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دور السياسة الضريبية في تنويع هيكل الناتج المحلي الإجمالي في العراق

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المستخلص

تواجه الاقتصادات الريعية، ومن بينها العراق، إشكالية جوهرية تتمثل في هيمنة القطاع النفطي على هيكل الناتج المحلي الإجمالي، مما يجعلها رهينة لتقلبات أسواق الطاقة العالمية. يهدف هذا البحث إلى تحليل كيفية استخدام السياسة الضريبية كآلية فاعلة تسهم في تنويع القاعدة الإنتاجية بعيداً عن النفط. من خلال منهج وصفي تحليلي، تستعرض الدراسة هيكل النظام الضريبي العراقي الحالي وتشخص إخفاقاته، ثم تحاول رسم رؤية إصلاحية تشريعية وإجرائية تستهدف توجيه الاستثمار نحو القطاعات السلعية والخدمية كالزراعة والصناعة والسياحة يضاف لها قطاع الخدمات . خلصت الدراسة إلى أن الإصلاح الضريبي القائم على مبادئ الحياد والعدالة والحوافز الاستراتيجية يُعد شرطاً ضرورياً لتحقيق التنويع الاقتصادي المستدام، موصيةً بإعادة هيكلة النظام الضريبي ليتحول من مجرد أداة جبائية إلى وسيلة كفوءة ورافعة تنموية شاملة .

الكلمات المفتاحية : السياسة الضريبية ، الناتج المحلي الإجمالي ، تنوع الناتج

The Role of Tax Policy in Diversifying the Structure of Gross Domestic Product in Iraq

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Abstract

Rentier economies, including Iraq, face a fundamental problem represented by the dominance of the oil sector over the structure of gross domestic product (GDP), which renders them hostage to fluctuations in global energy markets. This research aims to analyze how tax policy can be used as an effective mechanism contributing to the diversification of the productive base away from oil. Through a descriptive-analytical approach, the study reviews the structure of the current Iraqi tax system and diagnoses its shortcomings, then attempts to outline a legislative and procedural reform vision aimed at directing investment toward commodity and service sectors such as agriculture, industry, and tourism, in addition to the services sector. The study concludes that tax reform based on the principles of neutrality, equity, and strategic incentives is a necessary condition for achieving sustainable economic diversification. It recommends restructuring the tax system so that it transforms from a mere tax-collection instrument into an efficient means .and a comprehensive development lever

Keywords: tax policy; gross domestic product; output diversification.

Introduction

Tax policy is one of the pillars of fiscal policy, as its function is not limited to financing government expenditure but extends to achieving economic stability, redistributing income, and directing resources according to development priorities in Iraq. In addition, tax policy is particularly important in the Iraqi economy because this economy is characterized by rentierism and almost total dependence on crude oil sales, which indicates the fragility of the public budget and justifies the necessity of activating tax policy instruments as sustainable financing tools that can be employed as a kind of economic incentives, in addition to their traditional function of financing the state treasury. It should be noted that taxes possess a latent capacity to influence investment, consumption, and production decisions, and thus can be used to direct resources to sectors intended for development. Finally, the importance of the research stems from shedding light on the most prominent structural problem of the Iraqi economy, namely dependence on a single source of income, and presenting tax policy as an effective fiscal tool to reduce excessive dependence on the oil sector. Such a policy can encourage investment in real sectors (such as agriculture, industry, and services), thereby raising their contribution to the formation of gross domestic product and addressing structural imbalance.

Research Problem:

The research problem stems from Iraq's dependence on the oil sector as a rentier economy, which makes it vulnerable to global energy market shocks.

Research Objective:

To study and analyze the role of tax policy in diversifying GDP through the agricultural, industrial, and service sectors, especially non-oil sources

Research Hypothesis:

The study assumes that the absence of a development-oriented tax policy perpetuates limited economic diversification and the continuation of the oil sector's dominance, whereas reforming the tax system can enhance the competitiveness of non-oil sectors.

Research Methodology

The descriptive-analytical method to diagnose the failures of the current system and draw a reform vision.

Spatial and Temporal Limits:

Iraq was taken as a spatial dimension for the period 2004–2024.

Research Structure:

The research consists of three sections: the first, the reality of tax policy in Iraq; the second, analysis of the structure of gross domestic product in Iraq; and the third, the possibility of employing tax policy to diversify gross domestic product in Iraq.

First Section: The Reality of Tax Policy in Iraq

First: The Concept of Tax Policy, Its Objectives, and Its Instruments

Tax policy refers to the set of rules and measures adopted by the state to determine the structure of the tax system, including the selection of types of taxes, their rates, brackets, tax base rules, exemptions, and collection methods, in line with the economic and social objectives of the state. (Mounis and al-Atabi 2016, 160) Accordingly, this policy is not confined to the financial dimension only, but overlaps with the objectives of macroeconomic policy, the most important of which include the following :

1. Financing objective: securing stable financial resources to cover public expenditures away from fluctuations in primary commodity prices.
2. Income distribution justice objective: redistributing income and wealth through progressive direct taxes on high-income earners and tax exemptions for limited-income groups.
3. Economic stability objective: resorting to tax as a means to treat inflation or deflation by changing aggregate demand.

To achieve tax policy objectives, the following instruments are used: (Adai & Shahdahan, 2025, pp. 75–77)

1-Direct taxes: imposed on income and wealth, such as the tax imposed on personal income, corporate profits, and real estate; they are characterized by clarity of the tax base, although they require high efficiency of the tax administration and voluntary compliance by taxpayers.

2- -Indirect taxes: they consist of customs duties and taxes on goods and services, such as sales tax, value-added tax, and excise duties on certain goods such as goods with harmful effects on health and the environment; they are characterized by ease of collection.

3-Tax exemptions and incentives: they are used to attract investment and direct it toward sectors and regions to be developed, so exemptions or reductions are granted for a number of taxes.

4- -Tax pricing policy refers to determining the method of imposing the tax or its type, progressive or regressive, and determining the covered brackets; it is one of the tools adopted by fiscal policy in changing its priorities.

5-Administration and collection tools: we mean by them every tool that can enhance tax compliance and limit evasion, such as registration mechanisms, electronic linking, audit, imposition of fines, facilitating payment, and similar.

Second: Tax Policy in Iraq

The financing objective has always dominated the rest of the objectives of tax policy in Iraq as a result of the dominance of the rentier character over the Iraqi economy, which contributed to curtailing the objectives of taxes and neglecting the development of flexible tax instruments that achieve actual interaction with macroeconomic variables .The tax system in Iraq is based on Income Tax Law No. 113 of 1982 and its amendments and Customs Law No. 23 of 1984, as amended. Despite the amendments introduced to them after 2003, gaps remain in those laws.

Tax policy is based on a set of instruments that can be generally classified into the following: (Abbadi & Hassan, 2016, p. 133).

1- Tax Structure: This encompasses all types of taxes under the various tax legislations, such as direct and indirect taxes. The first category includes income tax and capital tax, while the second consists of consumption taxes, production taxes, customs tariffs, and sales tax.

2-Technical Organization of Taxation: This refers to the set of technical rules and provisions that determine the magnitude of the tax burden by specifying the tax base, the tax rate, exemptions, and collection. The technical organization of taxation is represented by defining the technical conditions and procedures relating to the imposition of tax and by addressing the problems encountered in the organization of taxation, which is divided into the tax base, the tax rate, tax exemptions, and tax evasion.

Third: Challenges of Tax Policy in Iraq

Tax policy in Iraq faces several obstacles that reduce its effectiveness, as follows :

1-Structural challenges: These include the weakness of productive sectors, the dominance of rentier characteristics, and instability in economic policies—particularly fiscal policy—which undermines the effectiveness of the tax system and complicates financial planning. They also include weak coordination between tax policy and general economic policy, which diminishes the role of taxation in supporting growth and investment (Al-Shaikhli, 1997, 33). In addition, the structure of the tax system is distorted: it suffers from a limited number and insufficient diversity of taxes, relying heavily on income taxes and sales taxes (Obaid, 2023, 330). Consequently, the contribution of tax revenue to gross domestic product and to public budget financing has contracted.

2-Legislative and legal challenges: Tax legislation in Iraq is numerous and overlapping. Moreover, legal interpretations differ among the competent authorities, creating legal loopholes that can be exploited for tax avoidance or evasion (Al-Dulaimi, 2015, 61).

3-Administrative challenges: The efficiency of Iraq's tax administration is one of the most important requirements for the success of tax policy, as weak administrative efficiency reduces the effectiveness of the tax institution's effectiveness (Ali & Al-Anbaki, 2012, 52).

4-Technical challenges: Iraq's tax institution lacks digital interconnection with other government institutions, such as banking institutions, the Financial Supervision Department, and the Customs Department. This impedes accurate data exchange, weakens the oversight function, and expands avenues for tax evasion. It is also compounded by limited digital awareness among taxpayers, most of whom are not proficient in using electronic systems, whether for submitting tax returns or making tax payments. As a result, reliance on traditional methods persists, reducing the tax administration's efficiency in collection and performance improvement (Abboud & Alwan, 2024, p. 899).

5-Social and cultural challenges: The cultural character of society is reflected in the level of trust between the taxpayer and the state. The majority of taxpayers are unaware of the objectives and importance of taxation, which inevitably affects tax compliance and leads to negative reactions toward taxation, as a result, taxes are viewed as a burden rather than a duty (Zaidan, 2012, p. 41).

Second Section: Analysis of the Structure of Gross Domestic Product in Iraq

The structure of gross domestic product reflects the level of economic development and the diversity of its productive base. Developed economies are characterized by the development of their services sector as well as their manufacturing industry, while rentier economies face concentration in the production of the extractive sector and weakness in forward and backward linkages with other sectors. Iraq is considered a typical model of rentier economies

First: The Temporal Path of the Development of Sectoral Contributions

Table 1 shows changes in the relative importance of the main economic sectors in gross domestic product for the period 2004–2023. As shown in Table 1, the oil sector maintained its dominance over the national economy throughout the mentioned period; its relative importance ranged between (29–62) during the study period. The lowest percentage (29%) of total output was in 2020 due to the coronavirus pandemic. In contrast, the industrial sector was characterized as the sector with the smallest contribution to gross domestic product; that participation did not exceed 3% of total output in 2023. Indeed, this sector reached slight percentages down to 1.3% in 2005. As for the agricultural sector, its situation is not better than the industrial sector except by slight percentages; its contribution ranged between (2%–6.9%). Moreover, those ratios tended to decline in most years; the highest percentage was in 2004 and 2005, and the lowest in 2022. We should not fail to examine the contribution ratios of the services sector, which is in a better condition than the two aforementioned sectors; those ratios ranged between (10%–33%). This is due to the deterioration of the

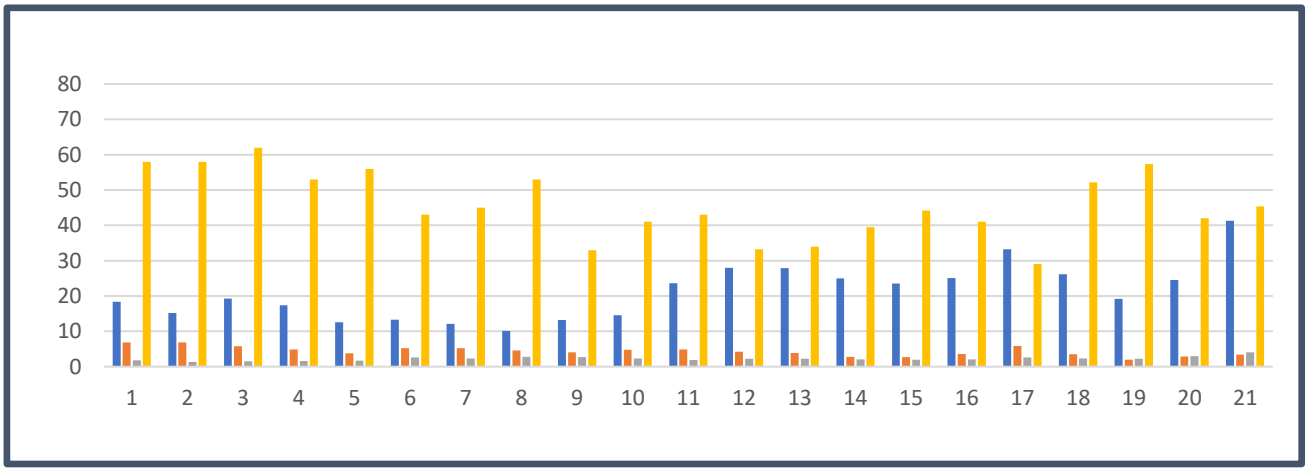
agricultural and industrial sectors, which made the service sector top the non-oil gross domestic product, but in an unbalanced manner as a result of the dilapidated infrastructure—electricity, roads, communications—making the growth of this sector fragile and prone to collapse at any economic crisis (Al-Zubaidi, 2021, 106). This disparity in the contribution ratios of sectors is clearly evident from Figure (1).

Table 1: Contribution of Productive Sectors to Gross Domestic Product (GDP), 2004–2024 %

Year	Oil **Sector**	Industrial Sector	Agricultural Sector	Services Sector
2004	58	1.8	6.9	18.4
2005	58	1.3	6.9	15.2
2006	62	1.5	5.8	19.3
2007	53	1.6	4.9	17.4
2008	56	1.7	3.8	12.6
2009	43	2.6	5.2	13.3
2010	45	2.3	5.2	12.1
2011	53	2.8	4.6	10.1
2012	33	2.7	4.1	13.2
2013	41	2.3	4.8	14.6
2014	43	1.9	4.9	23.6
2015	33.2	2.2	4.2	28.0
2016	34	2.2	3.9	27.9
2017	39.5	2.1	2.8	25.0
2018	44.2	2.0	2.7	23.5
2019	41	2.1	3.6	25.1
2020	29.1	2.6	5.9	33.2
2021	52.2	2.3	3.5	26.2
2022	57.3	2.2	2.0	19.2
2023	42	3.0	2.9	24.5
2024	45.4	4.09	3.4	41.3

Ministry of Planning and Development Cooperation – Central Organization for Statistics and Information Technology (COSIT), Miscellaneous Statistical Bulletins

Chart 1. Contribution of Productive Sectors to Gross Domestic Product (GDP) 2004-2024



*Oil , * Industrial , * Agricultural * Services

Source: Prepared by the researcher based on Table 1 .

Second: The Relationship between the GDP Growth Rate and the Growth Rates of Productive Sectors

Following the lifting of international sanctions, Iraq's gross domestic product (GDP) rose markedly, increasing from approximately 53 trillion dinars to 363.5 trillion dinars by the end of the period; prior to that, it had reached more than 416 trillion dinars in 2022. On the other hand, GDP recorded an estimated annual growth rate of 38% in 2005, and positive annual growth continued until 2008, when it recorded 41%. This recovery resulted from higher growth rates of oil output, which rose sharply from about 31 trillion dinars at the beginning of the period to more than 194 trillion dinars in 2023. It remained high relative to the beginning of the period despite declining from its 2023 level to 165 trillion dinars in 2024, as shown in Table (2); the same applies to growth rates. This decline can be attributed to OPEC's reduction of oil production quotas (Annual Economic Report, 2023 , 12) and the suspension of oil pumping through the Turkish port of Ceyhan. Moreover, this confirms the strong positive correlation between the growth of both GDP and oil output, as illustrated in Figure (1), which depicts the relationship between GDP growth and oil sector output.

Table 2. Gross Domestic Product and Productive-Sector Output at Current Prices in Iraq, 2004–2024 (Trillion Dinars)

Year	GDP	Oil Sector Output	Industrial Sector Output	Agricultural Sector Output	Services Sector Output
2004	53.3	30.81	0.9377	3.694	9.812
2005	67.8	42.38	0.9710	5.0642	11.211
2006	84.8	52.85	1.4732	5.569	18.499
2007	97.5	59.02	1.818	5.494	19.321
2008	156.8	87.17	2.644	6.042	19.799
2009	130.6	56.00	3.4113	6.833	17.410
2010	162.0	72.91	3.679	8.366	19.590
2011	217.3	115.26	6.133	9.918	21.799
2012	254.2	126.44	6.920	10.485	33.510
2013	273.6	134.6	6.286	13.045	39.934
2014	272.9	116.94	4.999	13.129	63.331
2015	219.9	62.08	4.235	8.161	55.023
2016	231.8	67.40	4.436	7.832	55.364
2017	235.5	88.66	4.820	6.348	56.066
2018	270.3	117.86	5.464	7.221	63.899
2019	273.6	193.44	5.903	10.017	70.339
2020	215.7	61.23	5.582	12.789	72.118
2021	304.1	70.14	6.898	10.655	79.765
2022	6.541	172.14	9.360	8.192	80.477
2023	330	126.83	10.670	10.476	87.148
*2024	363.5	165	14.860	12.400	150.00

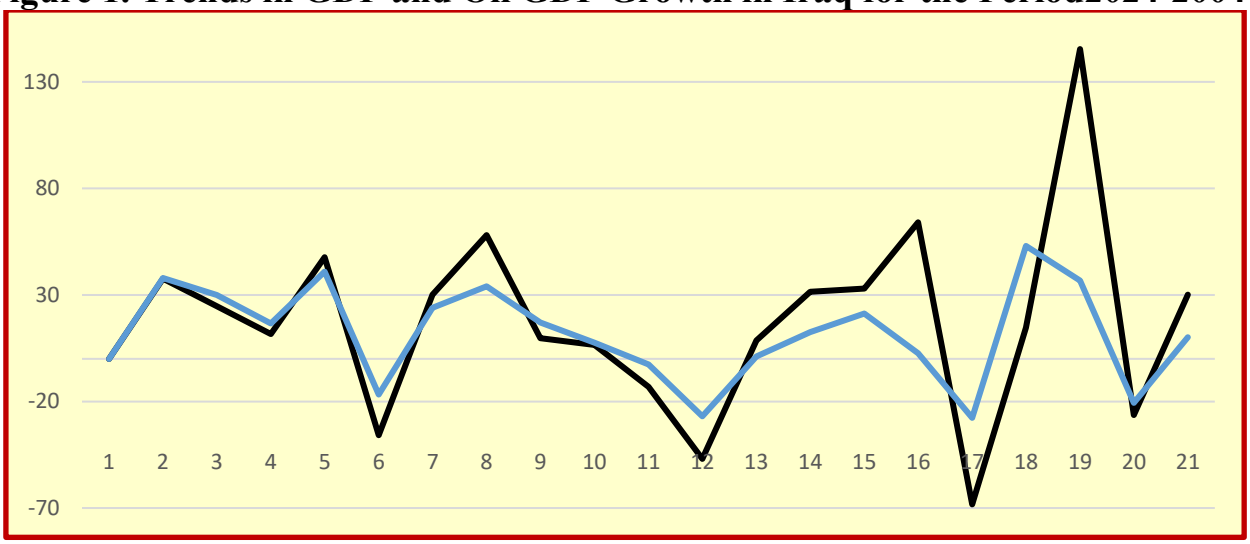
*Preliminary Estimates
Source: Ministry of Planning , Statistics and Geographic Information Systems Authority (formerly Central Statistical Organization), National Accounts Department, Gross Domestic Product (GDP) Reports.

Table 3. Growth Rates of Gross Domestic Product(GDP) and Productive Sectors in Iraq for the Period 2004-2024 %

Year	GDP	Oil Sector Growth Rate	Industrial Sector Growth Rate	Agricultural Sector Growth Rate	Services Sector Growth Rate
2004	-	-	-	-	-
2005	38	37.6	3.55	37.09	14.26
2006	30	24.7	51.72	9.97	65.01
2007	16.6	11.7	23,4	(1.35)	4.44
2008	41	47.7	45.43	9.97	2.47
2009	(16.8)	(35.8)	29.02	13.1	(12.07)
2010	24	30.2	7.85	22.44	12.52
2011	34	58.1	66.7	18.55	11.28
2012	17	9.7	12.83	5.72	53.72
2013	7.6	6.5	(9.16)	24.42	19.17
2014	(2.7)	)(13.1	(20.47)	0.64	58.59
2015	(27)	(47)	(15.28)	(37.84)	(13.12)
2016	1.2	8.6	4.75	(4.03)	0.62
2017	12.6	31.5	8.66	(18.95)	1.27
2018	21.3	33.0	13.36	13.75	13.97
2019	2.7	64.1	8.03	38.72	10.08
2020	(27.7)	(68.3)	(5.44)	27.67	2.53
2021	53	14.6	23.58	(16.69)	10.6
2022	36.7	145.4	35.69	(23.12)	0.89
2023	(20.6)	(26.3)	14.0	27.88	8.29
2024	10.2	30.1	39.27	18.37	72.12

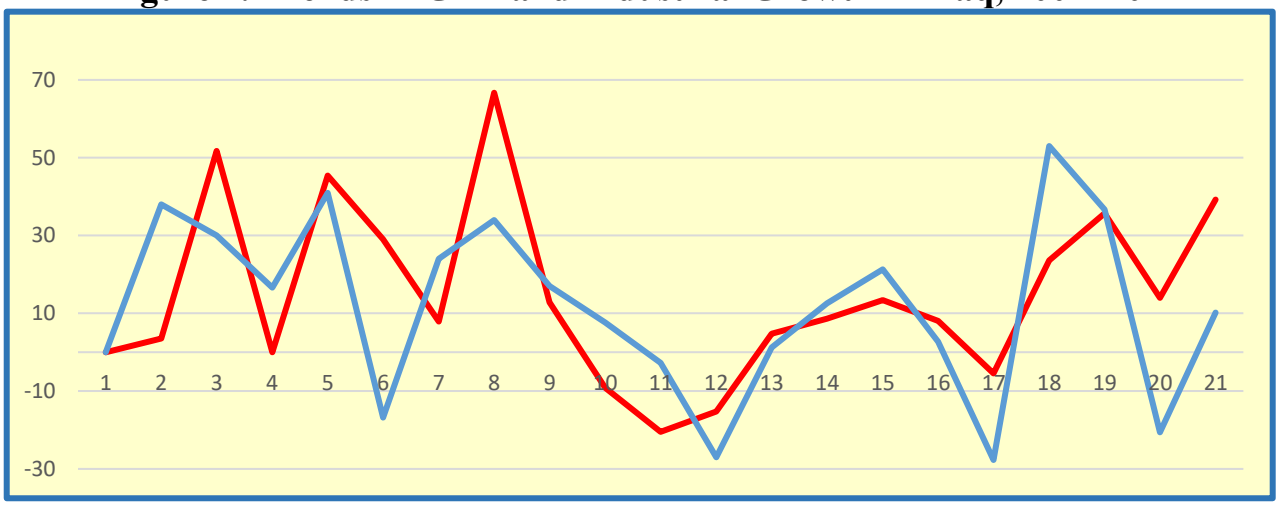
Source: Calculated by the researcher based on Table 2

Figure 1. Trends in GDP and Oil GDP Growth in Iraq for the Period2024-2004 .



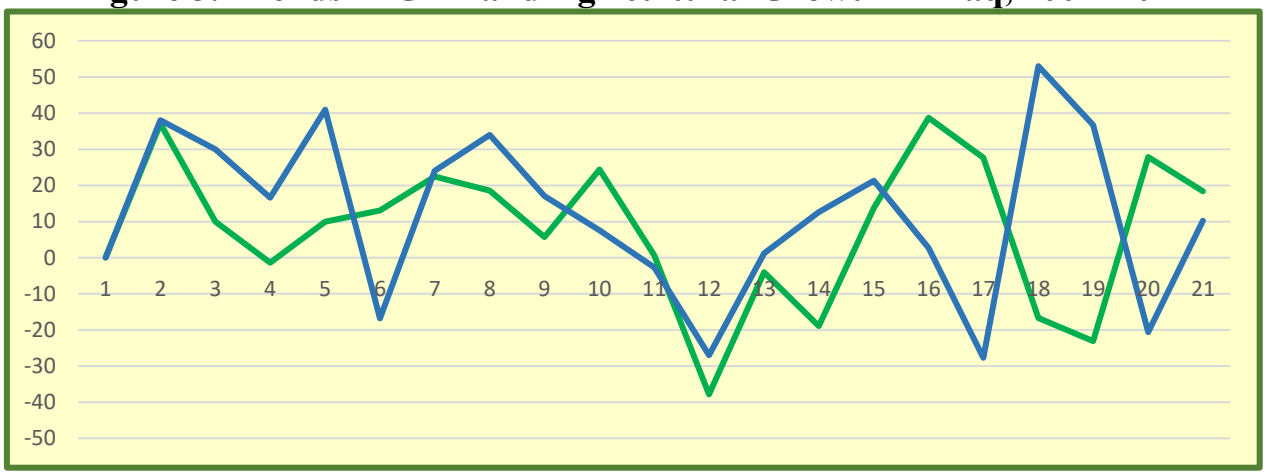
Source: Prepared by the researcher according to Table 3 . — Oil —**GDP ,**

.Figure 2. Trends in GDP and Industrial Growth in Iraq, 2004–2024



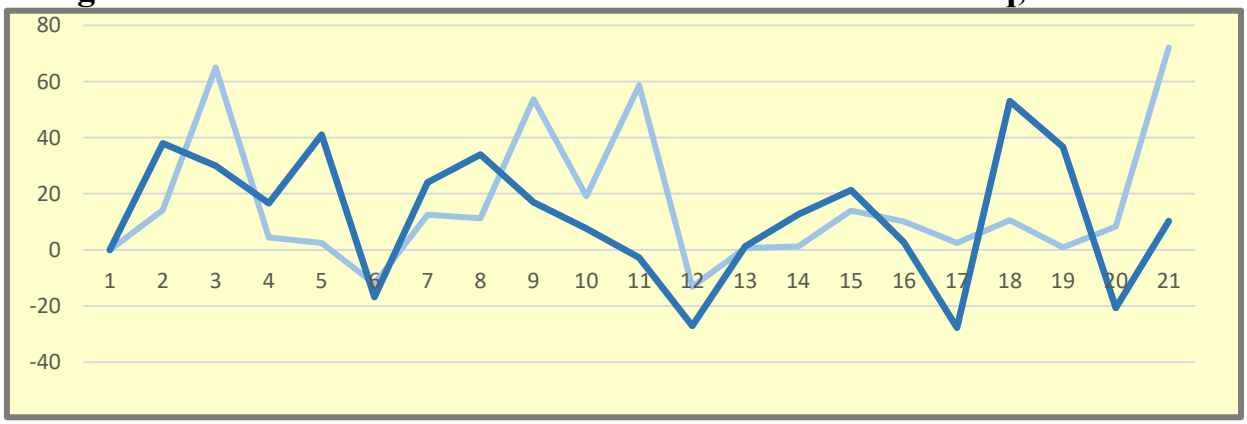
Source: Prepared by the researcher according to Table 3. Industrial **GDP**

Figure 3. Trends in GDP and Agricultural Growth in Iraq, 2004–2024



Source: Prepared by the researcher according to Table 3. Agricultural **GDP**

Figure 4. Trends in GDP and Services-Sector Growth in Iraq, 2004–2024



Source: Prepared by the researcher according to Table 3. Services **GDP**

The industrial sector differs from the oil sector: the correlation between GDP and industrial output is weaker than that between GDP and oil output. Despite the decline in GDP in 2009 at a rate exceeding 16%, industrial output increased by more than 29%. In 2013, the GDP growth rate was estimated at 7.6%, while industrial output suffered a growth shortfall exceeding 9%.

The agricultural sector appears to have the weakest correlation with GDP. It experienced declining growth for several years during which GDP growth increased, such as 2007, 2016, 2017, and 2021. Conversely, in other years the agricultural sector achieved positive growth despite negative GDP growth, such as 2009, 2014, 2020, and 2023. This pattern can be observed in Table 3 and Figure 3. This may indicate that growth in the agricultural sector has become isolated from GDP growth as a result of problems in agricultural infrastructure, soil infertility, and the migration of labor from this sector into other jobs (Ma'lah and Ahmad, 2015, 53). We must also note the output of the services sector and the extent to which it affects or is affected by GDP. Here, too, we observe a weak relationship between GDP and services: in 2014, 2020, and 2023, GDP declined while services sector output achieved positive growth. This is because the services sector is driven by government and private consumption spending, enabling it to preserve its operational flexibility and growth rate (Mohammed, 2025, 158), in addition to being affected by developments in GDP.

Section Three: The Possibility of Employing Tax Policy to Diversify GDP in Iraq

Output diversification involves expanding the production base by increasing the shares of economic sectors in output, exports, and public revenue, there by reducing dependence on a single commodity (IMF,2014,7&11). Tax policy has the capacity to correct the distorted trajectories of a rentier "oil" economy, whose characteristics include the flow of capital toward the oil sector and sectors linked to government spending because of their high returns and rapid monetary turnover, as well as excessive reliance on oil revenues as a fundamental pillar of the economy, coupled with neglect of other sectors such as agriculture and industry, the absence of productive linkages among non-oil sectors, and the dominance of oil revenues over public revenues (Abdul Hussein and Al-Ta'mah, 2016, 106). The role of tax policy becomes evident through two mechanisms: first, imposing differentiated taxes with rates varying according to the type of activity, taking into account whether the activity falls outside the rentier character; second, providing tax incentives or exemptions for modern non-rentier projects or those within agricultural and industrial activities.

The following points are discussed :

First: An Analysis of the Structure of the Iraqi Tax System and Its Role in Entrenching Economic Rentierism

An analysis of the tax reality in Iraq shows that it is one of the tools that help deepen economic rentierism and dependence on oil. This reality can be characterized by the following features:

1-The Dwindling Contribution of Taxes to Public Revenues:

This is one of the most prominent features of Iraq's tax system. On average, tax revenues do not exceed 15% of national income—a low ratio compared with developed countries and most Arab countries. This is attributable to the Iraqi

economy's heavy dependence on oil revenues (Jawad & Ali, 2006, p. 10).. Table 4 shows tax revenues and their relative importance in public revenues and GDP for the period 2004–2024. Tax revenues account for a small share of both GDP and public revenue; it did not exceed 8% of total revenues throughout the study period, while oil revenues exceeded 97% during the same period. This reflects the depth of the rentier character in the Iraqi economy and the negative role of taxes in developing economic sectors and broadening their tax base, as well as the state's reluctance to conclude a social contract with its citizens, which weakens governance incentives (Moore, 2007, 12-13).

Table 4. The Relative Importance of Tax Revenues in Public Revenues and GDP in Iraq for the Period 2004-2024 (Trillion Dinars)

Year	GDP 1	Puplic Revenues 2	Oil Revenues 3	Taxes Revenues 4	4 out % of 1	3 out of 2 %	4 out of 2 %
2004	53.3	33.0	32.3	0.3	0.56	97.8	0.91
2005	67.8	40.4	39.4	0.53	0.78	97.5	1.31
2006	84.8	49.1	46.5	0.6	0.71	94.7	1.22
2007	97.5	54.6	52.0	1.1	1.13	95.2	2.02
2008	156.8	80.6	76.3	1.0	0.64	94.6	1.24
2009	130.6	55.2	50.2	0.33	0.25	90.9	0.6
2010	162.0	70.2	63.6	1.5	0.93	90.5	2.14
2011	217.3	108.8	98.2	1.41	0.65	90.2	1.3
2012	254.2	119.5	111.3	2.31	0.91	93.1	1.93
2013	273.6	113.8	105.7	2.52	0.92	92.8	2.21
2014	272.9	105.6	98.5	1.9	0.70	93.2	1.8

2015	219.9	66.5	57.7	2.02	0.92	86.7	3.04
2016	231.8	54.4	44.7	3.9	1.68	82.1	7.2
2017	235.5	77.4	65.5	6.3	2.68	84.6	8.14
2018	270.3	106.6	96.1	5.7	2.11	90.1	5.35
2019	273.6	107.6	99.2	4.02	1.47	92.1	3.73
2020	215.7	63.2	54.5	4.72	2.19	86.2	7.47
2021	304.1	109.1	95.3	4.54	1.49	87.3	4.16
2022	6.541	161.7	153.6	3.91	0.94	94.9	2.42
2023	330	135.7	124.4	5.91	1.79	91.6	4.36
2024	363.5	147.8	120.5	8.5	2.34	81.5	5.75

Source : Prepared by the researcher, drawing on data from the Ministry of Finance, Economic Directorate, across different years.

2-Weak Tax Administration and the Business Environment : The General Commission for Taxes in Iraq contributes to an environment that discourages investment as a result of its complex bureaucratic procedures and the absence of digitalization. The World Bank's Doing Business report indicates that the high cost of tax compliance and the complexity of procedures are two main obstacles to the growth of enterprises, especially small and medium enterprises, which the World Bank considers the backbone of any strategy aimed at economic diversification (World Bank, 2020 ,12-13). Instead of operating within the formal economy, these enterprises have tended to operate in the informal sector to avoid complex tax procedures. This deprives the state of an important source of revenue

3-Lack of Tax Diversity : The Iraqi tax system relies on a limited range of taxes. With regard to indirect taxes, reliance is usually placed on sales tax and customs duties; direct taxes, by contrast, are clearly confined to income tax. As for wealth and capital, the aforementioned system imposes no significant tax on them. In addition,

inheritance tax has been abolished since 1988, which has resulted in the absence of an important channel for achieving vertical equity and redistributing income. This deficiency in tax imposition stems from increased reliance on oil revenues as a principal source of the general budget and a reduced need to impose taxes on wealth and capital, coupled with weak administrative capacity to accurately survey and assess wealth. Added to this is the prevalence of the informal economy, whose financial revenues are difficult to estimate (Raouf and Al-Shafie, 2021, 156).

Second: A Vision for Activating Tax Policy to Reallocate Resources and Reform the Structure of Aggregate Output

To increase its effectiveness, tax policy must become a driver of economic diversification. Achieving this requires focusing on several axes, the most important of which are:

1- .Introducing a Selective and Conditional Tax Incentive System: A package of performance-based incentives targeting specific sectors should be developed (Tanzi & Zee , 2000, 315) . It is hoped that a development zones program will be implemented in governorates possessing certain agricultural and industrial advantages, such as Nineveh, Saladin, Anbar, Wasit, and Babylon. This program would grant companies investing in those governorates a tax exemption for five years, renewable and conditional upon achieving pre-set objectives related to the size of national employment and the share of local content in production. A performance-based incentive system ensures, to some extent, that tax support is directed toward generating real value added rather than merely tax revenue.

2- Creating a Neutral Competitive Environment: Establishing a productive private sector requires preparing a fair competitive environment by imposing an effective corporate income tax. Large or politically connected companies may evade the income tax burden, which distorts competition. It is therefore recommended to unify the income tax rate on commercial and industrial profits at a regionally competitive level, while abolishing all special exemptions unrelated to development. This would reinforce tax neutrality by ensuring that investors' decisions are guided by economic feasibility rather than preferential treatment.. It would also broaden the tax base and reduce reliance on oil revenues in the long run to finance the budget (Burgess & Stern, 1993, 763).

.3-Re-engineering Customs to Protect Domestic Production: It is proposed to adopt a progressive tariff system. Duties would be low or zero on raw materials and intermediate goods that are not produced locally, or that cannot be produced locally . In contrast, high taxes would be imposed on imported final goods that have domestic substitutes. This policy would provide protection for domestic products and encourage the establishment of local industries that add value to GDP (Greenaway & Milner, 2003, 445). In addition, it would increase the growth rates of local productive sectors, especially agriculture and industry.

4-Providing Sustainable Financing for Public Investment: When the state seeks to broaden its revenue sources to include value-added taxes and other taxes, it will collect more stable and sustainable revenues. These can be used to finance infrastructure, health, and education projects, thereby enhancing the investment

environment and raising productivity across various sectors. All of this would serve the diversification and increased growth rate of GDP (Onaiwu et al., 2024, 238).

Third: Digitalizing Tax Administration to Broaden the Base and Reduce Costs

Tax revenues remain low, as noted earlier, as a realistic result of the interplay of several factors, such as the spread of tax evasion, weak efficiency of tax administration, and the low level of tax awareness among taxpayers. This has provided an incentive to adopt relatively modern methods to reform the tax reality in Iraq. Among the most important of these methods is tax digitalization, which can contribute to improving collection efficiency, broadening the tax base, and limiting tax evasion. It will also reduce the cost of tax compliance, and this is a prerequisite for integrating the informal economy into the formal economy. For tax compliance to encourage the transition to the formal economy, tax policies should be designed and implemented according to the following economic principles:

1 .Reducing the Cost of Formal Taxation Relative to the Cost of Remaining in the Shadows

Informal businesses operate outside the system in order to avoid the high costs of taxes and the administrative complexities associated with them. For tax compliance to be an effective tool for integration, the cost of tax compliance—financially and administratively—must become lower than the hidden cost of operating in the shadows, which includes paying bribes, exposure to extortion and confiscation, and the inability to expand. This can be achieved through the application of simplified tax regimes, such as lump-sum or presumptive taxes for small and micro enterprises, making the decision to transition into a formal entity a rational and profitable economic decision (Arab Monetary Fund, 2021 ,18).

2-Activating the Social Contract :

Recent economic research emphasizes that policies for integrating the informal economy should not focus only on maximizing tax revenues, but also on broader developmental implications. When informal business owners comply with tax regulations, they should receive explicit legal recognition that gives them access to credit and banking facilities, participation in government procurement and tenders, and integration into formal benefits. This would transform tax compliance from a compulsory burden into an opportunity for growth (Rogan, 2019,14).

3- Enhancing Fairness and Tax Compliance

According to behavioral economics theories, voluntary compliance rates rise markedly when individuals feel that the tax system is fair and that the state responds to their needs. The informal sector cannot be successfully integrated by relying solely on policing deterrent tools. Rather, it requires building “tax ethics” within society. This is achieved when business owners see the impact of their taxes in improving the quality of public services and infrastructure (Siraj, 2024,16).

4 .Digitalization and Electronic Compliance

Digital tools and technologies in tax administration facilitate compliance and increase transparency.Digital platforms reduce direct friction with tax collectors, reduce administrative corruption, and at the same time raise the rates of monitoring and detecting tax evasion through big data tracking. This gradually reduces the scope of the informal economy and encourages its integration through simplified and clear

electronic channels (Arab Monetary Fund, 2021 ,22). The role of tax digitalization also emerges as an effective reform tool capable of unifying databases, simplifying procedures, and enhancing the capacity for enumeration and follow-up (Al-Saidi, 2013, p. 119). In the absence of a unified electronic system ensuring real-time and accurate information exchange, it has become difficult to track taxpayers' data, economic activities, incomes, and assets. This weakens the ability of tax administration to conduct comprehensive and accurate enumeration (Askar, 2020, 60), in addition to the concealment or manipulation of tax records (Hamza, 2017, 45). Added to this is weak coordination between the General Commission for Taxes and other official bodies.

Based on the foregoing, digitalizing Iraq's tax system could bring about substantial positive changes in tax policy and enhance its role in promoting the diversification of GDP.

Conclusions and Recommendations

First: Conclusions

1- The foregoing analysis indicates that tax policy in Iraq has not been an effective tool

for improving the structure of GDP. Rather, because of the Iraqi tax system, it has deepened the rentier character of the economy, since the aforementioned system is part of the institutional structure that continuously reproduces the rentier economy.

2-The relationship between GDP growth and oil output growth is strongly positive; movements in aggregate output are almost identical to those of oil output. By contrast, the relationship between aggregate output, on the one hand, and the agricultural and industrial sectors, on the other, is weak and sometimes almost nonexistent.

3-The General Commission for Taxes in Iraq has a prominent role in creating an investment-repellent environment as a result of its bureaucratic procedures, the absence of digitalization, and the high cost of tax compliance, thereby hindering the growth of small and medium-sized enterprises.

4-The tax system in Iraq is one of the most important drivers of tax non-compliance and the prevalence, spread, and expansion of the informal economy at the expense of the formal economy. This is a negative indicator and a main reason for the decline in tax yield due to the narrow tax base.

Second: Recommendations

1- Diversifying GDP requires a qualitative shift in the design of tax policy so that it becomes a tool for stimulating investment activities across various economic sectors, especially non-oil productive sectors.

.2- Introduce digitalization into the Iraqi tax system, especially given the availability of digital infrastructure—meaning that it is not difficult to apply digitalization in the tax apparatus. Doing so would be the first step toward eliminating administrative corruption in the tax institution and would help improve tax revenues and enhance the role of taxes as an effective variable in achieving aggregate output diversification.

3-Providing incentives and tax exemptions for small and medium productive enterprises, especially those operating under the umbrella of the informal economy, and encouraging them to integrate into the formal economy.

4- Expand electronic services by increasing the use of electronic payment and collection platforms , establishing electronic portals for providing services to taxpayers, and applying a barcode system for electronic linkage with other .government departments would be capable of broadening the tax base

5-Disseminating tax culture: working to spread awareness of the importance of paying taxes as a national duty, in order to enhance trust between the citizen and the state.

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