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The Role of Taxes In Developing the Industrial Sector in Iraq for the Period (2015-2021)

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Abstract:

The Iraqi economy contends with structural production imbalances attributable to challenges afflicting the industrial sector, thereby engendering a monolithic economic landscape bereft of diversification to address these concerns and realize developmental imperatives, it becomes imperative to formulate strategies and policies conducive to stimulating, supporting, and safeguarding the industrial sector. Thereby ameliorating the economic landscape and rectifying distortions in the production structure within this framework, taxes emerge as a pivotal instrumentality for fostering industrial sector growth, employing the tax burden index and the industrial sector's contribution ratio to the gross domestic product, the researcher endeavors to elucidate the nuanced relationship between taxes and industrial sector growth in Iraq. The study's primary objective is to comprehensively analyse the tax contribution ratio and the industrial sector in Iraq, discerning the intricate interplay between taxes and industrial growth to enhance its contribution to the gross domestic product and facilitate economic diversification. The findings underscore a nuanced equilibrium, spotlighting the instrumental role of taxes in directly or indirectly catalyzing industrial sector growth through a repertoire of strategic tools, including tax incentive policies and the exemption of imported capital goods, such as machinery, equipment, and apparatus, from customs duties. This strategic approach aims to buttress producers by alleviating the fiscal burden, reducing operational costs, augmenting profitability, fostering the adoption of cutting-edge technology, and refining methodologies intrinsic to the production process.

Paper: A research paper derived from a dissertation

Keywords: Taxes, Industrial Sector, GDP, Tax Burden.

1. Introduction:

Taxes are instrumental metrics for gauging the efficacy of governments' fiscal policies to underwrite general budgetary outlays. Tax revenues, functioning as evaluative indices for fiscal performance, disclose any systemic aberrations predicated upon the trilateral tenets of legislation, administration, and societal dynamics. The culminating yield defrays current and capital public expenditures aimed at fostering the development of productive sectors and bolsters endeavours directed at augmenting economic growth. Consequently, fiscal policy confronts exigencies in devising judicious mechanisms conducive to furnishing tailored tax support and incentives, thereby revitalizing the industrial sector. This entails the diversification of revenue streams and broadening the tax base, all fortifying financial solvency for fundamental investments geared towards galvanizing the sector instrumental in steering the development trajectory.

Throughout the investigative period from 2015 to 2021, the Iraqi economy weathered formidable challenges that exacted a toll on its foundational economic architecture. The resultant repercussions were manifest in a pervasive recession of economic performance, concomitant with escalating inflation and unemployment rates. These vicissitudes emanated from budgetary shortfalls and structural metamorphoses in the Iraqi economic landscape. This, in turn, adversely impinged upon the efficacy of financial policies in engendering a propitious investment milieu, enticing private sector participation, and fostering foreign investments conducive to propelling economic development. The significance of this research is underscored by its focus on assessing the role of taxation in fostering and stimulating the industrial sector. It endeavours to evaluate the potential expansion of the taxable base by employing tax incentives and support policies and their ramifications on industrial output growth.

1.1 Literature Review:

Many studies have dealt with taxes as follows:

Ali and Al-Shafi (2016) surveyed to elucidate the tax structure in Iraq, delineating the revenue derived from various tax categories. The study sought to evaluate the efficacy of these taxes, employing economic analysis methods grounded in inductive reasoning to derive multifaceted conclusions. A prominent observation highlighted the diminished effectiveness of taxes, both from a financial and economic standpoint, necessitating the adoption of more impactful tax structures to augment revenue and realize comprehensive economic and social objectives.

Rauf (2021) analyzed the current state of the tax system in Iraq, with the primary goal of diagnosing its inherent strengths and weaknesses. The study proposed future enhancements to make the tax system more adaptive and stimulating for development, modernization, and reform processes. Using an analytical approach, the research concluded that the tax system must contribute more adequately to public expenditure and the Gross Domestic Product, falling short of accommodating its annual growth. Notably, oil revenues constituted the predominant share of overall public revenues.

Celia and Ayman (2022) explained various tax revenues in the Algerian system and identified key sources financing the general budget. Employing descriptive and analytical methodologies deemed most suitable for this subject matter, the research arrived at several conclusions. Despite the significance of oil revenues in budgetary financing, they remain an unstable resource due to their correlation with oil prices and fluctuations in global demand.

Hassan (2023) analyzed the tax system structure in Iraq and delineated the challenges impacting this system. Employing deductive analysis, data analysis, and tracking its evolution over time, the study extrapolated effects and results through available economic tools. The research yielded critical insights, notably highlighting the tax system's weakness in responding to the requirements of economic growth or changes occurring in the economic activity structure.

Studies discussing the industrial sector are as follows:

Fares (2018) endeavoured to formulate a developmental strategy for Iraq's industrial sector, encompassing both extractive and transformative facets. The primary objective was to mitigate import dependence by fostering local manufacturing capabilities, particularly in producing essential commodities. Despite this objective, Iraq encountered challenges in devising a successful strategy for the growth of its industrial sector. This difficulty stemmed from the precarious state of production equipment within extractive and transformative industries, resulting in a substantial decline in overall production. Some sectors needed to be more capable of more than a mere 1% of their total output.

Nazar and Zamil (2021) explained and analysed the state of Iraq's industrial sector from 1980 to 2018. The research strategically examined a spectrum of economic performance indicators, both overarching and specific to the industrial sector. Additionally, it elucidated critical avenues for developing this vital sector within the Iraqi economy. Significantly, the findings underscored the inefficiency of the transformative industrial sector, indicating its struggle to achieve acceptable proportions in the broader sectoral development of Iraq's economy.

Hussein (2022) addressed the study of the extractive and transformative sectors, emphasizing the imperative of their development through localized manufacturing. This approach is envisioned to enable the production of specific industrial goods utilizing readily available primary resources. The study pinpointed pertinent solutions, particularly in response to the identified issue that most developmental plans inadequately meet the sector's requirements. A noteworthy revelation was the pronounced financial weakness arising from insufficient investment funds to Iraq's industrial sector, consequently impeding diversification in export endeavours.

Ali and Aloush (2023) aspired to undertake an in-depth economic analysis of indicators tracking the evolution of Iraq's industrial sector. The study sought to comprehend the nuanced reality of the industry within the country, scrutinizing the annual rate of change in production and the associated requisites. Methodologically, the research employed a descriptive-analytical approach and a standardized quantitative methodology to construct models elucidating influential factors in industrial production growth. The results underscored critical findings, notably the need for directed investments in the Iraqi industrial sector and the absence of an adequate industrial base, hindering investors from directing their investments toward industrial projects.

Some studies discussed taxes and the industrial sector, including:

Aljawad (2018) designed the study to elucidate the impact of taxes and fees on the productivity of the industrial sector in Palestine. Its goal was to underscore the nature and robustness of the relationship between taxes and industrial productivity at regional and economic activity levels. A comprehensive approach was taken to achieve these objectives, incorporating both descriptive and quantitative analytical methodologies. The study leveraged data from the 2015 Economic Surveys provided by the Palestinian Central Bureau of Statistics, employing the Ordinary Least Squares (OLS) method for regression analysis. The study's findings revealed a nuanced positive impact of taxes on industrial productivity, exhibiting variability based on the distinctive nature of economic activities. This departure from the anticipated negative impact of taxes was attributed to the dual influences of tax-induced pressure on producers to enhance productivity for cost coverage and the prevalence of tax evasion practices in Palestine, where taxes do not impose a burden, as observed in other nations.

Zaghir (2022) investigated an in-depth analysis of Iraq's prevailing public revenues landscape. The objective was to elucidate how fiscal policy and its instruments influence the industrial sector's role in the Iraqi economy's overall Gross Domestic Product (GDP). The study aimed to quantify the correlative relationship between public revenues and the industrial sector's proportional contribution to the Iraqi GDP. Employing analytical methodologies and data analysis techniques, the study underscored the pivotal significance of the industrial sector as a foundational economic pillar supporting the national economy. Despite the crucial role assigned to fiscal policy and its various tools, including public revenues, the general budget, and public expenditures, the study concluded that these mechanisms have yet to effectively realize their intended purpose of augmenting the industrial sector's contribution to the GDP.

The research problem pertains to the intrinsic disparities within financial policies and fiscal instruments in Iraq, particularly concerning their disparate impacts on the industrial sector. This paradox engenders a unidimensional nature in the Iraqi economy, needing more requisite economic diversification. To address developmental imperatives, it becomes imperative to formulate strategies or policies that not only incentivize the industrial sector but also buttress and fortify it. This strategic intervention is paramount in augmenting the economic landscape and ameliorating structural asymmetries within the production paradigm. Among the seminal instruments delineated, taxes emerge as a pivotal mechanism to stimulate the growth of industrial sector output.

The main objective of this research is to comprehensively analyse the ramifications of taxes on the growth trajectory of the industrial sector. Additionally, the study endeavours to implement measures that stimulate and elevate the sector's contribution to the overall Gross Domestic Product (GDP). A critical component of the research involves the examination of crucial indicators pertinent to the developmental trajectory of the industrial sector.

2.Material and Methods:

In this section, the theoretical literature pertaining to the concepts of taxation and the industrial sector will be expounded. Furthermore, an analysis will be undertaken to assess the potential utilization of taxes as a tool for enhancing the growth of the industrial sector, thereby contributing to economic diversification. The research period for analytical purposes spans from 2015 to 2021.

2.1 Research Hypothesis:

The research is grounded in the hypothesis that taxes play a constructive role in the growth of industrial sector output, through the implementation of appropriate supportive and stimulating policies.

2.2 Taxes:

2.2.1 The Concept of Taxes:

Taxes represent economic entities' obligatory financial contributions to the government, with or without specific and direct reciprocation. This remittance aims to facilitate the provision of social and economic amenities for society (Olaoye, 2019). Defined as an annual and legal method for distributing public burdens based on fiscal capacity, taxes allocate the government's expenses. The sole benefit for the legal taxpayer lies in deriving advantages from residing in an organized society (Sally et al., 2009). Additionally characterized as an involuntary contribution to remit funds to the government under specific legislation, taxes are indispensable for their imposition. Tax levels vary according to the country's policy, which applies to income sources such as wages and potentially to capital (Okafor, 2012).

2.2.2 Tax Principles:

Tax principles encompass the fundamental guidelines financial legislators must consider when developing the tax system. These principles reconcile the interests of the government and taxpayers (Al-Ani, 2018):

1. Justice Principle: Aimed at achieving tax justice in the distribution of burdens among members of society based on their fiscal capacity (Abdul-Kafi, 2018).

2. Clarity and Certainty Principle: Ensuring that the government enacts measures to guarantee taxpayer compliance with tax regulations. This includes penalties for delays in tax payments or non-disclosure, promoting taxpayer awareness of their tax responsibilities and payment methods (Hastuti, 2014).

3. Appropriateness Principle: Necessitating the simplification of collection processes, determination of methods and timings that align with taxpayers' circumstances to minimize their detriment during tax payment (Abdul-Kafi, 2018).

4. Economic Efficiency in Collection Principle: Requires the government to consider the economic principle in collection expenditures, minimizing the difference between what the funder pays and what enters the government's treasury. This entails imposing taxes with high revenues and low collection expenses (Shamia and Al-Khatib, 2012).

2.2.3 Tax Objectives

1. Financial Objectives of Taxation: The financial goal ranks as a primary and crucial objective for any tax (Al-Khatib and Tafesh, 2008), providing internal revenues for the state treasury (Hussein and Hamdan, 2020). The principle of "tax abundance" is vital, expanding the tax base to include all natural and legal persons while minimizing collection expenses to increase tax revenue (Mukhtar, 2019).

2. Economic Objectives of Taxation: Economic goals include safeguarding local industries in initial manufacturing stages. The state imposes high taxes on imported goods to raise their prices, rendering them unable to compete with local products (Ramadan, 2002). It is essential to stimulate improvement and cost reduction in these industries rather than providing limitless protection to avoid burdening consumers with inefficiencies in these industries (Al-A'sar, 2016). Taxation also plays a role in achieving economic stability amid economic cycle symptoms (inflation or recession) (Sadek and Al-Batreek, 1990).

3. Social Objectives of Taxation: These objectives focus on using taxes to enhance social equality by ensuring a fair distribution of income and wealth (Osman, 2000). The tax burden should be lower for the poor in society compared to the rich (Ojong, 2016). Alternatively, taxes may contribute to public health by imposing low-rate taxes on essential goods like bread and high-rate taxes on products causing health issues, such as alcoholic beverages and cigarettes (Nasheed, 2006).

4. Environmental Objectives of Taxation: The production and utilization of certain commodities and services within the economic framework incur broader social costs or externalities often overlooked by corporate entities and individuals. For instance, the combustion of fossil fuels results in the emission of carbon dioxide, a primary contributor to global warming, adversely impacting human health and the environment (Ali, 2022). In this context, fiscal policy instruments, notably taxes, play a pivotal role, emerging as the most efficacious means to assimilate externalities into product pricing dynamics (Parry, 2012). Green taxes, as an exemplar, can serve a multifaceted purpose, encompassing the broadening of the tax base to encompass unconventional revenue streams, accommodating externalities, generating fiscal returns for the state treasury, and exerting influence on the competitive landscape of industrial enterprises (Miranda et al., 2002).

2.2.4 Indicators of Tax Performance:

1. Tax Energy Indicator: The apex yield amenable to deduction from the national income, denoting the optimal tax burden. It is conceptualized as the maximum amount retrievable through taxation within the prevailing constraints of current national income, set against the backdrop of extant political and societal systems, where no undue pressures (be they economic, political, or societal) are deemed intolerable (Al-Khazraji, 2021).

2. Tax Burden Indicator: Designates the eventuality of taxation or, more precisely, the entity upon which the tax burden is apportioned. This term is wielded to ascertain a scenario wherein a legal taxpayer possesses the capacity to transfer their fiscal encumbrance to another party (Hines, 2007). For instance, a property owner may be legally accountable for property taxes but could potentially shift this burden onto tenants under their aegis (Kratzke, 2013).

3. Tax Effort Indicator: The actualized tax revenues (signifying the factual tax burden) vis-à-vis the estimated tax capacity (indicative of the optimal tax burden). This metric elucidates the extent to which society bears the tax burden. Should the actualized tax effort surpass the bona fide benchmark, the fiscal remittance exceeds societal tax capacity, indicative of a state of "tax fatigue." The degree of fatigue fluctuates contingent upon its approximation to or deviation from the authentic benchmark (Al-Majali, 2016).

2.3 Industrial Sector :

2.3.1 Concept of the Industrial Sector :

The historical conception of the industrial sector is integrally linked to the emergence and evolutionary trajectory of industry as a distinctive sector within the spectrum of production sectors. It delineates a relatively protracted historical phase, commencing with the decoupling of handicrafts from agriculture in the nascent stages of development. Continued progression led to the maturation and confluence of facets of agriculture and industry as distinct and disparate economic domains (Al-Jumaili et al., 1979).

It is defined as the "interaction of production factors to adapt natural resources in light of human needs for various goods and services, whether productive or consumptive" (Al-Jumaili et al., 1979). The industrial sector embodies a pivotal and indispensable unit of the national economy. It comprises diverse industrial sectors and projects, encompassing those involved in raw material extraction and transformation into tangible goods and energy for both productive and individual consumption, as well as those providing industrial services to preserve their utility value or undergo re-manufacturing (Al-Muammar, 2010).

2.3.2 Role of the Industrial Sector in the National Economy:

It is noteworthy to underscore the delineations of the role of the industrial sector in the national economy and its attendant advantages, among which are:

1. Industry as the Linchpin of Development: Industry operates as the material and technological bedrock for the advancement of other sectors and branches of the national economy, notably agriculture (Al-Janabi, 2013).

2. Dynamic Growth of Industrial Productivity: The dynamic growth of industrial productivity substantiates its ascendancy over other economic sectors, particularly agriculture. This phenomenon is attributable to the discernible prowess of the industrial sector in assimilating advanced scientific and technological achievements, coupled with contemporary methodologies in labor and production management (Jawad, 2011). Industry not only facilitates a more expansive landscape for the creation of extensive and specialized production in its less-developed branches but also engenders broader horizons and prospects (Al-Jumaili et al. 1979).

3. Elevated Levels of Productivity: Considering the elevated levels of productivity within the industrial sector, the expansion and increased significance of industrial production in shaping national output and resource allocation result in heightened productivity at a holistic level (Al-Muammar, 2010). Enhanced industrial productivity contributes to increased growth rates and national income, consequently augmenting surpluses, whether within the industrial sector or on the national economic front (Al-Azzawi, 2009).

4. Increase in the Rate of National Output Growth: The ascendancy of industry in terms of productivity has led to a noteworthy escalation in the rates of national output growth. This growth can be directly attributed to the surge in industrial production rates or indirectly attributed to its impact on other economic sectors. Among all production sectors, industry has exhibited a relatively higher growth rate due to its dynamic nature.

5. Utilization of Idle Resources: Through the adoption of manufacturing principles, it has become feasible to harness human and natural resources that would have otherwise remained idle in the absence of industry (Mohammad and Abdullah, 2018). This utilization leads to approaching or attaining complete resource deployment, ultimately improving the standard of living for individuals transitioning from sectors with labor surpluses, such as agriculture and crafts, to the industrial sector. This, in turn, fuels domestic market growth (Majeed, 2023).

6. Potential for Production Diversification: The potential for diversification within the industrial sector is immense and seemingly boundless. Given its myriad stages and production processes, industry, in contrast to agriculture's primary focus on raw material production, encompasses subsequent stages and processes associated with these materials. This has resulted in a notable phenomenon where more branches and production processes are separated from other sectors and become distinctly industrial (Al-Jumaili et al. 1979). Examples include poultry factories, feed production facilities, panel manufacturing, and prefab building production, among others (Majeed et al. 2022).

2.3.3 Indicators of Industrial Sector Development:

1. Real Gross Domestic Product Growth Rate: The Gross Domestic Product (GDP) stands as one of the most crucial indicators reflecting the economic development of a country. Expressed as a statistical figure, it encapsulates the final value of all goods and services produced within the country over a specific period, typically a year (Al-Rajhi, 2021). GDP serves as a comprehensive indicator for decision-makers and policy formulators, shedding light on the economic situation and disruptions experienced by the country, whether in the throes of economic recession, inflation, or contraction (Abdullah and Bin mansor, 2018).

2. Average Real Per Capita Income Growth Rate: This indicator reflects individual welfare levels and economic progress for a state. Presently, all advanced countries are witnessing high growth rates for the average per capita income (Todaro, 2006).

3. Contribution Ratio of Public and Private Sectors to Gross Domestic Product: Economic diversity increases as the contribution ratio of the private sector to economic activity surpasses that of the public sector, and vice versa. Economic diversity diminishes as the contribution ratio of the public sector to economic activity exceeds that of the private sector (Daoumi, 2022).

4. Contribution Ratio of Industrial Investment to Fixed Capital Accumulation: The rate of industrial investment is a pivotal economic indicator, representing the ratio between total investments executed within the country and the Gross Domestic Product (Bodrama and Qassaas, 2020).

2.4 The Reciprocal Relationship between Taxes and the Industrial Sector:

2.4.1 Impact of taxes on economic growth:

Economic growth: denoting a discernible upswing in the production of goods and economic services over a defined period, measured in either nominal or real (inflation-adjusted) terms, stands as a pivotal instrument capable of mitigating poverty and enhancing the quality of life, especially in developing nations. In this context, taxes emerge as pivotal agents steering the trajectory of economic growth, wielding a dual role in revenue generation and the equitable distribution of national income within any given country (Sawafteh et al., 2022); debates persist regarding the impact of taxes on economic growth, with some positing a deleterious influence due to diminished investment. Conversely, others assert the indispensability and necessity of taxes in stimulating a nation's economic and institutional milieu. Entrepreneurs and administrators alike find themselves heavily reliant on tax revenues, channeling them toward funding infrastructure, education, and public services. An intriguing prospect arises as an increase in taxes, if judiciously directed, has the potential to invigorate growth by supporting and providing essential funding for projects within various economic sectors, thereby elevating anticipated returns on the efforts of those overseeing these endeavours (Shayyad, 2022). The theoretical underpinning asserts that the relationship between taxes and economic growth can be positive or negative, contingent upon their impact on investment, production, imports, and exports, with this influence hinging on the strategic direction of revenue allocation (Al-Sayed, 2022).

2.4.2 The Interplay of Investment and Taxation:

Investment shares an intimate bond with taxation, epitomizing a symbiotic relationship wherein one cannot subsist without the other. Both elements are integral to the developmental process, necessitating a relationship between taxes and investment that facilitates a prominent role for investment within the economy. Such facilitation is achievable through the institution of tax incentives designed to stimulate investment, encompassing reductions or tax exemptions. The magnitude of investment endeavors is contingent upon the prevailing investment policies of the state (Al-Ani, 2018).

In summation, the paramount objectives of these incentives can be delineated as follows:

1. Establishment of Sustainable Production Activities: Through the support of projects that genuinely contribute to national economic development.

2. Encouragement of Investment: Aimed at stimulating investment in various economic sectors, especially the industrial realm, by ensuring that the return on investment supersedes that of conventional savings.

3. Enhancement of Economic Efficiency: Tax incentives contribute to the improvement of production efficiency by exempting imported capital goods, fostering the development and refinement of production methodologies, consequently augmenting national income.

4. Promotion of Entrepreneurial Profitability: Select tax incentives enhance product profitability, enabling enterprises to achieve greater financial and social returns, thereby maximizing profits.

5. Increase in Productive Activities: Exemptions, constituting a component of incentives, incentivize professionals and projects to settle outstanding tax obligations, thereby expanding the scope of their activities.

6. Encouragement of Exports: Achieved by supporting local products in confronting and competing with foreign goods through comprehensive tax and duty exemptions on exports.

7. Assistance in Modernizing Production Lines: Introduction of advanced production technologies, fostering productivity and providing high-quality products, this is facilitated by incentivizing producers through exemptions or reduced tax rates on machinery or equipment imported for this purpose(Al-Azzawi, 2014).

8. Provision of Employment Opportunities: The creation of new employment opportunities and filling vacant positions is realized by expanding extant projects or establishing new projects that necessitate a workforce with diverse specializations (Abdullatif and Aakawee, 2023).

2.4.3 Impact of Taxation on Savings:

Taxation is an instrument for curtailing a portion of personal income, engendering a reduction in savings. The ramifications of taxes on savings are contingent upon various factors, encompassing individual income, living standards, the tax rate's technical framework, and an individual's proclivity towards engagement in work and production (Taqah & Al-Azzawi, 2007). Furthermore, the influence of taxation on savings diverges among different income strata. This discrepancy arises from taxes affecting a heterogeneous spectrum of individuals, eliciting disparate responses. In the context of a proportional tax rate, its impact on savings for those with higher incomes is improbable, given its fixed percentage of all incomes.

In contrast, when taxes are levied progressively, there is a pronounced effect on the savings of high-income individuals, manifesting a heightened inclination towards saving and a diminished proclivity for consumption (Al-Janabi, 2007). This contrasts with lower-income cohorts, who channel each additional monetary unit towards consumption. Notably, the combined propensity for consumption and saving equates to unity (Safwat, 2019).

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2.4.4 Impact of Taxation on Production:

The impact of taxation on production manifests through two distinct mechanisms:

1. Direct Effects on Production: These effects manifest in the profit margins derived from production operations. If producers possess the capacity to transfer the tax burden associated with their products to consumers by augmenting product prices, the net effect of this tax is positive on overall output. This stems from incentives fostering producers' assurance of substantial and sustained profits, the ability to shift the tax burden to consumers, and the capacity to offset tax deductions from their capital. Conversely, in scenarios where producers lack the ability to pass on the tax burden to consumers, taxes exert a deleterious impact on gross output. This is rooted in producers' endeavors to curtail production, reduce capital deployment in operational processes, instigate a decline in profits, and subsequently, a contraction in overall market demand.

2. Indirect Effects on Production: These effects materialize in the realm of consumption. Taxes operate as dampeners of consumption, thereby indirectly impinging upon and diminishing production (Ahmad, 2018). Additionally, tax policy plays a pivotal role in utilizing taxes as tools to amplify or diminish the production of specific activities. This is achieved through the imposition of low tax rates on economic activities the state seeks to bolster and cultivate, and conversely. Consequently, proprietors of capital redirect their investments toward activities characterized by lower tax burdens to realize heightened profits. The impact of tax rate increments is contingent upon the elasticity of supply and demand, coupled with the ease of transitioning from one sector to another (Hussein and Hamdan, 2020).

2.5 Analysis of the reality of Taxation and the Industrial Sector in Iraq (2015-2021)

2.5.1Analysis of the reality of Tax Revenues in Iraq (2015-2021)

Taxation assumes a critical role in underpinning the fiscal framework of a state, representing a pivotal facet as one of the primary reservoirs of public revenue. It has metamorphosed into a potent instrument, facilitating the direction and allocation of economic resources within a nation. This, in turn, empowers the government to foster growth in specific sectors while concurrently addressing multifaceted challenges like unemployment, poverty, and budgetary shortfalls. However, in the context of countries such as Iraq, classified as rentier states, tax revenues exhibit a relatively modest contribution when juxtaposed with the formidable inflow from oil revenues, maintaining a subdued and stagnant trajectory over the assessed period.

Table 1: Tax Revenues in Iraq (2015-2021) (One million Iraqi dinars).

Years	Total Tax Revenue	Annual Growth Rate (%)	General Revenue	Contribution Ratio (%)
2015	6,237,728		66,470,251	9.38
2016	4,503,249	-27.8	54,409,269	8.28
2017	8,570,044	90.3	77,422,172	11.07
2018	10,143,927	18.36	106,569,833	9.52
2019	10,801,884	6.486	107,566,993	10.04
2020	7,116,803	-34.11	63,199,689	11.26
2021	6,238,068	-12.34	109,081,463	5.72

Source: Based on data provided by the Ministry of Finance, the General Tax Authority, and the General Customs Authority for the duration spanning 2015 to 2021.

The data shown in Table 1 and Figure 1 indicate the tax revenue encountered a negative growth rate of (-27.8%) in 2016, attributed to the precarious security situation in Iraq and the exigencies of warfare against terrorist entities, compounded by deficiencies in tax administration. After this downturn, tax revenues ascended in consonance with heightened general revenues in a correlative fashion. Notably, the zenith of tax revenue, amounting to (10,801,884) million, was achieved in 2019, contributing (10.04%) to the overall revenue composition. These ascensions were reflective of economic stability and improved oil prices. In instances of crises, such as the global health crisis in 2020, there is a discernible increase in the contribution percentage of tax revenue, the acme reaching (11.26%) of the total revenues. However, this percentage, while indicative of heightened fiscal relevance, does not holistically capture the increased financial significance of taxation. Rather, it mirrors the augmentation in tax proportions attributable to the decline in oil revenue resulting from the crisis, thereby amplifying the tax ratio and underscoring the substantial financial import of taxation. The substantial reliance of the Iraqi economy on the oil sector for funding its developmental initiatives has rendered it susceptible to external forces, epitomized by the fluctuations in global oil prices. This reliance stems from the limited diversification of national income sources, attributed to the diminished contribution of productive sectors to the Gross Domestic Product (GDP).

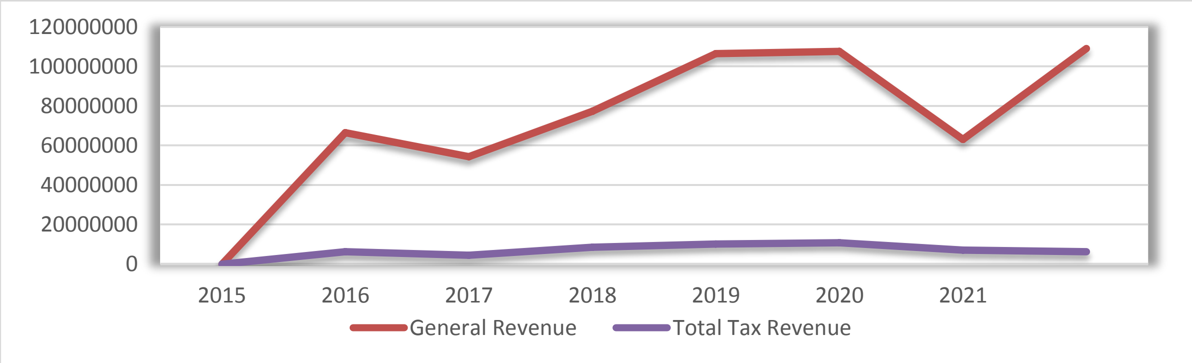

Figure 1: The growth rate of tax revenues in Iraq during the period (2015-2021).

2.5.2 Analyze the reality of the industrial sector's contribution to the GDP for the period (2015-2021).

The Gross Domestic Product (GDP) holds paramount significance as a key metric in assessing a nation's economic performance (fadhil et al. 2022). It serves as an invaluable tool for comprehending the diverse contributions of economic sectors—ranging from industrial and oil to agricultural—towards the overall GDP composition. Consequently, it is a pivotal resource extensively utilized in economic studies, especially those focused on developmental issues (Majeed et al. 2022).

Table 2 and Figure 2 unveils a decline in the industrial sector's contribution to the GDP, registering 35.87% in 2015. This downturn was precipitated by a dual shock emanating from the drastic reduction in oil prices (falling below $30 per barrel) and the disruptive activities of terrorist groups, notably witnessed in the Baiji refinery in Salah al-Din province. Subsequent years witnessed a rebound in the industrial sector's contribution, reaching 45.82% in 2018, owing to improved security and economic conditions.

Despite an overall rise in GDP to 276,157,868 million dinars in 2019, the industrial sector's contribution dwindled to 41.44%. The ensuing two years saw a significant contraction, with the sector's GDP plummeting to 67,051,480 million dinars in 2020 (contributing 31.09%). However, in 2021, a noteworthy recovery ensued, with the industrial sector's GDP reaching 137,895,586 million dinars, underscoring the sector's resilience in the face of global economic dynamics.

Table 2: the Industrial Sector's Contribution to the Gross Domestic Product (2015-2021) (One million Iraqi dinars).

Years	Industrial sector output	Annual Growth Rate (%)	GDP	Industrial Sector Contribution
2015	69,825,680		194,680,972	35.87
2016	72,233,334	3.45	196,924,142	36.68
2017	93,884,954	29.97	221,665,710	42.35
2018	123,231,669	31.26	268,918,874	45.82
2019	119,706,817	-2.86	276,157,868	43.35
2020	67,051,480	-43.99	215,661,517	31.09
2021	144,609,872	115.67	301,152,819	48.02

Source: Based on data from the Ministry of Planning, National Accounts Department for the period (2015-2021).

OPEC's 2007 evaluation positioned Iraq as the third-largest holder of oil reserves globally in 2006, behind Saudi Arabia and Iran, with reserves estimated at 115 billion barrels, constituting 11% of the world's reserves. This underscores Iraq's economic vulnerability, primarily tethered to the oil sector, emblematic of a predominantly rentier economy susceptible to fluctuations in global oil prices.

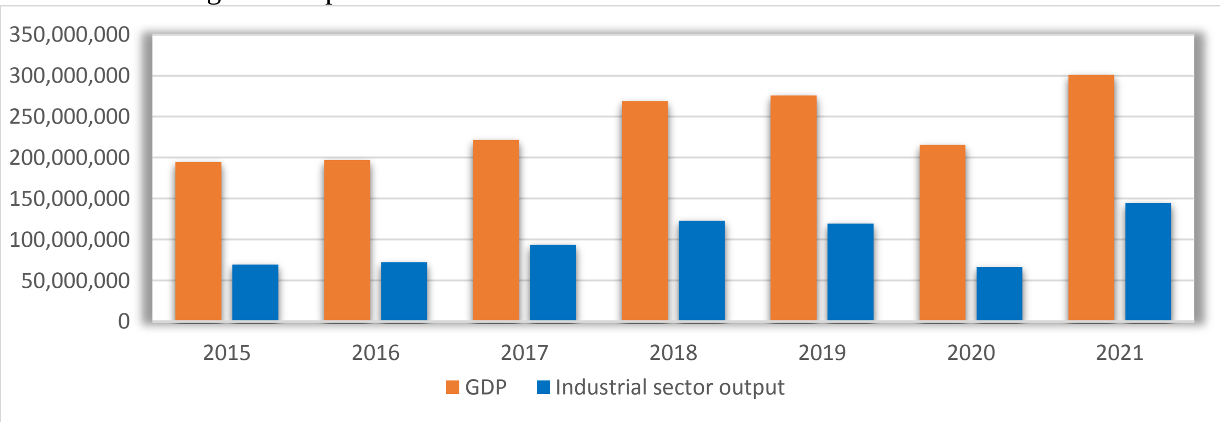

Figure 2: Rate of contribution of industrial sector output to GDP in Iraq (2015-2021).

2.6 Analysis of the relationship between taxes and the growth of industrial sector output in Iraq for the period (2015-2021).

2.6.1 Analysis of the tax burden index in Iraq for the period (2015-2021).

The tax burden index emerges as a pivotal tool for discerning the intermittent proportion of the Gross Domestic Product (GDP) necessitated for remittance to the government in the form of taxes, aiming to achieve specific objectives such as financing governmental expenditures or facilitating income redistribution. The allocation of the tax burden is contingent upon the methodology of tax imposition, pricing structure, determination of the tax base, and the extent of its coverage.

Legislative frameworks delineate the entities mandated to shoulder the tax burden. However, the individual entrusted with payment possesses the prerogative to transfer it to another party, thereby assigning the ultimate tax burden to them. This individual is denoted as the effective taxpayer (Zidan, 2012).

The following equation encapsulates the computation of the tax burden:

Tax burden = total tax revenue / GDP * 100

Table 3 and Figure 3 indicate that the fiscal landscape in Iraq has witnessed a persistent surge in the tax burden since 2015, primarily attributed to the global downturn in crude oil prices commencing in mid-2014, exacerbated by the security challenges faced in select Iraqi provinces.

Table :3 elucidates the trajectory of the tax burden index in Iraq over the duration spanning (2015-2021) (One million Iraqi dinars).

Years	Total tax revenue	GDP	Tax burden
2015	6,237,728	191,715,792	3.25
2016	4,503,249	196,924,142	2.29
2017	8,570,044	221,665,710	3.87
2018	10,143,927	268,918,874	3.77
2019	10,801,884	276,157,868	3.91
2020	7,116,803	215,661,517	3.30
2021	6,238,068	301,152,819	2.07

Source: Column 2 based on data from the Ministry of Finance, the General Authority for Taxes, and the General Authority for Customs.

Column 3 based on data from the Ministry of Planning, National Accounts Department.

The fiscal landscape in Iraq has witnessed a fluctuating between high and low in the tax burden since 2015, primarily attributed to the global downturn in crude oil prices commencing in mid-2014, exacerbated by the security challenges faced in select Iraqi provinces. This compelled the Iraqi government to enact austerity measures and institute economic reforms, including heightened taxation and the retrieval of outstanding debts from entities within the oil and communication sectors. Consequently, tax revenues experienced an upswing. Despite Iraq's economic recovery, marked by a Gross Domestic Product (GDP) of 221,665,710 million dinars in 2017, the tax policy persisted in elevating the tax burden. It reached its zenith at 3.91% in 2019, subsequently gradually diminishing to 2.07% in 2021, a consequence of the COVID-19 pandemic and its ramifications on the General Authority's capacity to tax collection. In summation, the enduring ascent of the tax burden index suggests an ongoing increase in the obligations shouldered by taxpayers, potentially yielding adverse societal implications such as income inequality and economic ramifications like the escalation of production factor prices, alongside fostering tendencies towards tax evasion or avoidance.

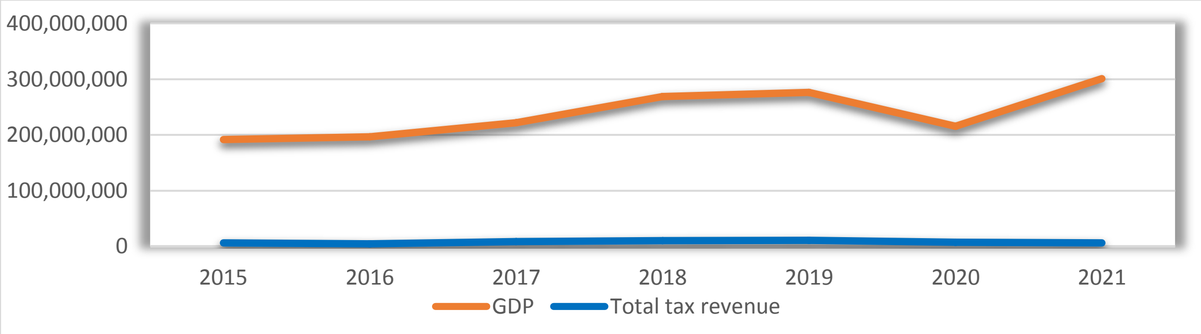

Figure 3: Development of the tax burden index in Iraq for the period (2015-2021).

2.6.2 Analysis of The role of taxes in the growth of the industrial sector in Iraq for the period (2015-2021)

Table 4 and Figure 4 reveal a discernible disparity between the modest trajectory of industrial output, pegged at (69,825,680) in the year (2015), and the elevated echelons of tax revenues, which reached (6,237,728). The ebb in industrial productivity is imputable to the multifaceted crisis that befell the nation, notably the dual shock experienced in 2014. This confluence of adversities was precipitated by a confluence of factors, including the downturn in oil prices, the territorial encroachments of ISIS, the forfeiture of Iraqi territories, and the resultant displacement of its populace.

Conversely, the ascendant trajectory of tax revenues finds its provenance in the advent of novel tax impositions during this temporal span, encompassing levies upon oil corporations in 2014 and service fees, mobile telephony, and internet networks in 2015.

Table 4: Evolution of the relationship between taxes and the growth of industrial sector output in Iraq (2004-2021) (One million Iraqi dinars).

Years	Tax revenue	Annual Growth Rate (%)	Industrial sector output	Annual Growth Rate (%)
2015	6,237,728		69,825,680	
2016	4,503,249	-27.8	72,233,334	3.45
2017	8,570,044	90.3	93,884,954	29.97
2018	10,143,927	18.36	123,231,669	31.26
2019	10,801,884	6.486	119,706,817	2.86-
2020	7,116,803	-34.11	67,051,480	43.99-
2021	6,238,068	-12.34	144,609,872	115.67

Source: Column 2 based on data from the Ministry of Finance, the General Authority for Taxes, and the General Authority for Customs for the period (2015-2021).
Column 3 based on data from the Ministry of Planning, National Accounts Department for the period (2015-2021).

Post the convalescence of Iraq and the augmentation of the industrial sector's output, escalating from (72,233,334) million dinars in 2016 to (123,231,669) in 2018, fiscal incentives were accorded. This was coupled with the government's espousal of a more stringent fiscal policy paradigm. Elements of this paradigm included the regimentation of border transit points, imposition of elevated customs duties, and the imposition of severe penalties for arms traffickers pursuant to Law No. (51) of 2017. These measures engendered a notable augmentation in tax revenues, quantified at (10,143,927) million dinars in 2018. Regrettably, this convalescence proved evanescent, as industrial sector growth plummeted from (2.86%) to (43.99%) during the biennium spanning 2019-2020. This downward trajectory was symptomatic of the global deceleration in economic growth, surpassing prognostications. Causative factors encompassed an upsurge in global oil supply from non-OPEC entities, an intensification of trade barriers, escalating trade ambivalence, and the advent of the COVID-19 virus in December 2019, thereby casting a pall on future economic prognostications.

The resumption of industrial output growth to (115.67) in 2021 juxtaposed with a contraction in tax revenue growth to (12.34%) was a corollary of the global economic resurgence following the economic constriction induced by the COVID-19 pandemic. Furthermore, the resumption of full-fledged operations in factories, previously curtailed due to the pandemic, precipitated an uptick in global oil demand and a corresponding escalation in prices. Additional impetus was provided by tax exemptions delineated in Iraqi Investment Law No. (13) of 2006, inclusive of a decade-long tax reprieve commencing from the initiation of investment projects. This legislative framework also extended exemptions to imported goods for investment projects, such as spare parts and equipment instrumental in augmenting productive capacity.

In summation, the analysis underscores the dynamic interplay between taxes and the inverse trajectory they delineate in conjunction with industrial output growth. Notwithstanding, the industrial sector contends with the intricacy of being tethered to global price vicissitudes. Table (6) serves as a chronicle delineating the evolution of the symbiotic relationship between taxes and the trajectory of the industrial sector in Iraq for the longitudinal stretch spanning (2004-2021)."

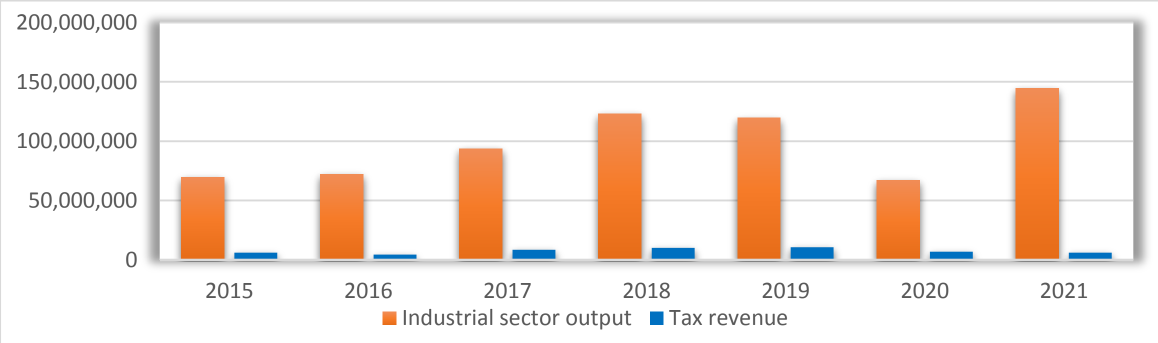

Figure 4: Development of the relationship between taxes and the growth of industrial sector output in Iraq for the period (2015-2021).

3. Discussion of Results:

Through analytical of the interplay between taxation and the industrial sector, it is discerned that the reduction of fiscal encumbrance culminates in expanding the industrial domain. This revelation assumes paramount significance in augmenting the quantum of support accorded to the private sector, facilitated by implementing a spectrum of tax policies. Notably, the tax incentive policy endeavours to mitigate the fiscal onus borne by producers, with the explicit aim of curbing production costs and fostering an escalation in profit margins. Additionally, the exemption of imported capital goods, encompassing machinery, equipment, and apparatus, from customs duties is strategically orchestrated to invigorate and motivate producers to assimilate contemporary technology, thereby refining the methodologies underpinning the production process and effectuating a consequential amplification in output.

Nevertheless, 2015 witnessed a dual crisis, underscored by security exigencies and a nosedive in oil prices. Another twin crisis unfolded in the biennium of 2020-2019, precipitated by security tumult, public health exigencies, the pervasive global dissemination of the coronavirus, and financial tumult resultant from the precipitous decline in worldwide oil prices. As a corollary, a contraction in the volume of industrial production ensued. The research hypothesis aligns coherently, substantiating the assertion that taxes played an instrumental role in fostering heightened productivity within the industrial sector. This instrumental role stems from their efficacy in incentivizing proprietors of manufacturing facilities to amplify their production with the strategic intent of mitigating fiscal encumbrance.

4. Conclusion:

1. The findings of the analysis indicate an attenuation in the efficacy of tax revenue in underwriting the general budget, manifesting a diminished proportion relative to the aggregate public revenue over the course of the study period.
2. The analytical findings evince a discernible surge in the fiscal encumbrance index. This escalation finds its genesis in the instauration of novel levies during the specified period, notably levied upon petroleum enterprises in 2014, and subsequently extended to encompass service remunerations, mobile telephony, and internet infrastructures in 2015. Remarkably, these impositions have not engendered any discernible deleterious effects upon the trajectory of industrial output, courtesy of the exemptions enshrined within the amended Investment Law denominated as Law No. 13 of 2006. Furthermore, the prospect of transposing this fiscal onus onto the end consumer remains viable, exemplified by potential augmentations in the unitary cost of prepaid telecommunication vouchers.
3. The analysis affirms the industrial sector's predominant position, constituting a majority at 48.02% of the Gross Domestic Product in the year 2021.

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Authors Declaration:

Conflicts of Interest: None

-We Hereby Confirm That All The Figures and Tables In The Manuscript Are Mine and Ours. Besides, The Figures and Images, Which are Not Mine, Have Been Permitted Republication and Attached to The Manuscript.

- Ethical Clearance: The Research Was Approved By The Local Ethical Committee in The University.

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دور الضرائب في تنمية القطاع الصناعي في العراق للمدة (2015-2021)

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مستخلص البحث:

يعاني الاقتصاد العراقي من اختلال الهيكل الإنتاجي وذلك بسبب المشاكل التي يعاني منها القطاع الصناعي مما يؤدي إلى جعل الاقتصاد العراقي وحيد الجانب يفتقر الى التنوع الاقتصادي، ولتحقيق متطلبات التنمية يجب إيجاد وسائل او سياسات تحفز وتدعم وتحمي هذه القطاع للنهوض بواقع الاقتصاد ومعالجة اختلال الهيكل الإنتاجي ومن بين هذه الأدوات ستكون الضرائب بمثابة وسيلة لنمو ناتج القطاع الصناعي استخدام الباحث مؤشر(العبء الضريبي) ومؤشر (نسبة مساهمة القطاع الصناعي الى الناتج المحلي الإجمالي) ودور العلاقة بين الضرائب ونمو ناتج القطاع الصناعي في العراق، وتهدف الدراسة الى تحليل نسبة مساهمة الضرائب والقطاع الصناعي في العراق وتحليل العلاقة ما بين الضرائب ونمو ناتج القطاع الصناعي من اجل تعزيز نسبة مساهمته في الناتج المحلي الإجمالي وتحقيق التنويع الاقتصادي، وجدت الدراسة علاقة التوازن مع وجود دور الضرائب في تعزيز نمو ناتج القطاع الصناعي سواء بشكل مباشر أو غير مباشر من خلال استخدام مجموعة من الأدوات (سياسة التحفيز الضريبي، واعفاء السلع الاستثمارية المستوردة كالمكائن والمعدات والآلات من الضريبة الجمركية) بهدف دعم المنتجين من خلال تقليل العبء الضريبي وتخفيض تكاليفهم وزيادة ارباحهم وتشجيعهم على ادخال التكنولوجيا الحديثة وتحسين الأساليب المستخدمة في العملية الإنتاجية.

نوع البحث: بحث مستل من رسالة ماجستير

المصطلحات الرئيسة للبحث: الضرائب، القطاع الصناعي، الناتج المحلي الإجمالي، العبء الضريبي