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Standard Taxation Gaps & Reforms: A Critical Review of Revenue Policies of Kurdistan Region of Iraq

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Abstract: This study is about the Iraq but the core area is focused on its independent province Kurdistan. The Kurdistan is an autonomous province of federal republic of Iraq having separate legislative assembly namely; parliament. Still it is under developed region and financially depend on Iraqi federal budget. Tax policies of the federal Iraq and its region Kurdistan are not well- structured as per international standard. These policies have a huge gap in purview of sound revenue practices. Standard taxation gaps are the gaps between universal tax practices and the traditional existing tax practices, which are affecting the tax revenue and also affecting the sound practices of tax administration. The primary purpose of this article is to find out the gaps in taxation system and its existing administration policies and critically examines the facts of Kurdistan tax policies in the light of universal standard sound practices within the scope of Iraqi constitution and also find out, how can Kurdistan get more revenue by revising its existing tax policies and what are the necessities for filling these existing gaps.

Keywords: Standard Tax Gaps, Kurdistan Tax Reforms, Tax evasion, Iraqi Taxation, Kurdistan Constitution Law

Introduction

“Tax always matter” for the development of any nation. But the question always arises on the soundness of tax policies in the view to attain the development with social welfare of citizens. It is depends on the administration of country as well as the structure of government and the practices they are adopting. In the world scenario, the practices adopted by the countries after scanning the international economic environment for making uniformity according to their own economic conditions. Standard Taxation practices also becomes a major concern for any developing country for making their economy transparent and trustworthy in the competitive world economic environment. This research is about a region who is suffering by the security threat and political

instability in the region. It is on under-developing stage and having potential to become the strong economy in the near future of Middle East region. Therefore, it becomes important to study the economy of the region in view of its future economy potential.

Figure 1. Federal Iraqi's Kurdistan



Kurdistan, an autonomous province of federal Iraq, is going through its worst phase since last 8 years. The main reason of drastic change in Kurdistan economy due to the unbalanced changes in international oil market and its economic dependence on oil sector, so that it was the result of reduction in the proportion of Kurdistan's share in federal Iraq revenue. Iraq has suffered a huge loss of life and money during the ISIS terror. ISIS destroyed Iraq's infrastructure on a large scale, which destroyed both public and private assets on a higher level, which had a direct impact on government revenue and still the existence of ISIS can be seen in some provinces of Iraq like Kirkuk, Nineveh (Dixit and Ahmed, 2019). Due to the damage caused by this mass destruction of ISIS, its economy had collapsed. Now these days, peoples are protesting against the corrupt administration of government of Iraq, they want landmark changes in the current governance system. Despite being endowed with natural oil wealth, today about 60% of its population is living their life on less than 6 \$ per day. Millions of people in the country lack access to adequate infrastructure, education, health, clean drinking water and electricity along with most of the country's infrastructure. (Aljazeera.com 01 November 2019) To reviving the economy, government should take corrective measures in governance including taxation policies for bringing it back on the track of prosperity. This paper is about the taxation policy of Kurdistan region of Iraq and what are the gaps in the existing taxation policies. How these gaps can be fulfilled by new reforms as proposed in this paper.

Objectives of this Article

Following issue is discussed in the view to achieve the main objectives of this article theme.

- Constitutional status of Kurdistan in the view of world
- Constitutional provisions regarding Tax matters
- Existing tax structure, Legislation and governing authorities
- Gaps between in existing taxation policies and other standard policies worldwide
- Required reforms in taxation system to achieve the growth and development

Discussion

Tax Gaps

Tax Gaps are the gaps that is caused by generally two types of practices which results decrease the revenue of the government.

3.1.1 First

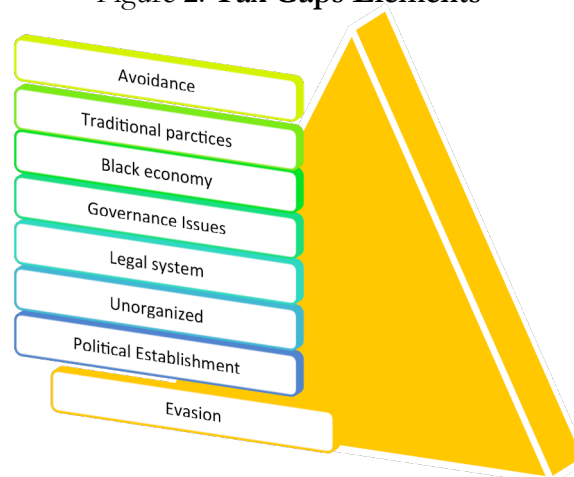
Avoidance of globally applicable standard practices which is mainly due to the selfishness of the people in power, which gives rise to the unfair practice of tax collection on a non-official basis which is called corruption.

3.1.2 Second

Tax Gap refers to the difference between the actual payable tax and tax paid by businesses which is a result of tax evasion. At present, corporate tax evasion is a black spot on revenue system which is the cause of huge revenue loss. To prevent the tax evasion practices there is a need of transparency mechanism by which these unfair practices can be stopped. ([FISCALIS Tax Gap Project Group, 2018](#))

3.1.3 Another Tax gaps Issues can be understood by below figure 2

Figure 2. Tax Gaps Elements



Tax gaps are the results of above issues showing in figure 1, Tax Evasion, Tax avoidance, Traditional practices, and Black economy, Lack of governance, legal system, unorganized sectors and political establishment. These issue are affecting the inclusive growth of countries worldwide.

Taxes and worldwide Standard practices

Taxes are the vital source of income for the funding of any government in the global world. In view to achieve transparency in taxation system, the organisation of economic co-operation and development (OECD) launched Base Erosion and Profit Shifting (BEPS) for standard tax practices for bringing uniformity in standard tax practices around the world with the support of G20 in 2013. ([OECD, 2018](#)) The constitution of any country empowered to their legislative assembly to make the legislation regarding taxation matters for levy of the taxes by the government of regions. Empowered authorities of the government makes the rules and regulation for the levy of different types of duties and taxes in the light of legislation provisions. While making the tax law it is also important that international standards are also kept in mind so that uniformity can be achieved in the law as per international standards. The parliament of Kurdistan is empowered to make the new legislation in taxation matters except the exclusive power of federal government provide in

Iraqi constitution. Generally, the uniform standard practices categorized the taxation system into two broad segments; Direct tax and Indirect tax.

3.2.1 Direct Tax

Direct tax is a tax that is levied on a person's income and property or the profit of the organization and they have to pay to direct tax authorities as an assessee. This tax levy by the government on the income, property, or wealth of people or companies. This tax is borne by the entity who pays it, and this burden of paying tax cannot be passed on to another entity. Its include income tax, wealth tax, corporation tax, and social security contributions.

3.2.2 Indirect Tax

Indirect tax is a tax collected by one party in the value added supply chain (i.e. producer or seller) and deposit to the government, this tax burden passed on final consumer of goods and services. It is consumption based paid by consumer with the added value of product. It is duty of producer or seller who will deposit this tax to the government. It includes custom duties, fuel tax, liquor tax and cigarette taxes, Excise duties, VAT/ Sales, Goods and services Tax.

Tax Administered Authorities

In different countries like India and china they have separate authorities who are administering the taxes. For example Direct Tax authority, Indirect tax authorities. Direct tax authorities includes Income tax authority. Indirect tax authority include Central board of Indirect taxes and customs.

Progressive Nature of Direct Taxes

Direct tax is based on the principle of justice. Those are getting or earning higher income/ revenue they should have to pay high taxes and those are earning less income they should be entitled to get some relaxation in tax rates. It is suggested in the sound principles of welfare economics, Tax rates should be divided into different slabs according to the income of entity.

High tax should be imposed on rich person.

Regressive Nature of Indirect Taxes

The indirect tax is regressive in nature because it is imposed on goods and services instead of income of persons. The burden of indirect taxes finally passed on to end consumer. This tax is unjust because it can't be imposed on the basis of income. When someone will buy the products he has to pay to the seller inclusive of all indirect taxes. It is against the principle of social justice. Social reformers always raised the concern against of indirect tax regressive impact. Government need to make the policy how the indirect tax can be change in progressive nature so that social justice can be ensured.

Iraqi Constitutional (2005) provisions on Tax levy and Kurdistan regional authorities

In this critical study, question of law is most crucial step to make the Kurdistan system more clear in the matter of taxation. Kurdistan region is an autonomous empowered region and free to regulate any law in the purview of constitutional power given by the constitution of federal Iraq. Iraqi constitution has been given some articles about legislative power of region but all the power are not yet clear it needs to be clarify in intellectual manner on the basis of equitable principle of justice. In the process of making any new legislation, if any dispute will arise between central and regional government it should be interpreted by the supreme court of Iraq.

Following are the constitutional provisions in regarding Kurdistan taxation related legislative authorities.

4.1 {Article 28 (1)}

No tax or duty other than law can be applied or modified. It means only government (C.G or R.G) can levy any taxes or duties by making legislation. Here it is not clear which government (C.G or R.G). It should be assumed that both central and regional government can impose any duty or taxes on income or goods and services for collection of the revenue. (C.G. means central government or Federal government) (R.G. means Regional Government or Kurdistan Government)

4.1.1 {Article 28 (2)} All lower-income individuals will be exempted from tax that guarantees them a minimum income for living. This will be regulated by law.

From the above provision {Article 28 (2)} it is clear that tax should be imposed in progressive nature. It should be imposed on the basis of income criteria. Minimum income requirement for living should be exempted and after tax slab should be given.

4.2 Article 110 - The central government will have exclusive rights in the following cases:

4.2.1 First -Formulating policies related to foreign and diplomatic engagement, negotiating, signing and ratifying all matters on international treaties and agreements, and formulating policies related to foreign sovereign economic and trade.

4.2.2 Third - Preparation of policies related to treasury and customs, issuing currency through central bank, formulation of commercial policies related to border, making national budget of state, and implementing monetary policies through central bank. From the provision given in Article 110 (3) it is clear that regional government cannot regulate custom policy it is the exclusive right of central government.

4.3 Article 112

4.3.1 First - The federal government will manage the oil and gas extracted from the existing regions in collaboration with the regional governments and oil producers and it will also be noted that the income from this produced will be divided in proportion to the population of all the states of the country. And those areas which were unfairly deprived of previous rule, will be given a fixed period allocation so that the balance can be made in different areas of the country. In this regard a law will be regulated.

4.3.2 Second -The federal government, with the producing regional and governorate governments, shall together formulate the necessary strategic policies to develop the oil and gas wealth in a way that achieves the highest benefit to the Iraqi people using the most advanced techniques of the market principles and encouraging investment.

4.4 Article 114 The following authorities will be shared between the union authorities and state authorities:

4.4.1 First -To manage the customs department, in collaboration with the governments of the state and governorates those are not the parts in a region, and for managing this a separate law will be regulated.

4.4.2 Second -To govern the lead sources of electric energy and its distribution.

In article 112, it is given that central government will manage all oil and gas issues with regional government and governorates. All the revenues will be shared by central government, regional government and governorates in proportion to the population of the all parts of country. And as per article 114(1) custom will be manage with coordination of regions and governorates it shall be regulated by the laws on shared basis. Article 114(2) is about electric energy distribution between centre and state on the basis of representation.

4.5 Article 115

All other powers not discussed in the exclusive powers of the union government belong to the authorities of the states and governorates those are not included in a state. With regard to these other authorities shared between the union government and the state government, priority will be given to the legislation of the states and governorates are not included in the states/regions.

In all the matters given of Article 112 and 114, states and governorates authorities have supreme right to regulate the laws.

4.6 Article 121

4.6.1 First -The states/regional government shall have the right to exercise legislature, executive, and the judicial powers under the provisions of Constitution, except for those powers given in the exclusive powers of the union government.

4.6.2 Second -In case of a conflict/supersede between states/regional and union legislation in relation to a matter outside the exclusive powers of the union government, the states authorities shall have the right to amend the application of the union legislation within that states.

4.6.3 Third – States/Regions and the governorates shall be allocated an equitable share of the federal revenues sufficient to discharge their responsibilities and duties, but having regard to their resources, needs, and the percentage of their population ([Constitute, 2005](#))

From the all above constitutional provisions, it is clear that Kurdistan Regional Government can make new legislation regarding Direct and Indirect tax laws except customs laws which is under the exclusive power of central government. So, the Kurdistan government have more scope to regulate new types of standard taxes under the purview of Iraqi constitution.

Existing Iraqi Kurdistan Taxation Practices

5.1 Kurdistan Taxation system - As an autonomous province of Iraq, Kurdistan has made certain laws and regulations for taxation which are different from the federal republic of Iraq.

5.2 Business entities in Kurdistan- These includes Joint stock company, Joint Liability companies General from of companies, Sole proprietor business, Partnership business etc.

5.3 Taxation for Corporate:

5.3.1 Residence – A business entity is a resident if it is incorporated under the Iraqi companies law or and its place of management in Iraq or control in Iraq. Those who are not meeting the above criteria are no-resident entities

5.3.2 Basis of Taxability – A company will be liable to pay tax on its net profit

5.3.3 Taxable income – Tax will be levied on income from all sources except exempted income mentioned in laws. There is no provision of ordinary or not ordinary establishment in Iraq. All the income arises in Iraq will be taxable.

5.3.4 Dividend Tax – Any dividend which is received by an Iraqi citizen is not subject to tax. Just dividend out of profit is taxable in the hand of company under Iraqi law.

5.3.5 Capital gains - There is no provision of tax on capital gain. Any profit arise out of sale of any assets will be included in total income of company. Tax rate will be normal corporate income tax rate.

5.3.6 Losses - Losses can be carry forward up to maximum of 5 consecutive years. It can be set off from same source of income. Inter income set off is not allowed. Every year only up to maximum 50% of total taxable income of any year can be set off. Carry back of losses is not allowed.

5.3.7 Rate of Tax – General rate of taxation is 15 % for all companies in Kurdistan except the companies who are engaged in oil and gas sector business. Special 35% tax rate applicable for oil and gas sector companies.

5.3.8 Surcharge – No

5.3.9 Minimum Alternative Tax – No

5.3.10 Foreign tax credit – No

5.3.11 Participation exemption – No

5.3.12 Holding company system- No

5.3.13 Incentives - Investment law give exemption or credit on export or import duties for some projects. Tax free zones are exist but on initial development stage

5.3.14 Withholding Tax:

5.3.15 Dividends – Withholding tax on dividend is not applicable in Iraq.

5.3.16 Interest – Interest payment made to any non-resident is subject to withholding tax at 15% on total gross payment.

5.3.17 Royalties – No withholding tax on specific royalties but refer the “other”

5.3.18 Technical service fees – It is not applicable but refer “other”

5.3.19 Branch remittance tax – No

5.3.20 other – Taxation system in Iraq is extensive in nature that applies in respect of payments to subcontractors under contracts that are considered to constitute "trading in" Iraq. The applicable tax retention rates can go up to 10%, depending on the nature of the contract. Payments made under contracts that fall within the scope of the oil and gas tax law are subject to a 7% withholding tax. Payments that fall outside of the scope of the oil and gas tax law generally are subject to withholding tax at rates of 3% to 3.3%. In practice, the rate may vary depending on the industry.

Kurdistan region doesn't apply tax retentions consistently, except the payment made by public sector units, which often include a Solo tax retention.

5.4 Other Taxes on Corporation:

5.4.1 Capital duty – No

5.4.2 Payroll tax – Employers have to deduct the tax at source at the time salary payment. These tax rates are defined under personal taxation

5.4.3 Real property tax – No

5.4.4 Social security - The employer will deducts 5% from an employee's salary and makes a 12% contribution of its own.

5.4.5 Stamp duty - The stamp duty law provides for de minimis payments on certain procedures and documents, and a 0.2% stamp duty on contracts of fixed value.

5.4.6 Anti-Avoidance Rules:

5.4.7 Transfer pricing - There are no specific transfer pricing rules, but the Iraq tax authorities reserve the right to adjust the taxable profits of an entity if they consider the amounts recorded to be unreasonable.

5.4.8 Thin Capitalization – No

5.4.9 Controlled Foreign Companies – No

5.4.10 Disclosure requirements – No

5.4.11 Compliance for corporations – No

5.4.12 Tax year – January to December

5.4.13 Consolidated returns – Each company has to submit their own return separately. Consolidated returns are not permitted

5.4.14 Filing requirements – Filing date of tax return is 31 May of the following year of taxable year. The date for filing return in Kurdistan is 30th June of the following year of taxable year.

5.4.15 Penalties Not paying tax or late paying within time deadline subject to penalty are as follows: Solo of the amount outstanding if payment is not made within 21 days of the due date; an additional Solo penalty if the tax is outstanding after a further 21 days (i.e. 42 days in total). Interest runs from the payment due date until the date the tax is finally settled. Penalties of up to 25% may be assessed on the income of taxpayers that fail to maintain appropriate accounting records for tax purposes.

In Kurdistan region, late filing of the tax return may attract a penalty of Solo per month, up to a maximum of 100% of the tax liability for large taxpayers. Penalties for late filing are calculated as 10% of the tax liability. This amount is capped at IQD 75,000 per year for small companies (the cap should not apply to taxpayers considered to be "large"). It is the discretion of tax authorities for impose penalty from 10 to 25% on the late filing or payment, so it is not consistent penalty.

5.4.16 Rulings – No

5.5 Personal Taxation:

5.5.1 Basis – Every Iraqi resident has to pay tax on their total income arises during taxable year whether the income earned in Iraq or abroad. Non-resident of Iraq is also subject to tax on their income earned in Iraq, whether he is the resident of any country.

5.5.2 Residential status - An Iraqi individual who is present in Iraq for at least four months during a tax year is considered a resident. A non-Iraqi individual is deemed to be resident in Iraq if he/she is present for at least four consecutive months or a total of six months during the tax year, or if he/she is employed by an Iraqi entity.

5.5.3 Filing status - See below under "Filing and payment."

5.5.4 Taxable income - All sources of income are taxable, unless specifically exempt.

5.5.5 Capital gains - Capital gains raised on profit of sale asset by individuals are treated as income and taxed at the personal taxation rate.

5.5.6 Deductions and allowances - The federal republic of Iraq income tax law provides deductions and allowance for calculate taxable income. In the Kurdistan region, all Individuals will get flat exemption up to IQD 1 Million

5.5.7 Rates - In federal Iraq, employment taxes are applied at progressive rates up to 15%. In the Kurdistan region, a flat tax rate 5% is imposed on basic salary plus any allowances in excess of 30% of the basic salary. ([Rudaw, 2017](#))

5.5.8 Other Taxes on Individuals:

5.5.9 Capital duty – No

5.5.10 Stamp duty - The stamp duty law provides for de minimis payments on certain procedures and documents and a 0.2% stamp duty on fixed value contracts.

5.5.11 Capital acquisitions tax – No

5.5.12 Real property tax – No

5.5.13 Inheritance/estate tax – No

5.5.14 Net wealth/net worth tax – No

5.5.15 Social security - The employer deducts 5% from an employee's salary and makes a 12% or 25% contribution of its own. The social security contributions in the Kurdistan region are 5% for employees and 12% for employers.

5.5.16 Compliance for Individuals:

5.5.17 Tax year - Calendar year

5.5.18 Filing and payment - Employers are required to deduct the tax on employee's salary and pay the tax to government by the 15th day of each month, and to submit annual tax returns on behalf of their employees. The annual employment tax declaration must be made before 31 March of the year following the tax year.

In Kurdistan region, taxes withheld from the employees should be remitted on a quarterly basis. The withheld taxes along with the quarterly employment tax returns are required to be submitted within 21 days following the end of the quarter.

The annual employment tax declaration must be made before 1 March of the year following the tax year.

5.5.19 Penalties - Penalties on unpaid or late paid employment taxes for both federal Iraq and Kurdistan region are as follows: 5% of the amount outstanding if payment is not made within 21 days of the due date; an additional Solo penalty if the tax still is outstanding after a further 21 days (i.e. 42 days in total).

Interest on late paid taxes is applied at a rate of 11% per annum on the amount outstanding in federal Iraq. In Kurdistan region, interest on late paid tax is applied at a rate of 1.5% per month. ([Deloitte, 2019](#))

5.6 Value Added Tax:

5.6.1 Taxable Transactions – No

5.6.2 Rates – No

5.6.3 Registration – No

5.6.4 Filing and payment – No

5.7 Federal Iraq - Income Tax Law No.113 of 1982, as amended through 2003, along with supporting instructions and circulars issued by the tax authorities.

5.8 Kurdistan region - Income Tax Law No. 5 of 1999, along with supporting instructions and circulars issued by the tax authorities. ([KRG, 2013](#))

Iraq has entered into few treaties. Iraq is a signatory to the Arab Economic Union Council Agreement, although, to date, the practical application of this agreement in Iraq has been limited.

5.9 Federal Iraq - General Commission of Taxation

5.10 Kurdistan region - Income Tax Directorate

In Iraq and its Kurdistan region they have only one authority who administered all tax related matters. Still the taxation is under developed. They did not bifurcated their tax authorities on the basis of direct and indirect tax.

Half of Business Entities do' not pay Tax in Kurdistan

In Kurdistan region, Around 25000 companies are registered in the record of Directorate of Income Tax and Public Properties in Erbil, out of which only 50% entities are paying tax according to report reveal from Tax authorities. Small and medium business are engaged in unfair practices of tax evasion, even so many business are not in the record of Tax authorities. Top Officials of tax authorities are collecting illegal money from them by unofficial means. So these business are the causes of revenue loss. Educational institutions and medical industries are not paying the tax to government for employee tax. They are deducting the tax from the employee salary but not paying to the government. Illegal use of foreign exchange has become a popular medium of financial transactions. It has become a popular way of tax evasion. Business are not keeping their money in bank accounts. Generally, they are dealing in cash which is not a standard practice of business financial transaction. Practices of Domestic Transaction in dollars is affecting the Kurdistan economy so badly. Total collection of tax in 2016 was 200 billion dollars despite the fact that one out of two business did not pay any tax. ([E-kurd daily, 2017](#)). Guidelines of paying tax are like directive in nature so the businesses are not paying the taxes. Kurdistan Regional government does not relied that it will increase because the government largely dependent on crude oil sector earning. Tax slab is just 5% in Kurdistan over 1 million of income. So it is all the cause low tax revenue. Limited access to verify the income of business due to lack of standard practices so that business are not disclosing their actual income of business. A report revealed by the Income tax department, Officials took action against alone 288 companies in Erbil for tax evasion practices. And also warned to other business for legal action, if the will not complying in Kurdistan laws. Corrupted officials are

working in every office of tax authorities they don't have any proper vigilance authority who can prevent the corruption inside the government offices.

Findings

Form the all above discussion the finding gaps are categorized in following manner:

7.1 Tax Gaps – In federal Iraq and its Kurdistan region and, they don't have sound practices of tax categories. Tax is not categorized on the basis of direct and indirect nature. They don't have any professionalism in system. All the taxes they have imposed, are collecting in a layman manner. Tax rates are not in progressive nature in Kurdistan. They did not bifurcate taxation rates according to their source. Tax rate is flat for all. They don't have any Value added tax/ Sales tax, Excise duty, Service tax or Goods and services tax.

7.2 Authorities Gaps- For collection of all taxes they have just only one authority i.e. income tax directorate in Kurdistan.

7.3 Governance Gaps – Transparency is everything in any revenue system. Kurdistan authorities are not disclosing any tax related data according to their source. There is no information about sector wise taxation revenue. Updated Website of revenue department is not active. There is no transparency in the system. There is no specific authority who can prevent tax evasion. Tax evasion practices are normal, these unfair practices are just like part of system. Compliance rules should be imperative in natures. Punishment should be imposed who is not complying or involved in unfair tax evasion practices.

7.4 ICT and Banking Gaps – The banking system in Kurdistan is not developed. Peoples are not depositing their money in bank. They are keeping their money in houses. Lack of digitalization in government compliances. Foreign Exchange Management is a big cause for financial crisis in Kurdistan. People are keeping their money in foreign currency

7.5 Tax evasion gaps – There is big difference in Taxable income and its collection. It is almost more than double. There is no Special tax vigilance monitor authority so that the officials and businesses don't scared to involve in corruption practices

Suggestions

8.1 Formation of Direct Tax Board – As we discussed above, there should be a separate direct tax authority who will govern all the direct tax matters. This authority will responsible for all kinds of direct taxation issues it should include the appellate tribunal authority with having semi-judicial powers like a court. ([CBDT, 2019](#))

8.2 Formation of Indirect tax Board – Still Iraq and its autonomous region does not have more applicable indirect taxes like Excise duty, VAT, Sales Tax, service tax. Just they imposed only custom duty, which is not as per HSN (Harmonized system of nomenclature) practices. It is the need of today because the Iraq budget is presently facing lack of fund. They don't have enough revenue for fulfilling the development needs. For the imposing of indirect taxes, a separate indirect tax authority should be established to monitor the proper governance of these taxes.

8.3 Liquor Taxes and tax on Tobacco products – This is a right time of reforms for who Iraq and its Kurdistan region. Legislative assembly of respective region should

imposed the tax on liquor and tobacco product, which will generate more revenue for the budget.

8.4 Goods and Services tax– GST should be imposed on goods and services, which will give value addition in the treasury of government of region. Essential commodities should be exempted from the GST or either less tax rate should be imposed.

8.5 Digital Economy and Strong Banking System – Government should do effort to make the economy digital, it will give more transparency in system and will increase the revenue.

8.6 Personal Account number or Tax Identification No. / Unique Identification No. – Government should introduce a unique identification no. for all citizen living in Kurdistan and Iraq, it should be mandatory for all citizen. And also government can mandatory bank account for all type of businesses. Transaction above 500\$ should not be permitted in cash mode. These type of provisions can make the system more transparent and prevent the tax evasion practices.

Conclusion

As we discussed above, Kurdistan is highly dependent on Iraq federal budget. Oil is main source of revenue of Iraqi federal budget. Iraq as an active member of Islamic world and the part of Middle East, traditional unsound standard practices are normal, because it has become a culture there. These countries are generally relied on crude oil revenue. Now these days, economy of these countries passing through the bad times because of pending taxation reforms. Taxation reforms are the need of Kurdistan & Iraq today, these reforms will contribute towards the human development in Iraq. And these reforms will be helpful to achieve the sustainable inclusive growth in future. Now it's time to implement the standard practices of taxation which will give more contribution to the budget of government in sound manner, it will stop the tax evasion unsound practices in oil sector. These standard gaps (as discussed in paper) can be taken into account for serious consideration for the reformation of existing taxation culture. Suggestion based on gaps will be the right path in the process of taxation reforms. Liquor and cigarette taxes will generate more revenue and its will be helpful to prevent the children's and youths from consuming Alcohol and cigarette. According to constitutional provisions mentioned above, Kurdistan parliament is empowered to make the new legislation to implementing these reforms. Both Iraqi and Kurdistan Government together can implement the standard taxation practices though required amendment in constitution for incorporating the new taxation policies.

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