the tax commission from amounts which will thereafter become due to his employees.

Monthly WWTax declaration

Ministry of Finance
General Commission for Taxes

(for official use only)

Monthly Wage Withholding Tax Declaration



[1] Tax Period (MM/YYYY)

[2] Employer's Taxpayer Identification Number

[3] Name of Employer

[4] Address of Employer

[5] Mark a cross in one of the boxes when applicable:

[5a] Original Declaration

[5b] Amended Declaration

[6] Employees' Total income for the month in Dinar:

[7] Tax withheld for the month in Dinar:

Data on number of employees for this month:

| Total number of employees for the month [8] | Number of employees from whom Tax was withheld [9] | Number of employees from whom Tax was not withheld [10] |
|--|---|--|
| <input type="text"/> | <input type="text"/> | <input type="text"/> |

I declare that facts reported in this declaration are true.

Designated Person's Name and Signature _____

Day/Month/Year

Telephone: _____

_____/_____/____

(for official use only)



Official Stamp

Date of Reception

Day/Month/Year

_____/_____/____

Monthly WWTax declaration



Box [2]: Enter new TIN to be issued in January 2005 for all tax purposes.

Box [5b]: Check if declaration modifies an original declaration previously submitted by the employer.

Box [6]: Enter the total income for the month of all your employees. This includes:

- Gross salaries, wages, allowances, bonuses, and other benefits that you have paid to your employees or have given in kind to your employees,
- Income of unmarried children who are under the age of 18 years added to their father's income,
- The wife's income to be added to husband's income in the case of a valid request for aggregation of income.

Monthly WWTax declaration



Box [7]: Enter the amount of tax withheld from salaries paid to your employees for the month.

Box [8]: Enter the total number of all individuals you have employed during the month. The total number of employees indicated in this box should be equal to the sum of boxes [9] and [10].

Box [9]: Enter the total number of employees from whom Tax was withheld during the month.

Box [10]: Enter the total number of employees from whom Tax was not withheld during the month. Such a case happens when:

- the amount of monthly legal allowances and other deductions exceeds the total of employment income received by the employee for the month.
- spouses have made a valid request for the aggregation of their incomes, in that case, tax has to be withheld from the husband's salary only and no tax has to be withheld from wife's salary.



Form Dhad.D/4A

Form Dhad.D/4A – First page



First page of Form Dhad.D/4A

- To be distributed in duplicate among the employees.
- Employees complete page 1, sign and remit duplicate copies to employer in the next week
- The employer shall verify the correctness of the information in order to determine the legal allowances to which the employee will be entitled for the fiscal year.
- Employer numbers the Forms serially starting with No.1
- If the employer does not receive Form Dhad.D/4A from the employee, the employee is granted the bachelor's legal allowance.
- The First copy of the Form has to be remitted to the Tax Commission together with the Income Tax Deductions Schedule no later than the 31st of March of the following year.

Form Dhad.D/4A / Second page



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

- End of calendar year, the employer:
 - Records the employee's total income minus deductions and legal allowances, which the employee is entitled to for the year. (top part of page 2)
 - Employer calculates income tax for the year. (bottom part of page 2)

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

Manager and accountant have to sign the bottom of page 2

Form Dhad.D/4A, page 2, top part



Page: 2

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 | |
| 1B) | Total of clothing, housing and accommodation, food, transportation and dangerous allowances paid during the year. | |
| 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 wife's income if applicable. | |
| | Total Income (1) | |
| | The following is deducted | |
| 2A) | Total of monthly legal allowances claimed during the year | |
| 2B) | Pension and social security contributions paid during the year | |
| 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 | |
| | Total Deductions (2) | |
| | Taxable Income {Line (1) minus Line (2)} (3) | |

* Provide details of deductions and their related amounts: _____

** At the end of the year, if this form is related to a wife and her income was aggregated, the taxable income amount from this line should be sent to the husband's principal employer.

Notes: - the legal allowance is denied for the non resident.

- If you are not the principal employer for the employee, the deductions and legal allowances mentioned in (2A) and (2C) are denied.

Form Dhad.D/4A, page 2, bottom part



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

| | | A | B | C | D | |
|--|-------|---|------|------------|------------|--------------|
| Taxable income, see instructions above | | 1 | | | | |
| | Minus | 2 | ID 0 | ID 250,000 | ID 500,000 | ID 1,000,000 |
| Subtract line 2 from line 1 | = | 3 | | | | |
| | * | 4 | 3% | 5% | 10% | 15% |
| Multiply line 3 by line 4 | = | 5 | | | | |
| | + | 6 | ID 0 | ID 7,500 | ID 20,000 | ID 70,000 |
| Add line 5 to line 6 | = | 7 | | | | |
| Income tax to pay for the year | | | | | | |



Income tax deductions schedule

Income tax deductions schedule



Income tax deductions schedule shall be organized in duplicate by the concerned accounts officer of the employer at the end of the year, showing:

- All the incomes, deductions and legal allowances and the taxable income, which are brought forward from page 2 of Form Dhad.D/4A for all employees.

And complete all the schedule's columns.

To be remitted in duplicate to the GTC with first copy of Form and a Dhad.D/4A no later than March 31st of the following year.

Extension period may be granted by GTC if employer has settled WWTax for his employees for the concerned fiscal year.

Income tax deductions schedule



Column 8 = Total amount of tax withhold including for the month of december.

Column 9 = Is the positive result of column 7 minus column 8

Total unpaid tax has to be paid by the employer.

Column 10 = Is the negative result of column 7 minus column 8.

The employer is not authorized to reimburse the employee if there is an excess tax. Only the GTC is capacitated to reimburse the employee after verifying he has no tax liabilities on other sources of income.



Reconciliation in December

Reconciliation in December



Employer shall make a reconciliation in December, by making adjustment for the increase or decrease of the amount of tax due on the incomes of the employees as indicated on page 2 of Form Dhad.D/4A.

Reconciliation in December



Examples:

The employer takes into account the income of the children's father for all the year if he did not do it in the previous months.

Employer receives Form Dhad.D/4A late so he has granted the legal allowances only as a bachelor while the employee is married.

Principal Employer did not take into account correct deductions or legal allowances during the year.

Reconciliation in December



Example:

Employee from the private sector declared that he has housewife and 5 eligible children but forgot to inform his employer that he has a new child in July. He finally informs his employer in December.

Employee's income is ID 506,000 per month and his only deduction is social security is ID 25,300 per month. The legal allowances that the employee claimed was ID 458,333 per month. Consequently the amount of tax withhold every month for the 11 first months is: ID 7,722 (11 months X 702)

Reconciliation in December



Page: 2

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 | 6,072,000 |
| 1B) | Total of clothing, housing and accommodation, food, transportation and dangerous allowances paid during the year. | |
| 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 wife's income if applicable. | |
| Total Income (1) | | 6,072,000 |
| The following is deducted | | |
| 2A) | Total of monthly legal allowances claimed during the year | 5,583,333 |
| 2B) | Pension and social security contributions paid during the year | 303,600 |
| 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 | |
| Total Deductions (2) | | 5,886,933 |
| Taxable Income (Line (1) minus Line (2)) (3) | | 185,067 |

(506,000 X 12 months)

(375,000+83,333)X 12 + (5X 83,333)

* Provide details of deductions and their related amounts: _____

** At the end of the year, if this form is related to a wife and her income was aggregated, the taxable income amount from this line should be sent to the husband's principal employer.

Notes: - the legal allowance is denied for the non resident.

- If you are not the principal employer for the employee, the deductions and legal allowances mentioned in (2A) and (2C) are denied.

Reconciliation in December



Form Dhad.D/4A, page 2, bottom part

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

| | | A | B | C | D |
|--|-------|---|---------|------------|------------|
| Taxable income, see instructions above | | 1 | 185,067 | | |
| | Minus | 2 | ID 0 | ID 250,000 | ID 500,000 |
| Subtract line 2 from line 1 | = | 3 | 185,067 | | |
| | * | 4 | 3% | 5% | 10% |
| Multiply line 3 by line 4 | = | 5 | 5,552 | | |
| | + | 6 | ID 0 | ID 7,500 | ID 20,000 |
| Add line 5 to line 6 | = | 7 | 5,552 | | |
| Income tax to pay for the year | | | | | |

Reconciliation in December



Amount of tax withhold for the first 11 months: ID 7,722

Amount of tax to be withhold for december: ID 0

Excess tax (7,722 – 5,552) ID 2,170



Aggregation of wife's income to husband's income

Aggregation of wife's income to husband's income



As a general rule, the married woman is deemed to be an independent taxpayer and she is entitled to a legal allowance of ID 2,500,000 / year if she works and her income is independently subject to income tax.

The married woman is not entitled to any other legal allowances except if her husband is incapacitated from work and has no income. In such a case, she is entitled to a legal allowance of ID 5,000,000 plus ID 200,000 per eligible children

Aggregation of wife's income to husband's income



Income of both spouses 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**
- c) If the wife's income is below the legal allowance, which is determined for her as an independent taxpayer.**

For this purpose, Legal allowances for husband means his own and his children's allowances and the legal allowance for the wife means only her own legal allowance.

Aggregation of wife's income to husband's income



The request for the aggregation of incomes has to be signed by both spouses on page 1 of Form Dhad.D/4A and submitted to the husband's principal employer before the end of January.

The husband shall be granted his own, his wife's and his children's allowances.

The husband's principal employer shall notify the wife's employer of the aggregation and enquire about wife's income for the purpose of including it with the husband's income and deduct the income tax from the husband's salary.

In a valid request of aggregation of income, no tax has to be withheld from wife's salary.

Aggregation of wife's income to husband's income



Where wife earns more income than husband:

- If husband is expected to earn less than 2,500,000 for the year as certified by the General Commission for Taxes.
- Valid request for aggregation of income is made to the wife's employer before January 31st.

Then tax can be withhold from wife's salary and legal allowances may be granted to her as follows:

2,500,000 for husband

2,000,000 for herself

200,000 per child

In December, the wife's employer must be informed of the final income earned by the husband for calculating the final WWTax for wife.

For more information



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

Director of Wage Withholding Tax: Mr. Ahmed Sharqi

You can visit our website 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.