

## Trends in the Development of Indirect Taxes and Their Impact on Foreign Trade and Final Consumption During the Period (2004-2023)-Iraq Case Study

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**Abstract :** The research aims to demonstrate the development of indirect taxes during the period (2004-2023) in Iraq and the most significant implications of this development on foreign trade, represented by Iraq's exports and imports, as well as its impact on final consumption, which includes both public and private consumption.

In order to achieve the research objectives and verify its hypothesis, the researchers used the descriptive-analytical method to study and analyse the development in the studied variables, relying on information and data issued by academic and official sources.

The results of the economic analysis of the studied variables showed a noticeable decline in the compound annual growth rates during the two study periods, with varying degrees of this decline, where indirect taxes in general were more reduced than the other variables. Additionally, the impact of indirect taxes was limited on the studied indicators despite the direct relationship of these variables. The most affected indicator by this type of tax was private consumption, as it influenced prices, weakening the purchasing power of individuals, especially for low-income groups.

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**Keywords : Customs Taxes , Sales Tax , Final Consumption , Exports , Imports .**

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**INTRODUCTION:** Indirect taxes are considered important financial tools in enhancing public revenues without directly affecting individuals' incomes, which has made them increasingly significant in developing countries, including Iraq. They constitute the largest proportion of total taxes in Iraq due to the difficulty of expanding the direct tax base, the low efficiency of tax collection, and the heavy reliance on oil revenues. Regarding the tax system in Iraq, it has witnessed numerous tax reforms and a restructuring of the tax system after 2003 to compensate for the deficit caused by the fluctuation of oil revenues due to the instability of oil prices, especially in the field of indirect taxes, as one of the attempts to rebuild financial institutions and expand sources of public revenue after years of wars and sanctions. The need to understand the impact of changes in this type of tax on various economic aspects has also emerged, particularly foreign trade and final consumption, which are the subjects of our research. These aspects play a pivotal role in economic growth and social stability by either stimulating or restricting foreign trade movements, especially after the economic opening the country witnessed during that period. Additionally, they affect final consumption, which is a key indicator of the standard of living and local demand. As some taxes have increased import costs, there have also been some repercussions on final consumption in the household sector, especially for those with low incomes.

### **The importance of the research :**

Lies in the fact that indirect taxes are one of the available alternatives to diversify revenue sources and reduce reliance on oil revenues. Therefore, understanding their yield and evaluating their effects helps in forming a realistic vision for the possibility of expanding their contribution to financing the public budget without harming economic activity. Additionally, evaluating the effectiveness of this type of tax in influencing foreign trade and final consumption patterns will contribute to providing results that help design a fair tax system that balances financial objectives related to revenue generation with economic and social goals.

### **Research Problem:**

The research problem is highlighted by the following question: "Will the increase or decrease in indirect tax revenue in Iraq during the period (2004-2023) have positive or negative impacts on Iraqi foreign trade and final consumption in Iraq?"

### **Research Objectives:**

The research aims to:

- 1- Study and analyse indirect taxes and their components in Iraq during the study period and present the legislative changes in the laws that regulate them.
- 2- Analysis of the structure of foreign trade and the structure of final consumption in Iraq during the study period.
- 3- Clarifying the effects of indirect taxes on the structure of foreign trade and final consumption patterns in Iraq.

### **Research Hypothesis:**

The research is based on the hypothesis that increasing indirect taxes leads to an increase in the state's public revenues; however, it may hinder economic growth due to its negative impact on final consumption resulting from its direct reflection on the prices of goods and services and the reduction of foreign trade volume, either by decreasing the volume of imports due to higher costs or by weakening the export capacity of local producers due to the increased costs of production inputs.

### **Research Methodology:**

The descriptive-analytical method was used to study and analyse the developments in the variables examined, relying on the available official and academic information and data on the subject.

#### **The first requirement: A conceptual framework for indirect taxes, foreign trade, and final consumption**

##### **First: The concept of indirect taxes**

Before discussing indirect taxes, taxes should be defined in general, Taxes are considered one of the most important and oldest sources of public revenue due to their financial role and effectiveness in achieving the goals of fiscal policy. Initially, they were imposed on individuals in kind, but gradually evolved to the point where countries primarily rely on them to cover public expenses and achieve various objectives. There are many definitions that have addressed the concept of tax in general, but most of them agree that it is a financial obligation paid by the taxpayer to the state without any compensation, as a contribution from the taxpayer to bear the public burdens. It is also defined as a mandatory cash amount imposed by the state on individuals without compensation to cover public expenses. In another definition, it is a financial obligation that an individual is compelled to pay to the state or one of its agencies in a final manner to cover public expenses and costs without receiving any personal benefit in return for this tax ( Naji , 2018 , 83 )

As for indirect taxes, they are taxes imposed on goods and services, with the burden falling on the consumer. They are among the oldest forms of taxation used in most countries around the world. Despite the importance of this tax as a financial resource, its significance has begun to diminish in developed countries due to the increased reliance on direct taxes. On the other hand, indirect taxes represent one of the important sources of government revenue and constitute a large part of public revenue in developing countries. This is due to the nature of developing countries, characterised by weak management of economic resources at the government level, low educational levels, lack of organised accounts and bookkeeping in the business sector, and the small size of economic units in the production and distribution sectors. Examples of indirect taxes include import, production, and sales taxes. Indirect taxes are collected without the need to issue lists and without considering the personal circumstances of the taxpayer, but rather at the occurrence of the taxable event, such as the production of the goods, their importation, or their sale to consumers ( Al-Taher , 1988 , 302-303 )

These taxes have many advantages and disadvantages ( Abd al-Hamid , 2005 , 261-262 ) ( Khasawneh , 2014 , 8 ) One of their main advantages is the high volume of their financial yield, and thus their significant economic role in achieving balance between supply and demand within production branches by lowering or raising their price. Additionally, the yield of this type of tax is characterised by flexibility, a lack of noticeable burden, and therefore ease of bearing its burdens. The progression in indirect taxes is applied better than in direct taxes, and this progression leads to a reduction in consumption rather than savings, as well as a higher yield of this tax compared to the yield of direct taxes. While the disadvantages of this tax lie in the high revenue it generates compared to direct taxes and its lack of proportionality with the taxpayers' ability to pay. On the contrary, there may be an inverse relationship between taxpayers' ability and these taxes, especially when imposed on essential goods, which makes the tax burden heavier on the poor compared to the rich, meaning it does not achieve the concept of social justice. Additionally, these taxes require precise monitoring to follow up on the collection process and prevent tax evasion, as well as monitoring

production processes and the need for human oversight in production sectors. The tax revenue from these taxes is affected by economic cycles. In the case of economic growth and prosperity, this tax revenue is high, whereas in the case of economic recession, the revenue from indirect taxes decreases significantly and noticeably.

**Secondly: The effects of indirect taxes on foreign trade and final consumption**

**1- The impact of indirect taxes on consumption:** This type of tax directly affects final consumption because it is imposed on goods and services during production or trade, and its burden is transferred to the final price of the product, which is ultimately borne by the final consumer. Therefore, any increase in any type of indirect tax, such as sales tax or customs duty, will be reflected in the prices of goods and services, leading to an increase that affects the purchasing power of consumers, especially those with limited income, and results in a decrease in local demand for goods. Its impact will be compounded in the absence of support policies or a price ceiling for basic goods ( Abdel-kader , Mooij , 2020 , 26)

**2- The impact of indirect taxes on foreign trade**

Indirect taxes affect foreign trade through customs duties, which can either increase or decrease foreign trade depending on the country's trade policy. If the country adopts a protectionist stance or the principle of free trade to facilitate the movement of goods and services, it means that these taxes can either stimulate or restrict foreign trade accordingly. Customs duties can be used to protect the national product from foreign competition, enabling the emerging industry to grow and enhancing its competitiveness ( Abdel Rahim , 2017 , 120 ) However, they can negatively impact it due to the rise in prices of imported production inputs.

**The second requirement: Analysis of the development in indirect taxes, foreign trade, and final consumption in Iraq during the period (2004-2023)**

**First: Analysis of the development of indirect taxes in Iraq during the period (2004-2023)**

Indirect taxes in Iraq consist of customs duties and sales tax. As shown in Table (1), which illustrates the development of these two types of taxes and the total indirect taxes, it is evident that customs duties constitute the largest proportion of indirect taxes in Iraq. Additionally, their absolute value has generally increased during the study period from (82020) million dinars in 2004 to (1033765) million dinars in 2023. When discussing the study years, we find that its value recorded an increase during the period (2004-2009) from (82020) million dinars in 2004 to (590688) million dinars in 2009. The weakness in the collection of this type of indirect tax in 2004 is attributed to the suspension of customs taxes by order of the Coalition Authority, which was replaced by the Iraq Reconstruction Tax at a rate of (5%) on imported goods, with a complete exemption for some goods. After that, these taxes began to gradually increase until 2009. Due to the global financial crisis, customs taxes decreased in 2010 and 2011. However, in 2012, customs taxes recorded another increase, reaching approximately (1013598) million dinars. This was due to the improvement in security conditions and the revival of the Iraqi economy. However, the period from 2013 to 2016 witnessed a decline in customs taxes from 982,378 million dinars in 2013 to (632384) million dinars in 2016, due to the poor security situation resulting from the war against terrorist groups, which caused destruction of infrastructure and the control of some Iraqi provinces by terrorist groups. Meanwhile, customs taxes fluctuated between increases and decreases during the period from 2017 to 2023, recording (1194979) million dinars in 2017 and decreasing to (1033765) million dinars in 2023. This decrease was due to Iraq starting in 2019 to impose customs tariffs based on the Harmonised System, which ranges between( 0% and 30%). All products were subject to a unified customs tariff of 5%, except for food, medicine, and books and the products related to the reconstruction of Iraq that were exempted from this tariff ( Iraq country commercial Guide , <https://www.trade.gov> ) in addition to the health crisis represented by the Corona pandemic and the halt of most economic activities in the world, and the Cabinet's issuance of a decision in 2023 in coordination with the Kurdistan Regional Government to unify customs duties and reduce the disparity in fees between border crossings (Harmonizing Iraq's trade regime , <https://iraq.un.org/en> )

It is worth mentioning that the Iraqi General Customs Authority indicated that the use of the ASYCUDA system (an automated accounting system for customs data) played a role in increasing customs revenues by reducing instances of corruption, in addition to the administrative reforms witnessed by the authority, which led to an increase in these revenues. It is worth mentioning that the General Authority for Customs in Iraq indicated that the use of the ASYCUDA system (an automated accounting system for customs data) played a role in increasing customs revenues by reducing cases of corruption, in addition to the administrative reforms witnessed by the authority, which led to an increase in these revenues (The General Customs Authority, <http://www.customs.mof.gov.iq/> )

When it comes to sales tax, or what is known as value-added tax, imposed on the prices of all services provided by five-star and first-class hotels and restaurants at a rate of 10% according to Decision No. (36) of 1997 (General Authority for Taxes , <https://tax.mof.gov.iq> ) it is noted from the previously mentioned table that the sales tax during the study period was very low compared to the total indirect taxes. The highest value recorded for sales tax was in 2018, amounting to (3454) million dinars, while the lowest value was in 2004, amounting to (45) million dinars. This

is due to several factors, including the high incidence of tax evasion, the low efficiency and limited number of tax personnel, limited data, and low tax awareness.

The sales tax constituted the highest percentage of total indirect taxes in 2019, at (0.3%), while the lowest percentage was in 2004, at (0.1%).

We conclude from the above that the revenue from indirect taxes during the study period fluctuated between increases and decreases. The highest revenue from indirect taxes was in 2018, amounting to (1652034) million dinars, while the lowest revenue was in 2004, amounting to (82065) million dinars. The percentage of indirect taxes from total taxes was also fluctuating, with the highest percentage in 2004.

It reached (52.7%), while the lowest percentage was in 2020 at (17.6%) due to the aforementioned reasons.

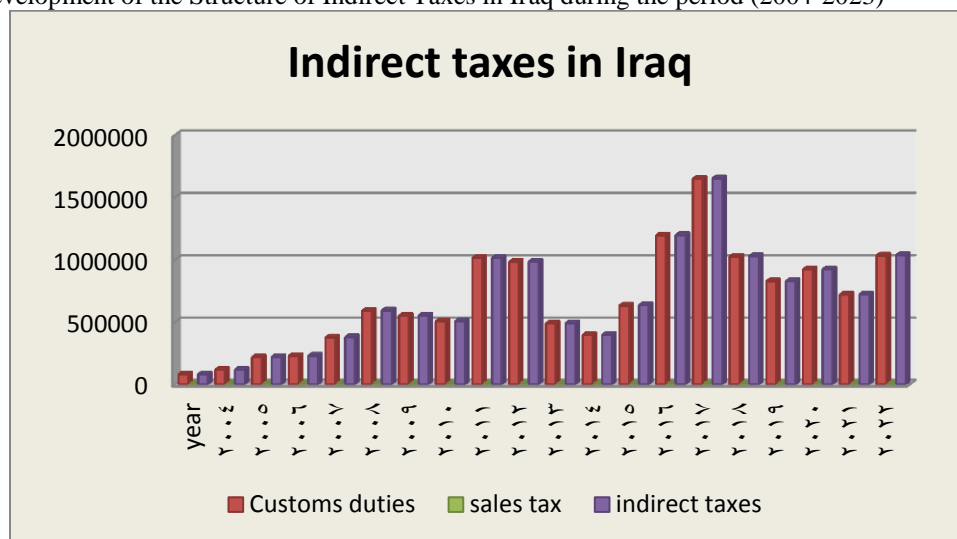
**Table (1) Trends in the Development of Indirect Taxes in Iraq for the Period (2004-2023)**

Year	Customs duties (1) million dinars	sales tax (2) million dinars	indirect taxes (3) million dinars	1/3 %	2/3 %
2004	82020	45	82065	99.9	0.1
2005	118176	74	118250	99.9	0.1
2006	219032	1071	220103	99.5	0.5
2007	229076	1874	230950	99.2	0.8
2008	376539	2273	378812	99.4	0.6
2009	590688	2881	593569	99.5	0.5
2010	550943	1078	552021	99.8	0.2
2011	506767	801	507568	99.8	0.2
2012	1013598	1099	1014697	99.9	0.1
2013	982378	2538	984916	99.7	0.3
2014	489504	1263	490767	99.7	0.3
2015	396358	682	397040	99.8	0.2
2016	632384	2958	635342	99.5	0.5
2017	1194979	2348	1197327	99.8	0.2
2018	1648580	3454	1652034	99.8	0.2
2019	1024994	2931	1027925	99.7	0.3
2020	826961	822	827783	99.9	0.1
2021	922083	1673	923756	99.8	0.2
2022	719549	2028	721577	99.7	0.3
2023	1033765	1968	1035733	99.8	0.2

Source: - Ministry of Finance, General Authority of Taxes, Planning and Follow-up Department, Achievement Reports

- Ministry of Finance data, Economic Studies Department, Accounting Division

Figure (1) Development of the Structure of Indirect Taxes in Iraq during the period (2004-2023)



Source: Prepared by the researcher based on the data from Table (1)

**Secondly: Analysis of the development of Iraq's foreign trade during the period (2004-2023)**

Foreign trade is one of the developmental indicators that reflect the economic performance of countries and plays a role in financing economic development programs and securing their needs for goods and services. It contributes to increasing the gross domestic product by expanding markets for local products and attracting investments, especially in export-oriented sectors (Abu Aboudah, 2023, 242-244). As for Iraq, data from Table (2) can be followed, which shows the development in Iraq's exports, imports, and total trade during the period (2004-2023). It is generally observed that Iraq's foreign trade recorded an increase during the study period from (56846163.04) million dinars in 2004 to (216447200) million dinars in 2023. This resulted in an increase in the volume of Iraq's exports and imports during that period.

As for the development in the values of Iraqi goods and services exports, we find that they have also recorded an increase during the study period from (25885410.2) million dinars in 2004 to (130083488) million dinars in 2023. The significant increase in export value is largely attributed to oil exports, which constitute the largest share of total Iraqi exports. The same situation applies to Iraqi imports, which increased from (30960752.84) million dinars to (86363712) million dinars in 2023. This increase in imports is attributed to Iraq's opening up to the outside world. When discussing the study years, it becomes clear that the values of exports of goods and services recorded an increase during the period (2004-2008), rising from (25885410.2) million dinars in 2004 to (76030216.08) million dinars in 2008. This increase is attributed to the rise in oil prices and the increase in crude oil production and exports. However, it declined again in 2009 due to the repercussions of the global financial crisis, which resulted in a decrease in oil prices that negatively affected exports. As for the period (2010-2012), it witnessed an increase due to the improvement in the economic situation and the rise in oil production and exports, thanks to licensing rounds and the increase in global oil prices. During the period (2013-2016), oil exports recorded a decline in value, attributed to the instability of the security situation resulting from the war with terrorist gangs and the destruction that affected the oil infrastructure, leading to a decrease in oil production and oil exports, which negatively impacted the value of Iraqi exports. As for the period (2017-2023), Iraqi exports fluctuated between increases and decreases due to several reasons, including:

- The depreciation of the Iraqi dinar against the dollar in late 2020 affected the competitiveness of exports and the valuation of returns when converted to the local currency.
- Changes in security and economic conditions (resulting from the war with terrorist gangs and popular protests).
- The fluctuations in oil prices between increases and decreases and the volume of oil production due to adherence to production cut agreements in "OPEC Plus."
- The negative effects of the COVID-19 pandemic and its repercussions on the economies of the world and Iraq

The year 2022 recorded the highest export value of goods and services during the study period, amounting to approximately (171165250) million dinars, with a contribution rate of (68.1%) of total foreign trade. The lowest export rate was recorded in 2004, amounting to (45.5%) of total foreign trade.

Regarding the discussion on the development of the value of Iraqi imports, it is noted, through monitoring the data in the aforementioned table the import values in Iraq during the study period generally recorded an increase from (30960752.84) million dinars to (86363712) million dinars. This is attributed to the lifting of economic restrictions imposed on Iraq and the Iraqi economy's need for imports to fill the gap in local production. However, during the study years, it is noted that the period (2004-2008) saw import values fluctuating between increases and decreases, with the lowest value in 2004 at (30960752.84) million dinars and the highest value in 2008.

It reached (41772116.96) million dinars. As for the period (2009-2013), there was a noticeable increase in the value of Iraqi imports from (48569040) million dinars in 2009 to (73831120) million dinars in 2013. This was due to the inability of national production to meet the actual needs of citizens, resulting from the inflexibility of the production system and the weak competitiveness of Iraqi products compared to imported goods, in addition to the shutdown of many factories. While the values of imports during the period from (2014-2023) fluctuated between increases and decreases, the highest value recorded during this period was in 2023, amounting to (86363712) million dinars, and the lowest value was in 2017, amounting to (45070144) million dinars. This can be attributed to several reasons, including

- A- The fluctuations in oil prices, which affect the ability to finance imports.
- B- The security situation and the decline in economic activity, which reduced the demand for imports.
- C- The repercussions of the Corona pandemic
- D- Implementation of the Customs Tariff Law No. (22) of 2010

It is worth mentioning that the percentage of Iraqi exports constitutes the largest share of Iraq's total foreign trade in all study years except for 2004 and 2009 due to the economic and security conditions that Iraq experienced during those two years, which led to an increase in imports at a rate higher than the volume of exports. Since the majority of Iraqi exports consist of oil exports, their value fluctuates according to changes in global oil prices, and consequently, their percentage of total Iraqi trade changes.

**Table (2) Trends in the Development of Foreign Trade in Iraq for the Period (2004-2023)**

Year	Exports (1) million dinars	Imports (2) million dinars	Foreign trade (3) million dinars	1/3 %	2/3 %
2004	25885410.2	30960752.84	56846163.04	45.5	54.5
2005	34881984	34639104	69521088	50.2	49.8
2006	44798865.18	32296446.78	77095311.96	58.1	41.9
2007	49664662.59	24534370.92	74199033.51	66.9	33.1
2008	76030216.08	41772116.96	117802333	64.5	35.5
2009	46133100	48569040	94702140	48.7	51.3
2010	60563880	51380550	111944430	54.1	45.9
2011	93226770	55929510	149156280	62.5	37.5
2012	109863709.5	68811027.02	178674736.6	61.5	38.5
2013	105624442	73831120	179455562	58.9	41.1
2014	99541420	68329932	167871352	59.3	40.7
2015	59928387.54	55409653.11	115338040.7	52.0	48.0
2016	48814236	40433856	89248092	54.7	45.3
2017	68149856	45070144	113220000	60.2	39.8
2018	102142290	54898524	157040814	65.0	35.0
2019	94809402	68060742	162870144	58.2	41.8
2020	55860696	57565256	113425952	49.2	50.8
2021	105971800	59231050	165202850	64.1	35.9
2022	171165250	80031300	251196550	68.1	31.9
2023	130083488	86363712	216447200	60.1	39.9

Source – Central Bank of Iraq, Statistics, Foreign Trade

Figure (2) shows the development of exports and imports in Iraq during the period (2004-2023)



Source: Prepared by the researcher based on the data from Table (2)

### **Thirdly: Analysis of the development of final consumption in Iraq during the period (2004-2023)**

Final consumption is the total value of spending on individual and collective consumption of goods and services by households and government institutions. It is evident from Table (3) that final consumption in Iraq has generally shown an upward trend in final consumption values during the study period, rising from (33150000) million dinars in 2004 to (193570000) million dinars in 2023. This increase in consumption is attributed to the rise in government consumption from (13610000) million dinars in 2004 to (59230000) million dinars . and the increase in private consumption from (19540000) million dinars in 2004 to (134340000) million dinars. This increase was due to the rise in the population, and consequently, the increase in demand for goods and services. Additionally, the liberalisation of Iraqi trade led to an increase in imported goods, which encouraged higher consumption. Except for the years 2015, 2020, and 2023, which recorded a slight decrease in final consumption compared to the previous years due to the conditions witnessed by the Iraqi economy in particular and the global economy in general, including

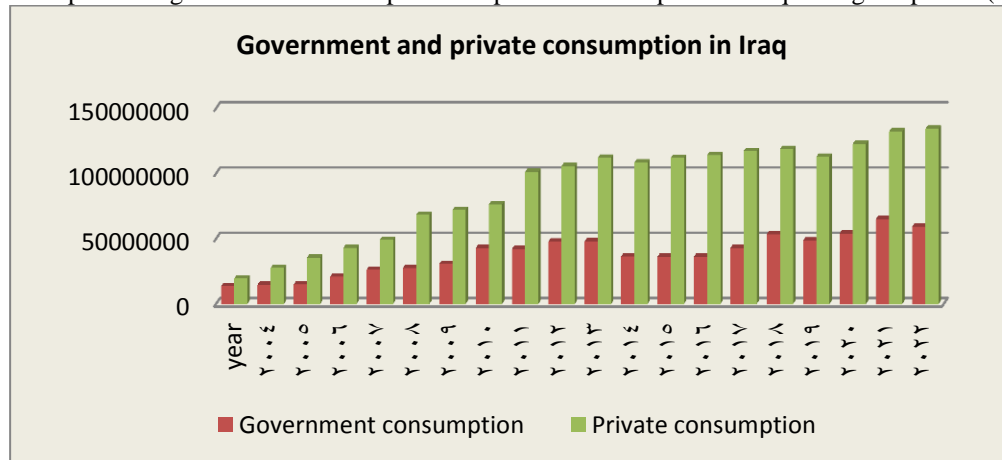
- The decline in the state's general revenues due to the drop in oil prices and the subsequent reduction in government spending, following a contractionary policy in 2014, and the increase in military spending to combat terrorist groups, which negatively affected consumer demand.
- The repercussions of the COVID-19 pandemic, which led to a halt in most economic activities, along with the decline in oil prices, negatively impacted consumption and led to its reduction.
- The rise in inflation rates for basic commodities globally, unstable financial policies, and exchange rate fluctuations have all contributed to a decrease in consumption in 2023.

**Table (3) Trends in Final Consumption in Iraq during the period (2004-2023)**

Year	Government consumption million dinars	Private consumption Million dinars	Final consumption million dinars
2004	13610000	19540000	33150000
2005	14680000	27590000	42280000
2006	14980000	35530000	50510000
2007	20870000	42960000	63830000
2008	26140000	49090000	75230000
2009	27520000	68260000	95770000
2010	30660000	72030000	102690000
2011	42750000	76260000	119020000
2012	42160000	101300000	143460000
2013	47760000	105700000	153450000
2014	47950000	112040000	159980000
2015	36340000	108400000	144740000
2016	36210000	111920000	148130000
2017	36140000	114060000	150200000
2018	42700000	117080000	159790000
2019	53340000	118660000	172000000
2020	48540000	112780000	161320000
2021	53870000	122670000	176540000
2022	65080000	132190000	197270000
2023	59230000	134340000	193570000

Source: World Bank data, available at the link

<https://data.albankaldawli.org/indicator/NE.CON.TOTL.CN?locations=IQ>

**Figure (3) Development of government consumption and private consumption in Iraq during the period (2004-2023)**

Source: Prepared by the researcher based on the data from Table (3)

### **The third requirement: Analysing the impact of the development of indirect taxes on foreign trade and final consumption in Iraq during the period (2004-2023)**

#### **First: - The impact of indirect taxes on foreign trade in Iraq during the period (2004-2023)**

In order to determine the impact of indirect taxes on foreign trade, the study period will be divided into two periods, and the average and compound annual growth rate for these periods will be calculated to understand the effect of changes in indirect taxes on foreign trade and final consumption in Iraq. It is noted from the data in Table (4) that in the first period extending from (2004-2013), the average value of indirect taxes was (468295.1) million dinars, while the average value of total foreign trade was (110939707.8) million dinars when compared to the second period (2014-



2023), the average value of indirect taxes had increased to (890928.4) million dinars, and the same goes for foreign trade, which had an average value of (155186099.5) million in the second period. This situation can be explained by the fact that indirect taxes have a limited impact on foreign trade in Iraq, as taxes are concentrated on local goods and services without affecting the export sector. Additionally, the nature of the Iraqi market is characterised by consumerism and the lack of local production alternatives to imports have led to an increase in imports despite the rise in taxes. This assertion is supported by the compound annual growth rate of indirect taxes and foreign trade. In the first period, indirect taxes recorded a growth rate of (32%) compared to (14%) for foreign trade, while in the second period, the compound annual growth rate for both variables decreased, reaching (9%) for indirect taxes compared to (3%) for foreign trade, the rates of decline in the compound growth rate of foreign trade are lower than those of indirect taxes. This situation may reflect a slowdown in the Iraqi economy, as well as a deficiency in the efficiency of tax collection due to weak tax administration and widespread tax evasion, in addition to the structure of the Iraqi rentier economy, which focusses on oil exports exempt from taxes.

**Table (4) The impact of the development in indirect taxes on foreign trade in Iraq during the period (2004-2023)**

Year	Indirect taxes million dinars	Foreign trade Million dinars
2004	82065	56846163.04
2005	118250	69521088
2006	220103	77095311.96
2007	230950	74199033.51
2008	378812	117802333
2009	593569	94702140
2010	552021	111944430
2011	507568	149156280
2012	1014697	178674736.6
2013	984916	179455562
Average of the first period	468295.1	110939707.8
Compound annual growth rate for the first period	%32	%14
2014	490767	167871352
2015	397040	115338040.7
2016	635342	89248092
2017	1197327	113220000
2018	1652034	157040814
2019	1027925	162870144
2020	827783	113425952
2021	923756	165202850
2022	721577	251196550
2023	1035733	216447200
Average of the second period	890928.4	155186099.5
Compound annual growth rate for the second period	%9	%3

Source: Based on the data from Table (1) and (2)

**Secondly: Analysing the impact of indirect taxes on final consumption in Iraq during the period (2004-2023)**

Due to the nature of the Iraqi economy, which is characterised by a heavy reliance on oil revenues and the dominance of the oil sector, oil revenues account for approximately 99% of exports and about 90% of the country's general revenues (The International Monetary Fund report on Iraq <https://www.imf.org/en/Countries/IRQ> ). In addition to the weakness of the Iraqi tax system, which led to limited effects of indirect taxes on final consumption in Iraq, it is noted from Table (5) that the compound annual growth rate of indirect taxes was (32%) compared to (19%) for final consumption. In the second period, a decrease in the compound annual growth rate for both variables was recorded, reaching (9%) and (2%) respectively. This indicates that the general trend of the relationship between these variables was positive, but the rate of decrease in indirect taxes was greater than that in final consumption, which may indicate the presence of economic contraction and inefficiency in the tax system due to tax evasion, administrative corruption, the expansion of the informal sector, or changes in consumption patterns towards tax-exempt or state-subsidized goods.



**Table (5) The impact of the development in indirect taxes on final consumption in Iraq during the period (2004-2023)**

Year	Indirect taxes million dinars	Final consumption million dinars
2004	82065	33150000
2005	118250	42280000
2006	220103	50510000
2007	230950	63830000
2008	378812	75230000
2009	593569	95770000
2010	552021	102690000
2011	507568	119020000
2012	1014697	143460000
2013	984916	153450000
Average of the first period	468295.1	87939000
Compound annual growth rate for the first period	%32	%19
2014	490767	159980000
2015	397040	144740000
2016	635342	148130000
2017	1197327	150200000
2018	1652034	159790000
2019	1027925	172000000
2020	827783	161320000
2021	923756	176540000
2022	721577	197270000
2023	1035733	193570000
Average of the second period	890928.4	166354000
Compound annual growth rate for the second period	%9	%2

Source: Based on the data from Table (1) and (3)

### **Third: The impact of the development in customs duties on exports and imports in Iraq during the period (2004-2023)**

Customs duties have a direct impact on exports and imports, as increasing customs duties raises the cost of imported products in local markets, thereby reducing their consumption. It is rare for export duties to be imposed, but raising customs duties on imports may lead other countries to adopt the same policy, resulting in a decrease in export volume as for Iraq, it is observed through monitoring the data in Table (6) that there has been a decrease in the compound annual growth rate for both customs duties from (32%) to (9%) and Iraqi exports from (17%) to (3%). This decline can be attributed to institutional factors such as the abundance of tax exemptions, weak control over border crossings, and the inconsistency in the application of customs law while the compound annual growth rate of customs duties decreased from (32%) to (9%), it led to a reduction in the annual growth rate of imports from (10%) to (3%). This means that the decrease in the growth rate of customs duties by about two-thirds resulted in a reduction of the growth rate of Iraqi imports to less than half, attributed to the same reasons mentioned earlier. We conclude from all of the above that despite the general trend of the relationship between both exports and imports with customs duties being positive, it can be said that customs duties have a limited effect on exports and imports in Iraq.

**Table (6) The impact of changes in customs duties on exports and imports in Iraq during the period (2004-2023)**

Year	Customs duties million dinars	Exports million dinars	Imports million dinars
2004	82020	25885410.2	30960752.84
2005	118176	34881984	34639104
2006	219032	44798865.18	32296446.78
2007	229076	49664662.59	24534370.92
2008	376539	76030216.08	41772116.96
2009	590688	46133100	48569040
2010	550943	60563880	51380550
2011	506767	93226770	55929510
2012	1013598	109863709.5	68811027.02

2013	982378	105624442	73831120
Average of the first period	466921.7	64667303.96	46272403.9
Compound annual growth rate for the first period	%32	%17	%10
2014	489504	99541420	68329932
2015	396358	59928387.54	55409653.11
2016	632384	48814236	40433856
2017	1194979	68149856	45070144
2018	1648580	102142290	54898524
2019	1024994	94809402	68060742
2020	826961	55860696	57565256
2021	922083	105971800	59231050
2022	719549	171165250	80031300
2023	1033765	130083488	86363712
Average of the second period	888915.7	93646682.55	61539416.91
Compound annual growth rate for the second period	%9	%3	%3

Source: Based on the data from Table (1) and (2)

#### Fourth: The impact of the development in customs duties on private and government consumption in Iraq during the period (2004-2023)

Both customs taxes and private and government consumption are indirectly related, as the impact of fluctuations in customs taxes on these two types of consumption is mediated. An increase in customs taxes raises the cost of imported products, thereby increasing their prices, which reduces individuals' purchasing power and lowers their consumption. On the other hand, an increase in customs taxes means higher government revenues, which raises the overall level of government spending. However, in Iraq, the situation may not appear this way, as observed from the data in Table (7) the first period witnessed an increase in customs taxes from (82020) million dinars in 2004 to (982378) million dinars in 2013, with an average of (466921.7). In contrast, both government and private consumption recorded an increase from (13610000) million and (19540000) million, respectively, in 2004, reaching (47760000) million and (105700000) million, respectively, in 2013, with averages of (28113000) and (59826000). This indicates that these variables are trending upwards together due to the Iraqi economy's heavy reliance on imports, especially concerning essential goods, for which demand is inelastic also due to tax evasion and the increase in population, which in turn leads to an increase in consumption. The same applies to the second period of the previously mentioned table, where it is noted that customs duties increased from (489504) million in 2014 to (1033765) million in 2023, with an average of (888915.7), and government consumption rose from (47950000) million in 2014 to (59230000) million in 2023 with an average of (47940000) and also the increase in private consumption from (112040000) million in 2014 to (134340000) million in 2023 with an average of (118414000), which also indicates a direct relationship between these variables. It is worth noting that the compound annual growth rate of these indicators has shown a direct relationship, as it is evident from the following table that the compound annual growth rate of customs taxes decreased from (32%) in the first period to (9%) in the second period, with both government and private consumption recording a decrease in this rate, government consumption recorded a decrease from (15%) in the first period to (2%) in the second period, while private consumption in the first period was (21%) and decreased to (2%) in the second period. The rates of decline in customs taxes and private consumption were greater than those in government consumption. This can be explained, in addition to the reasons mentioned, by the decrease in real income per individual, either due to weak economic activity, high inflation rates, or both, as well as high unemployment rates. Meanwhile, government consumption maintained a larger share of public spending, funded by oil revenues.

**Table (7) Development of Customs Taxes and Government and Private Consumption in Iraq during the Period (2004-2023)**

Year	Customs duties million dinars	Government consumption million dinars	Private consumption million dinars
2004	82020	13610000	19540000
2005	118176	14680000	27590000
2006	219032	14980000	35530000
2007	229076	20870000	42960000
2008	376539	26140000	49090000
2009	590688	27520000	68260000
2010	550943	30660000	72030000
2011	506767	42750000	76260000

2012	1013598	42160000	101300000
2013	982378	47760000	105700000
Average of the first period	466921.7	28113000	59826000
Compound annual growth rate for the first period	%32	%15	%21
2014	489504	47950000	112040000
2015	396358	36340000	108400000
2016	632384	36210000	111920000
2017	1194979	36140000	114060000
2018	1648580	42700000	117080000
2019	1024994	53340000	118660000
2020	826961	48540000	112780000
2021	922083	53870000	122670000
2022	719549	65080000	132190000
2023	1033765	59230000	134340000
Average of the second period	888915.7	47940000	118414000
Compound annual growth rate for the second period	%9	%2	%2

Source: Based on the data from Table (1) and (3)

#### Fifthly, the impact of the development in sales tax on government and private consumption in Iraq during the period (2004-2023)

Due to the nature of the Iraqi economy, which is primarily and significantly dependent on crude oil sales revenues, alongside the substantial decline in the contribution of other sectors, in addition to the weakness in the implementation of sales tax in Iraq and the decrease in its revenue, as it is only imposed on some luxury goods while basic goods are exempt from this tax. As a result, it is noted from Table (8) that despite the sales tax witnessing an increase in its absolute value from (45) million in 2004 to (1968) million in 2023, with an average of (1373.4) for the first period and (2012.7) for the second period, it has not led to a decrease in government and private consumption. On the contrary, both have recorded an increase in their absolute values, the volume of government consumption in 2004 was (13610000) million and increased to (59230000) million, with averages of (28113000) for the first period and (47940000) for the second period. The same applies to private consumption, which recorded an increase from (19540000) million in 2004 to (134340000) million in 2023, with an average of (59826000) for the first period and (118,414,000) for the second period. It also appears that the compound annual growth rate of these indicators illustrates the nature of the direct relationship between them, the variables showed that the sales tax rate for the first period was (57%) and for the second period (9%). The compound annual growth rate for government and private consumption for the first period was (15%) and (21%) respectively, but this rate decreased in the second period to (2%) for both government and private consumption. And the decline was greater in sales tax and private consumption, indicating that the impact of this type of tax is larger because it reduces individuals' purchasing power, while its effect on government consumption is indirect through its impact on public revenues, which primarily rely on oil revenues, thus limiting its overall effect.

**Table (8) Development of Sales Tax and Government and Private Consumption in Iraq during the period (2004-2023)**

Year	Sales tax million dinars	Government consumption million dinars	Private consumption million dinars
2004	45	13610000	19540000
2005	74	14680000	27590000
2006	1071	14980000	35530000
2007	1874	20870000	42960000
2008	2273	26140000	49090000
2009	2881	27520000	68260000
2010	1078	30660000	72030000
2011	801	42750000	76260000
2012	1099	42160000	101300000
2013	2538	47760000	105700000
Average of the first period	1373.4	28113000	59826000
Compound annual growth rate for the first period	%57	%15	%21
2014	1263	47950000	112040000
2015	682	36340000	108400000

2016	2958	36210000	111920000
2017	2348	36140000	114060000
2018	3454	42700000	117080000
2019	2931	53340000	118660000
2020	822	48540000	112780000
2021	1673	53870000	122670000
2022	2028	65080000	132190000
2023	1968	59230000	134340000
Average of the second period	2012.7	47940000	118414000
Compound annual growth rate for the second period	%5	%2	%2

Source: Based on the data from Table (1) and (3)

## Conclusions and recommendations

### First: Conclusions

- 1- Indirect taxes are an important tool in regulating foreign trade and directing individuals' consumption behavior .
- 2- The economic analysis of the studied variables showed a significant decline in the compound annual growth rates during the two study periods, with varying degrees of this decline, where indirect taxes were generally lower than the other variables.
- 3- The impact of indirect taxes was limited in all the studied indicators despite the positive trend of these variables.
- 4- The effects of indirect taxes, in both types, were more impactful on private consumption than on public consumption due to their influence on prices, which weakens the purchasing power of individuals, especially for low-income groups.
- 5- Indirect taxes in Iraq have not fulfilled their role of mobilising resources and directing economic behavior , instead, they have contributed to deepening the imbalances in the economic, commercial, and social structure.

### Secondly: Recommendations

- 1- The necessity of reconsidering the tax structure and distributing its burdens in a way that achieves both justice and economic efficiency simultaneously.
- 2- Working on unifying the customs tariff between the central government and the Kurdistan Region in order to reduce tax evasion and avoidance.
- 3- Achieving balance and consistency in economic policies regarding customs taxes and foreign trade in a way that increases exports, reduces imports, and limits them to capital goods.
- 4- Improving tax administration and enhancing the efficiency of its employees, relying on electronic systems that work to reduce corruption and boost the country's public revenues.
- 5- Issuing a unified sales tax law in a way that reduces the emergence of issues related to declaration and collection, while providing an exemption for basic goods from this tax.

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