

# THE VAT And The Importance Of Its Application In Iraq

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**Abstract:** Value Added Tax (VAT) One of the tax tools produced by globalization, Therefore, it is necessary to introduce their application within the reform of the tax system of countries seeking to use modern taxes to support their economy, And because of the conditions faced by the Iraqi economy of wars And others which weakened his economy We need to introduce this tax to the sum of other taxes to support the Iraqi economy and to increase its revenues. Where we discussed in five chapters the importance of this type of taxes and propose the model to impose and collect, As the researcher confirmed by introducing the problem of research on The lack of tax revenues at present and the failure to keep up with the legislation imposed by global developments in this area, In order to prove the hypothesis of research that emphasizes The need to initiate economic reform accompanied by the reform of the tax structure and the adoption of value added tax within this reform, The second topic included some concepts of value added and different points of view, The third section also included the value added tax, its historical development, types, characteristics, advantages and objectives, The fourth topic Proposing the proposed model for applying this type of tax in Iraq, One of the most important findings of the researcher Is that VAT is one of the most important types of taxation because it is imposed on all activities (production, sale, consumption), As for the most important recommendations recommended by the researcher It was necessary to start economic and tax reform through Diversify taxes and work with VAT ,and setup National Academy of Tax Studies.

## 1. Introduction

There is controversy, It revolves around economists and researchers Who are interested in financial issues About the mechanisms of reform Tax, where Many groups call for the start of this reform, Which is an important step for the countries that seek To opening up to the international market And Accession to the World Trade Organization and promotion of the free trade area. Therefore, it was agreed between the international organizations concerned with financial matters to put in a type of tax called (value added tax), This type of tax is modern, It is also one of the basic criteria that indicate the strength and modernity of economic and tax structure, As such this Tax has become one of the most important features of tax systems in developed countries.

### Research Problem:

It is necessary to plan strategies for reforming the tax structure in Iraq In order to be qualified to support market economy mechanisms. So the problem includes the Lower tax revenues from direct and indirect taxes which weaken its role to move towards a market economy, also the inadequacy of the tax structure in Iraq And the requirements for the advancement of the economy, Intellectually, financially and organizationally.

### Search importance:

The importance of research is based on confirm that Need for tax reform, And reconsideration In legislation Taxation in Iraq, And rethink of the structure Taxes In general, The most important tax to be adopted to support this reform is VAT,

### Research objective:

The research aims at clarifying the Definition of modern concepts For VAT and Historical development of VAT.

### Research hypothesis:

The researcher bases his research on this hypothesis:

Considered (VAT) is an important indicator of the strength of the tax structure of any country, Add to The rise in the tax revenue resulting from this type of tax, Therefore, tax reforms in Iraq should contain VAT.

## 1. Value Added Concepts..

### 1.1. Definition of value added.

The concept of value added is a new approach to the art of financial accounting Or a modern approach to work in the field of accounting, administration, or economics, But the idea came as a result of global economic development and the establishment of international and protected trade unions. in a study In 1985 the researcher presented (Enthoven) Large trends in accounting He felt that Value added is a major and important trend in accounting ,The most appropriate concepts to express the contribution of unity in society As the value added by the economic unit during the period Time<sup>(1)</sup>. As the concept of value added Created by an employee In the American treasury in the eighteenth century, and he became since then it has been used by governments as a measure of the national entrance <sup>(2)</sup>.

### 1.2. The economic concept of value added.

The concept of value added is one of economic concepts derived from economics; It has been used at the macroeconomic level by economists for a long time as one of the alternative approaches to measuring national income, Where it is considered Value added to national resources available during the measurement period. Economists have agreed that the added value of economic thought is to create wealth; it has been used since More than a hundred years in national accounts. And in the value added by a given economic unit <sup>(3)</sup>.

### 1.3. Accounting concept of value added.

It can be said that the accounting measure of value added can be useful to the national accountant, where not very different

Accounting measure of value added about economic measurement. The value is calculated as the difference between Sum Revenues Activation And the total of goods, services, purchases for the purpose of sale and current transfers And also can Measure Net value added By subtracting the amount of depreciation From Gross value added<sup>(4)</sup>.

## 2. Value Added tax.

### (Characteristics, Importance and types)

Apply this type of tax has become the basic criterion that affects the modernity and durability of economic and tax structure, Where researchers confirmed that The basis of reform of the tax system in Japan Is to cancel Companies tax and also cancel the transaction tax And replaced by value added tax<sup>(5)</sup> This tax has become one of the most important features of tax systems in developing countries And industrial, This tax is applied in )136( countries, Although some of them are under different names Where they usually contribute nearly a quarter of total tax revenues. For example in Jordan it's called General tax on sales, And In the Soviet Union Previously it's Called the public tax on the number of works. In France, it is called VAT, In America, it is called the general tax on sales, and In Britain it is called a tax on Purchases. Table (1) shows some countries Which adopted the VAT system According to a study by experts From the International Monetary Fund, The Organization for Economic Cooperation and Development (OECD), The World Bank, For the International Dialogue Conference on Tax Issues On value added tax, Hosted by the Italian government in Rome On 15-16 March 2005.

N	Country	Date of use of VAT
1	France	January 1948
2	Brazil	January 1967
3	Germany	January 1968
4	Sweden	January 1969
5	BELGIUM	January 1970
6	Peru	January 1973
7	USA	January 1973
8	Senegal	January 1974
9	Spain	March 1986
10	Morocco	April 1986
11	Taiwan	January 1986
12	Egypt	March 1991
13	Azerbaijan	April 1992
14	Russia	January 1992
15	Ukraine	March 1992
16	Algeria	April 1992
17	Poland	January 1993
18	Bulgaria	March 1994
19	Singapore	April 1994
20	Albania	January 1996
21	Uganda	March 1996
22	Cameroon	April 1997
23	Mozambique	January 1999
24	Sudan	March 2000
25	Australia	April 2000
26	Lebanon	January 2002

It is clear from the table that there has been an increase and a historic development among countries about taking in Value added tax system. Some studies Refers to That (VAT) revenues are rising when International trade in the State economy is increasing, with assumption equal to all other circumstances, where the smaller economies tend to rely more on trade. It is logical that VAT in small countries will perform better than in countries the biggest, but the relevance of VAT to small economies also depends on the difference in Collection costs between this tax and source of alternative income.<sup>(6)</sup>.

### 2.1. The Types of VAT.

This tax is imposed on essential goods and services and luxury which has been divided on this basis, And be As follows:

#### 2.1.1. General tax Sequential to the number of works:

The tax is imposed here on various transactions in different stages, where the tax is imposed on each commodity several times, in the number of operations which the good goes through It moves from product to consumer.

**2.1.2. General tax One On the number of works:** A tax imposed On all products At a certain stage of the different stages Through which the commodity passes from producer to consumer, This tax is divided into many types:

- **Production Tax:** This tax is imposed at the stage when the commodity becomes ready for consumption Between Production and trading stages.
- **Tax On purchases:** It is a single tax Impossible on Merchants Retail, and moves from retailer to consumer.
- **General tax on consumption:** It is a tax on the stage of commodity transition from a Merchants Retail To the consumer, It is also called the tax on commercial payments, The consumer pays it to the seller who supplies it to the treasury.

#### 2.1.3. Specific Multiple taxes on the number of works:

These taxes are levied on the number of works of these products, that means on the price of selling them ,These special taxes are imposed on the commodity In one of the different stages that pass when it's on the way from product to consumer. Where its impose on purchase Materials Initial Necessary to produce the commodity, or at the production stage, and When Goods moving from the wholesaler to the retailer. Also when the product is transferred from the retailer to the consumer.<sup>(7)</sup>

### 2.2. Characteristics of VAT.

VAT characteristics can be summarized as follows:

- VAT is a public tax imposed on goods and services consumed in the country.
- VAT provides justice in impose Fees to the final consumer.
- VAT Is the most tax types Evolution and ease of application and collection.
- Characterized by the advantage of tax deduction, The possibility of downloading previously paid taxes on goods purchased from The amount of the tax due on the sales of the taxpayer.

- This tax is appropriate for the Treasury, Where this tax gets after the occurrence that originator of it.
- It is a neutral tax, Where value added tax has no negative impact on the decisions of economic units.
- Low cost Administrative burdens In import transactions.

### 2.3. Importance of VAT.

The experiences of countries applying this tax confirm their importance in the economy, As this kind of tax Usually imposed on income, And then become on consumption, The events of the value added tax, A necessary step within the State's program of action Reform of the economic path. Which aims to stimulate investment incentives Capital flows, And achieve continuous growth rates from side And reduce the budget deficit from another side. And its application raises productivity And administrative in the tax system, Where its imposition will improve the level of tax liability and achieve Automatic increase in revenue In particular income tax. VAT reflects the need to integrate into the global economy and keep abreast of international developments. Therefore, the use of this tax would increase the competitiveness of domestically produced goods, whether in national markets or foreign markets.<sup>(8)</sup>

### 3. Objectives of applying VAT and the Methods of calculating its.

#### 3.1. The Objectives of applying VAT.

Whenever, Value added tax was close to the consumer whenever it was less significant but needed To strong control and tax administration efforts, which increases costs, While If VAT is far from the consumer this Will be reduced The Number of taxpayers, Their costs will be reduced, But it will become more powerful. So it will be certain objectives for VAT, as follows:

- Achieve fair distribution of the tax burden To achieve justice Through the determination of exemptions for essential And basic goods For the care of people with limited income.
- Through this tax the government will get on financial resources to face rising public expenditure without resorting to inflation.
- Guidance the Consumption, Thus leading to a better allocation of resources.
- Encouraging exports by exempting them from tax, and allow the imposition of tax on goods If exported for the outside, and tax on Imported goods To achieve fair competition with the domestic instance, This will lead to the stimulation of domestic manufacturing, And encouragement National industry.

#### 3.2. Methods of calculating VAT.

There are two ways to calculate VAT and to determine its tax base, as follows:

##### 3.2.1. Direct way to calculate VAT:

Through the direct collection method for this method it has been used early by businessmen By calculating the value added for all different elements Which consist of (wages, profits, interest, etc.) For this method Clear defect, It is the most facilities Put Calculate profits and losses once a year,

Therefore, you will not be able to determine the outcome of a profit or loss before the end of the year, Or through the Direct Discount method, Through this method We are minus the sales in the first period or a particular journey From the total sales at the end, the difference between these two values is value added and the tax is therefore imposed.

##### 3.2.2. Indirect method:

The indirect method of collection is done through Tax calculation For each element of value added And then collected at the end of the period. Or through the indirect Discount method ,By calculating the tax on Total sales at the end of a stage Then subtract the tax paid in the previous stages.<sup>(9)</sup>

### 4. Conclusions

1. The concept of value added Of the economic concepts that have been used for several years And in various countries of the world for various purposes.
2. The trend towards the introduction of value added tax (VAT) has increased In developed countries, Because it is a distinctive style with high economic efficiency.
3. One of the most important types of value-added tax is the general tax on the number of works in their types, which is called taxes on consumption.
4. Indirect taxes are imposed on income in various uses some of them are imposed on circulation and imposed on consumption Or imposed when producing income.
5. Value Added Tax (VAT) is one of the tax forms for all businesses, whether in income generation and sell it or when consumption of income and purchase of goods and services.
6. One of the most important characteristics of this type of tax is that it is a neutral tax and has no negative impact on decisions Economic units.
7. The main advantage of this tax is that it is broad-based Thus; this expansion achieves a better distribution for the tax burden.

### 5. Recommendations.

1. Direct efforts To begin with economic reform in general And tax reform in particular.
2. Put appropriate studies to legislate the necessary laws to impose this kind of tax is by specialists In the field of taxation.
3. Create appropriate electronic programs To apply the imposition of this tax.
4. Encourage studies that illustrate tax culture generally And its modern objectives Which seeks to reach social solidarity and urbanization to live among members of society.
5. Developing a specialized academy in tax studies It includes a group of academic professors And professionals in the economic, financial, tax and administrative fields, Its main objective is to prepare Tax studies and review of the structure, types and administration of taxes to make taxes take their role in Economic reform.

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