

Iraq Federal Budget 2027

Tax and Revenue Provisions: A Critical Assessment

Executive Summary

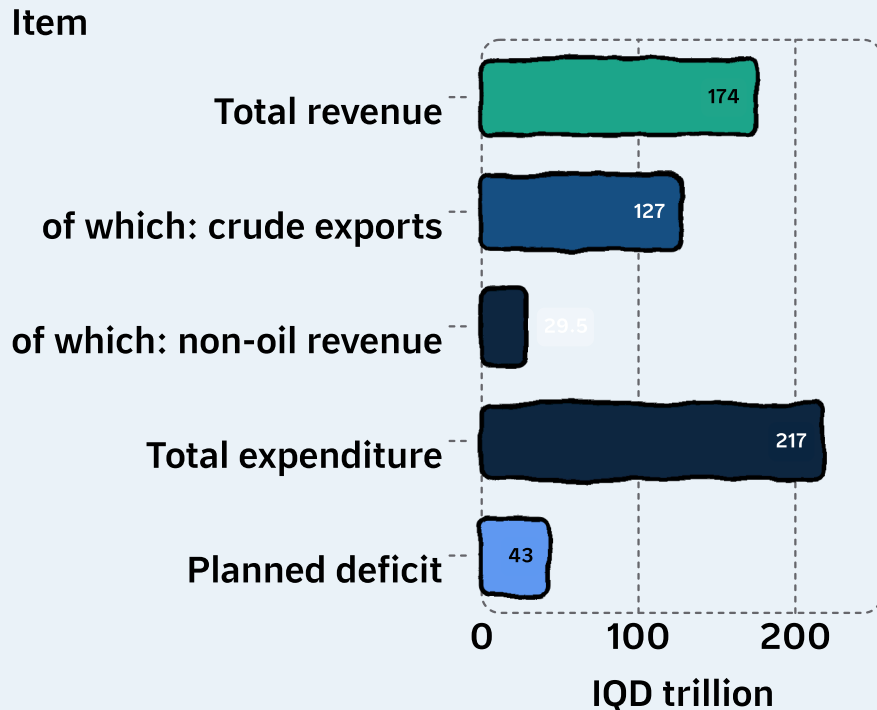
This paper examines the draft Federal General Budget Law for fiscal year 2027 from two angles. **First**, it inventories the tax and revenue-raising provisions of the draft, with reference to the relevant article and clause. **Second**, it offers a critical assessment of the budget's structure and underlying assumptions, benchmarked against the IMF Annual Report 2026 and the U.S. Department of State's 2026 Investment Climate Statement on Iraq.

Bottom line: this is a budget that defers the crisis rather than addressing it. It finances consumption through debt, shifts the cost of poor public service delivery onto citizens through expanded fees and collection, and rests on an oil-export assumption that the state has no power to deliver amid the disruption in the Strait of Hormuz.

1. Macro-Fiscal Aggregates

Adopted exchange rate: IQD 1,500 per USD, according to statements by members of the Parliamentary Finance Committee.

Revenue, Expenditure and Deficit (IQD trillion)



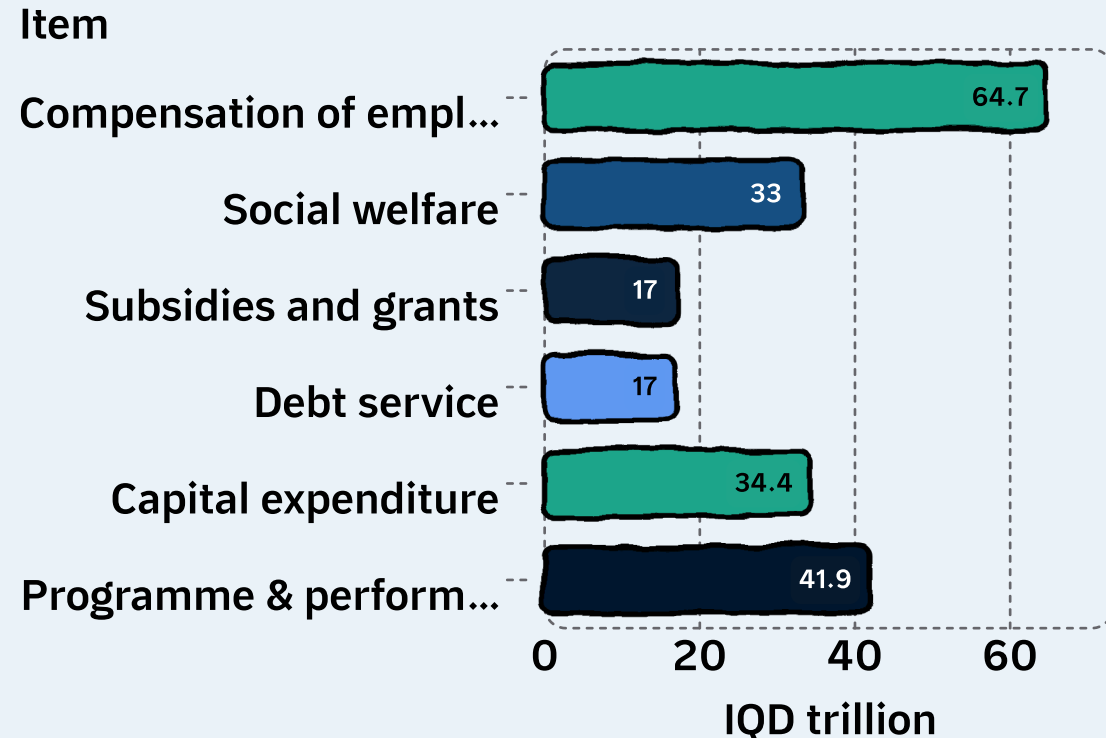
Oil accounts for about 83% of revenue

Based on \$58/bbl and 4.0 mb/d

Only about 17% of revenue

Deficit: about 20% of expenditure and 25% of revenue

Expenditure Breakdown (IQD trillion)



- Capital expenditure: of which 10 for licensing rounds
- Programme & performance budget: of which 37.73 for electricity alone

2. Tax and Revenue Provisions in the Draft — Sales Tax and Income Tax

2.1 Sales Tax

- **Art. 16 (I)(b) (New):** A **10%** sales tax on mobile telephony and internet services. Violators are subject to Income Tax Law No. 113 of 1982; proceeds are credited to the Iraq Sovereign Fund.
- **Art. 17 (I) (Base broadening):** Extends the sales tax (Legislative Decision No. 36 of 1997) to restaurants and hotels up to second class, cosmetic clinics and beauty centres, private hospitals, veterinary clinics, and sports and leisure clubs and halls.

2.2 Income Tax

- **Art. 15 (IV)(c) (Continuation):** Requires the General Commission for Taxes to collect income tax from social-media companies and foreign and domestic live-streaming platforms.
- **Art. 18 (I) (Delegated power):** Authorises the Council of Ministers, on the proposal of the Minister of Finance, to amend the tax schedule under Article 13 of the Income Tax Law and to defer tax assessment for up to **6** months, including for oil licensing-round companies and mobile and internet operators.
- **Art. 20 (New in application):** Electronic collection of income tax from any homeowner conducting a commercial activity from the home and earning daily, monthly or annual income. This is a tax on income, not on property.

Customs, Anti-Evasion and Revenue Administration

2.3 Customs and Anti-Evasion

- **Art. 15 (IV)(h) (New):** Subjects all imports under public-private partnership (PPP) contracts to customs duties and taxes, notwithstanding laws granting them exemptions.
- **Art. 15 (IV)(g) (Procedural):** An electronic platform to curb tax and customs evasion on illegally imported mobile and electrical devices and to block counterfeit and stolen devices.

2.4 Revenue Administration

- **Art. 16 (II) (Continuation):** Continued roll-out of e-collection and automation of tax and fee collection through the public sector, the private sector, or partnerships between them.
- **Art. 18 (II) (Continuation):** A comprehensive survey of all commercial, industrial and economic activities for the purpose of taxation.
- **Art. 18 (III) (Incentive):** **1%** of revenue from taxes on income and wealth earmarked for the General Commission for Taxes: **30%** as staff incentives and **70%** for infrastructure upgrades.

Fees, Quasi-Fiscal Charges, Exemptions and Waivers

2.5 Fees and Quasi-Fiscal Charges

- **Art. 16 (I)(a) (Enforcement tightened):** Collection of electricity, telephone, water and sewerage charges and all other fees, with collected amounts deducted from the recurrent budgets of the entities concerned; **no government transaction may be processed unless the applicant presents paid utility bills.**
- **Art. 16 (c) (New):** An airport fee of IQD **25,000** per international ticket and IQD **10,000** at all airports and border crossings, credited to the Iraq Sovereign Fund.
- **Art. 19 (a) (Broad delegation):** Ministries and governorates may impose new fees and service charges and amend existing ones under rules issued by the minister or governor, excluding sovereign fees; **80%** of proceeds retained by the entity, **20%** to the Treasury.
- **Art. 17 (II) (Continuation):** Business permits for craftsmen and small shops, subject to fees.
- **Art. 15 (IV)(d)(e)(f) (New):** Communications and Media Commission fees on influencers' commercial advertising, registration of online media outlets, and internet service-provider towers.
- **Art. 25 (I) (Administrative):** Proceeds of the school-construction stamp duty accrue to the Treasury, with an equivalent amount added to the Ministry of Education's budget.

2.6 Exemptions and Waivers

- **Art. 3 (II)(2) & Art. 19 (b) (Delegated power):** Opens investment and partnership with the domestic and foreign private sector, with exemptions from relevant laws granted by Council of Ministers instructions, without defining their scope.

Genuinely new measures in the draft are: the sales tax on telecoms, its extension to services, the travel fee, the application of income tax to home-based businesses, the removal of customs exemptions for PPP contracts, and the Communications and Media Commission fees. Most of the remaining provisions are framed as a “continuation”, i.e. a reaffirmation of existing measures.

3. Critical Assessment

- **A budget built on a barrel that does not exist:** Revenue is premised on \$58/bbl and exports of 4.0 mb/d, whereas actual exports stood at around 2.7 mb/d in October 2026, and averaged only 1.32 mb/d in the first half of the year. Every 1 mb/d shortfall against the assumption opens a gap of roughly IQD 32 trillion a year. The headline deficit (IQD 43 trillion) is a negotiating figure; the true deficit could approach IQD 75 trillion if exports settle at 3 mb/d.
- **A payroll state, not a development state:** Wages, social welfare, subsidies and debt service total about IQD 132 trillion—61% of spending and 76% of total revenue. In substance, the budget is a payroll ledger financed by oil and borrowing.
- **Meagre real investment:** Of the IQD 34.4 trillion classed as “capital”, IQD 10 trillion goes to oil licensing rounds—cost recovery for international oil companies rather than national capital formation. Genuine investment is around 11% of spending, in a country short of power, water and schools.
- **Disguised monetary financing:** The deficit is financed through domestic bonds and treasury bills bought by state-owned banks and then discounted at the Central Bank. This is money creation in polite accounting language; its real cost is inflation and pressure on the exchange rate pegged at IQD 1,500.
- **Diversification by slogan:** Non-oil revenue is just 17%, and the proposed tools—fees, collection drives and tax surveys—squeeze the existing base rather than broadening the productive base. There is no new sector, no non-oil export push and no production incentives.



Critical Assessment: Revenue Collection, Austerity and Services

- **Revenue delegation of doubtful constitutionality:** Article 19 turns every minister and governor into a revenue authority, able to impose and amend fees by administrative rule and retain **80%** of the proceeds, while Article 18 lets the Council of Ministers amend the income-tax schedule. Both collide with Article 28 of the Constitution, which requires taxes and fees to be imposed and amended only by law.
- **Collection by administrative coercion:** Making any government transaction conditional on paid electricity and water bills means that a state unable to supply services around the clock withholds citizens' paperwork until they pay for them.
- **Austerity without a safety net:** A hiring freeze and the abolition of vacant posts in a country with unemployment of around **15.5%**, with no alternative employment programme or incentives for the private sector meant to absorb graduates—a sector that instead faces additional fees and taxes.
- **Back-door privatisation of higher education:** Cutting funding for public universities to **50%** from 2027, two years ahead of the scheduled “self-financing” transition (Art. 27), shifts the cost to households through tuition fees without any declared education policy.
- **Electricity as a fiscal black hole: IQD 37.7 trillion** for electricity alone—more than the entire capital budget—on top of a long list of new external loans, with no reform of tariffs, technical and commercial losses, or the ministry's structure. A repeat of a prescription that has failed for two decades.



Critical Assessment: Debt, Kurdistan, Investors and Governance

- **Debt accumulating quietly:** Debt service has reached **IQD 17 trillion**, equal to the entire subsidies-and-grants line. New external borrowing against volatile dollar revenues is a bet that Hormuz will reopen.
- **A Kurdistan assumption detached from reality:** The budget assumes the Kurdistan Region will deliver **400,000 b/d** through SOMO, while the State Department report notes that the Region's output has collapsed to **10%** of pre-war levels.
- **Mixed signals to investors:** The budget speaks the language of partnership, then subjects PPP imports to duties "notwithstanding exemption laws", and opens partnerships through ministerial waivers while the PPP Law has been stalled in parliament since April 2025. Investors read the stability of rules, not rhetoric.
- **A sovereign fund on paper:** Telecom tax and travel-fee proceeds are earmarked for an "Iraq Sovereign Fund", while the State Department report states that Iraq has no sovereign wealth fund. Its legal basis, management, investment mandate and oversight are all undefined.
- **Absence of modern fiscal tools:** No medium-term fiscal framework, no fiscal rule to contain current spending, no stabilisation fund to absorb oil volatility, no contingency scenario for a prolonged Hormuz closure, and no cost-benefit analysis of projects—precisely the tools the IMF recommends in its report.
- **Deficient transparency:** The draft lacks detailed annexes allocating expenditure by ministry and governorate, leaving parliament and the public unable to hold anyone to account.

4. Cross-Check Against the Two International Reports

Area	Budget	Reports (IMF and DoS)	Assessment
Non-oil revenue mobilisation	Taxes, fees and e-collection	Recommended by the IMF	Consistent
Expenditure restraint	Hiring freeze; no new projects	IMF calls for fiscal discipline	Partly consistent
Subsidy and pension reform	≈ IQD 115 trillion with no structural reform	IMF: support should be temporary and well targeted	Inconsistent
Deficit financing	Short-term paper and Central Bank discounting	IMF warns of short-term debt risks	Inconsistent
PFM tools	Absent	Multi-year budgeting and cost–benefit analysis	Inconsistent
Financial compliance	E-collection and automation	Iraq returned to the FATF grey list on 19 June 2026	Consistent
Tax-environment stability	Delegated power to amend taxes and fees administratively	ICS: frequent legislative change and heavy tax burden among top obstacles	Inconsistent
Partnerships and incentives	Ministerial waivers; removal of customs exemptions	PPP Law stalled; Investment Law incentives	Inconsistent
Government arrears	Settlement of Kurdistan dues (IQD 12.78 trillion) over 3 years	Arrears a key investor complaint	Consistent

Expected Impact and Conclusion

Expected Impact

- **A larger-than-announced deficit:** additional domestic borrowing, pressure on the Central Bank and the exchange rate, and likely payment delays outside the wage bill.
- **A mixed message to investors:** investment-promotion rhetoric undercut by tax and customs instability.
- **A heavier burden on citizens:** broad fees and collection measures at the height of an energy shock—the opposite of the IMF’s advice for temporary, targeted support to the most vulnerable.

Conclusion

The 2027 budget does not manage the crisis; it postpones it. It anchors revenue on uncertain oil exports, funds consumption spending through debt and monetary financing, and passes the cost of weak public services onto citizens through fees and charges imposed by administrative decision. Before adoption, the following are required: a realistic export scenario; making any fee or tax change subject to legislation; clarifying the legal basis of the Iraq Sovereign Fund; attaching detailed expenditure annexes; and tying borrowing to productive projects rather than recurrent spending.

METHODOLOGICAL NOTE

Provisions are drawn from the circulated version of the draft law; verbatim wording should be checked against the official text before quotation. Estimates of the deficit impact of lower exports are approximate calculations for this paper (1 mb/d × 365 days × \$58 × IQD 1,500).

SOURCES

- Draft Federal General Budget Law of the Republic of Iraq for Fiscal Year 2027.
- International Monetary Fund, Annual Report 2026 (Arabic edition).
- U.S. Department of State (DoS), 2026 Investment Climate Statement: Iraq
- Shafaq News, “Parliamentary Finance Committee: 2027 Budget at **IQD 217 Trillion**”, 6 October 2026.
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- IraqiNews. "Iraq's oil exports jump to 488,000 barrels per day in June", 7 October 2026.