



Tax efficiency and its role in diversifying public revenues and financial instruments in the Iraq Stock Exchange

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Abstract:

The research aimed to determine the relationship between tax efficiency, diversification of public revenues, and the activation of financial instruments within the Iraq Stock Exchange. The research concluded that the market capitalization for the period (2016-2023) reached its highest index value in 2023, at a rate of 0.071. This indicates that taxes and their laws in Iraq did not lead to increased investment in stocks on the Iraq Stock Exchange. This is due to weak liquidity, a lack of diversification of financial instruments, and the dominance of stocks at the expense of bonds. The tax rate also reached 10% for the period (2016-2023), indicating the inefficiency of the tax system in Iraq in diversifying revenues and the inability of taxes to finance public expenditures within the general budget. The highest rate was in 2016, reaching 10%, and the highest value of tax revenues reached 5,590,228 million dinars. Among the most important recommendations is to activate the bond market as a tool for financing the government and the private sector. And to enhance cooperation between the Tax Authority and the stock market.

الكفاءة الضريبية ودورها في تنويع الإيرادات العامة والأدوات المالية في سوق العراق للأوراق المالية

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المستخلص

هدف البحث الى تحديد العلاقة بين الكفاءة الضريبية وتنويع الإيرادات العامة وتفعيل الأدوات المالية داخل سوق العراق للأوراق، واستنتج البحث ان القيمة السوقية للفترة الزمنية (2016-2023) بلغت اعلى قيمة للمؤشر عام 2023 بنسبة بلغت (0.071)، وهذا يعني ان الضرائب وقوانينها في العراق لم تؤدي الى ارتفاع الاستثمار في الاسهم في سوق العراق للأوراق المالية. وذلك بسبب ضعف السيولة وعدم تنوع الأدوات المالية. وهيمنة الأسهم على حساب السندات والصكوك. كما للضرائب نسبة (10%) للفترة الزمنية (2016-2023)، مما يشير إلى عدم كفاءة النظام الضريبي في العراق في تنويع الإيرادات، وعدم قدرة الضرائب على تمويل النفقات العامة ضمن الموازنة العامة، إذ كانت أعلى نسبة في عام 2016 إذ بلغت 10% وبلغت اعلى قيمة للإيرادات الضريبية (5590228) مليون دينار. ومن اهم التوصيات هي تفعيل سوق السندات كأداة لتمويل الحكومة والقطاع الخاص، وتعزيز التعاون بين الهيئة الضريبية وسوق الأوراق المالية.

الكلمات المفتاحية: الكفاءة الضريبية، الإيرادات العامة، السوق المالية.

Introduction:

Public revenues constitute one of the main pillars of financing the state's general budget, and taxes play a pivotal role in achieving financial stability. With the fluctuation of oil revenues in Iraq, the importance of tax efficiency emerges as a tool for diversifying sources of income and enhancing financial sustainability. The Iraq Stock Exchange can also contribute. In light of the economic and financial transformations Iraq is witnessing, there is a need to develop the tax system to ensure fairness and efficiency in collection, while providing an environment that encourages investment, especially in the stock market. Tax efficiency is not limited to improving collection; it also contributes to stimulating economic activity and activating financial instruments, which positively reflects on the diversification of sources of public income.

Research Hypothesis

Weak tax efficiency has led to a lack of diversification in public revenues and has discouraged investment in financial instruments in the Iraq Stock Exchange.

Research Problem

The weakness of the current tax system due to tax inefficiency in Iraq and its impact on the limited diversification of public revenues and the weak role of financial instruments in the Iraq Stock Exchange.

Research Objectives

- 1- Analyze the reality of tax efficiency in Iraq.
- 2- Identify the relationship between tax efficiency and diversification of public revenues in the Iraqi economy.
- 3- Highlight the role of tax efficiency in activating financial instruments within the Iraq Stock Exchange.
- 4- Present proposals to improve tax performance, which would contribute to supporting public revenues and reducing dependence on oil.

First: The Concept and Importance of Tax Efficiency

Tax efficiency means achieving the maximum possible revenues at the lowest economic and social cost, while ensuring fairness and transparency in tax collection. The criteria for tax efficiency include:

1. Tax justice: The equitable distribution of the tax burden among taxpayers.
2. Flexibility: The ability of the tax system to adapt to economic changes.
3. Simplicity: Reducing administrative complexity to increase tax compliance.

Tax efficiency in Iraq is of great importance, including:

1. Reducing dependence on oil as the sole source of revenue.
2. Enhancing transparency and combating tax evasion.
3. Financing development projects through sustainable tax revenues.

Second: The Reality of the Tax System in Iraq

1. The Weakness of the Tax Structure in Iraq: The tax structure in Iraq relies heavily on indirect taxes. The tax law lacks transparency and clarity in providing the necessary facilities to contribute to developing the tax base to encourage investment. This is in addition to the collapse of the country's infrastructure and the increase in expenditures, which leads to a rise in the deficit level, due to the country's unstable security situation (Hussein, Noura, 2019: 436).

2- Declining tax revenues:

Tax revenues in Iraq are declining due to multiple tax laws, which increase state expenditures, and the multiplicity of tax administrations charged with tax collection, which raises collection costs and expenses. This is in addition to the fines and penalties stipulated in Income Tax Law No. (113) of 1982, and the resulting decline in the value of money, which is matched by a

general rise in prices, which causes taxpayers to underestimate them. This constitutes an incentive for tax evasion and the dominance of the oil sector in revenues of more than (90%). (International Monetary Fund studies on tax reform.)

3- High tax exemptions:

Excessive tax exemptions lead to numerous errors and problems for taxpayers and the tax administration, due to the difficulties the tax administration faces in determining the taxpayer's tax status. This is one of the most important reasons for the shortfall in tax revenue. These exemptions include tax exemptions under Article (7) of Income Tax Law No. (113) of 1982, exemptions under Investment Law No. (13) of 2006, to attract foreign investment to Iraq, as well as exemptions under Real Estate Tax No. (162) of 1959, and other tax exemptions (Investment Law No. (13) of 2006, Third Article (15), Real Estate Tax Law No. (162) of 1959, tax exemptions granted to service-producing projects, Resolution No. (106) of 2000 (Iraqi Gazette, Issue 3834) 2000).

4- Deficiencies in tax legislation. Legislators and specialists have not worked to address tax issues on a consistent basis. This has led to weak tax compliance and a lack of effective oversight.

Among the most important features of the tax system in Iraq are:

- Combining direct and indirect taxes, by imposing direct taxes on income and capital, as well as indirect taxes through customs duties, stamp duty, real estate registration fees, and production fees.
- Numerous exemptions and allowances. We note the Iraqi legislature's expansion of exemptions with the aim of eliminating the negative economic and social impact of taxes.
- The Iraqi tax law is characterized by the numerous amendments it has undergone.
- Income Tax Law No. 113 of 1982 considers an Arab taxpayer a resident upon entry to Iraq, regardless of the duration of his stay (Al-Hamdani, Shanshul, 2018: 182).

Third: Mechanisms for Enhancing Tax Efficiency (Al-Tuma, 2018: 4)

1. Re-inventorying tax bases by creating a database for all taxpayers and accurately identifying taxable income sources to maximize tax revenue and reduce existing tax evasion.
2. Regarding customs taxes, modern information systems should be introduced for inspection and control of goods entering Iraq. An outsourcing system should also be adopted at customs ports by contracting with reputable international companies to ensure efficient customs inspection and clearance and maximize the country's sovereign resources.

3. Strengthening electronic oversight to combat tax evasion.

To reflect the economic reality, establish an electronic payment system to keep pace with scientific and technological developments. It is necessary to restructure the tax apparatus by simplifying procedures for dealing with taxpayers, encouraging them to pay taxes, and eliminating complexity and administrative red tape.

4. Updating tax legislation and working to review existing tax legislation to reflect current developments and eliminate all existing loopholes exploited by tax evaders. Work to rationalize the granting of tax exemptions in the future, review many of the previous exemptions granted after 2003, and re-examine the economic and financial feasibility of granting these exemptions. (Iraqi Ministry of Finance, Annual Revenue Reports)

5. Expand the tax base to include non-oil sectors (trade, services, industry), develop the skills of employees in the tax apparatus, and adopt an incentive system to encourage tax personnel to excel and innovate. Rewards may be offered (Iraqi Ministry of Finance, Annual Revenue Reports)

Fourth: The contribution of taxes to public revenues in Iraq

Table No. (1) shows that the largest proportion is from oil revenues, when compared to local taxes. This contradicts both what was planned after 2004 and what was stated in the development plan, referring to the goal of financial planning, which is to diversify public revenues, thus contributing to the financing of commercial operations (National Development Plan, 2018-2022: 67). The average contribution of oil revenues to total tax revenues was (94.4%). The percentage was declining in oil revenues, reaching (90.8%) in 2016. This is because during this period, after the decline in oil prices, the government resorted to scrutinizing the withdrawal of local tax resources from departments and ministries, and withdrawing the surplus funds contained in banks, which led to a decrease in the percentage of reliance. The other source is tax revenues, which the government relies on to finance its public expenditures. If oil revenues constituted between (90% - 99%) for most of the study years, this means that taxes do not have the importance of only 10% at best indicates the inefficiency of the tax system in Iraq and the inability of taxes to finance public expenditures within the general budget. The highest percentage was in 2016, reaching 10%, and the highest value of tax revenues reached 5,590,228 million dinars. However, the rise in oil prices was greater than the tax revenue.

The increase in tax revenues in total revenues, especially after 2016, was not due to the development of productive and service projects, but rather to increased government fees and taxes, and increased revenues from mobile phone companies through a 2% increase in the tax rate, along with the payment of fines. 3.8% of the salaries and allowances of all state employees

were deducted to cover the expenses of the military establishment and the displaced. This proves that the general budget in Iraq depends heavily on oil revenues to cover and finance public expenditures, which makes it vulnerable to a permanent deficit due to the fluctuation of oil prices. This is in addition to the failure to exploit opportunities in years when the general budget achieves surpluses. For some years, the budget was characterized by the availability of huge funding due to the rise in crude oil prices and the increase in export quantities, due to the lack of a clear vision and strategic plans, and the lack of optimal use of this, in addition to the waste in public expenditures, which led to many structural imbalances. This increased the risks of global crises penetrating oil prices and revenues. In conclusion, funding was dependent on oil by (93%) during the study period.

Table (1) Tax size and public revenues for the period 2016-2023 (million dinars)

Oil Contribution to Revenues %	Total Oil and Tax Revenues	Total Tax Revenues	Customs Revenues	Tax Revenues	Oil Revenues	Years
0.908	51751230	4779347	643466	4135881	46971883	2016
0.925	65078250	4860503	1228776	3631727	60217747	2017
0.934	81240792	5400800	2212321	3188479	75839992	2018
0.934	84249771	5590228	2343654	3246574	78659543	2019
0.934	84538244	5850915	2474379	3376536	78687329	2020
0.934	13871577	5778364	2435689	3342675	80932132	2021
0.934	91661881	5992538	2543764	3448774	85669343	2022
0.936	93677769	5992540	2574831	3477213	87685229	2023

Source:

- General Authority of Customs.
- Ministry of Finance, Budget Department, General Tax Authority, Planning and Follow-up Departments, 2004-2021.
- Ministry of Finance, Economic Department, Technical Information Department, Final Accounts Tables for the Years 2004-2021.

Fifth: Financial Instruments in the Iraq Stock Exchange

The Iraq Stock Exchange uses stocks as a trading instrument only. This indicator serves as a tool for measuring a country's ability to mobilize capital and diversify risks at the macroeconomic level through market capitalization. It determines the importance and contribution of the stock market to supporting the country's economic growth process. Many stock market observers are interested in this indicator because it describes the development of market activity. A rise in market capitalization indicates an increase in the volume of economic activity in terms of an increase in the number of company shares or the number of companies listed on the market. The importance of this indicator lies in determining the extent of the stock market's contribution to corporate financing and its impact on the volume of economic activity. This indicator cannot be fully relied upon alone to

indicate the development of market size, as some financial markets are characterized by a high percentage of capital in the stock market despite a low volume of transactions. This indicates that the stock market is large and active according to the results of this indicator, but in reality, it is not. This indicates the financial sector's reliance on the stock market or banks for economic financing operations. One of the drawbacks of this indicator is its lack of reliance on some factors. Shares of companies not listed on the financial market are traded outside the regular market despite their impact on the economy (Kazem, 2022: 77).

Table (2) shows the market capitalization index for the period (2016-2023). The index reached its highest value in 2023, at 0.071, with a change of -0.745 compared to 2022. The lowest value was recorded in 2022, at 0.041, with a change of 0.228 compared to 2021. This means that taxes and their laws did not lead to an increase in investment in stocks on the Iraq Stock Exchange. This is due to weak liquidity and the lack of diversity in financial instruments.

The dominance of stocks at the expense of bonds.

Table (2) Market Capitalization of the Iraq Stock Exchange 2016-2023
 (Amount in billion Iraqi dinars)

Change % Value	Market value Index %	(GDP)	Relative Importance	Market value of All Companies	Market value Banking Sector Marke	Year
-	0.048	196536350.8	0.42	9354696	3937460	2016
0.002	0.047	225722375.5	0.54	10721116	5755716	2017
0.048	0.045	251064479.9	0.48	11350356	5463506	2018
0.031	0.044	266190571.3	0.48	11661912	5615206	2019
-0.485	0.065	215661516.5	0.42	14033415	5833181	2020
0.190	0.053	301152818.8	0.47	15872906	7457069	2021
0.228	0.041	383064152.3	0.50	15587161	7753346	2022
-0.745	0.071	6262770323.	0.49	18662975	9235430	2023

Source: Prepared by the researcher based on the annual data of the Iraq Stock Exchange for the period (2016-2023) and the annual data of the Department of Statistics and Research/Central Bank of Iraq for the period (2016-2022).

Conclusions and Recommendations

First - Conclusions

1. Tax efficiency is essential for diversifying revenues and increasing investment in the stock market.
2. The market capitalization for the period (2016-2023) reached its highest index value in 2023, at 0.071. This means that taxes and their laws in Iraq

did not lead to increased investment in stocks on the Iraq Stock Exchange. This is due to weak liquidity, a lack of diversity in financial instruments, and the dominance of stocks at the expense of bonds and sukuk.

3. Taxes are only significant at 10% for the period (2016-2023), indicating the inefficiency of the tax system in Iraq in diversifying revenues and the inability of taxes to finance public expenditures within the general budget. The highest percentage was in 2016, at 10%, and the highest value of tax revenues reached 5,590,228 million dinars.

Second - Recommendations

1. Reform the tax system by updating laws and increasing oversight.
2. Activate the bond market as a tool for financing the government and the private sector.
3. Enhance cooperation between the Tax Authority and the stock market.

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