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THE FISCAL SYSTEM

OF IRAQ

By

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PREFACE

The increasing complexity of modern economic life due to the development of commerce and industry, the great inequalities in individual wealth and income and the broadening of class distinction, coupled with the gradual development of social ideals of justice and equity and the outburst of democratic and socialistic sentiments, have resulted in the increasing demand for communal spending and the growing field of State activity. Furthermore, the growing recognition of the faults of modern capitalism and the desire to remedy them have drawn the attention of many economists and social reformers to seek solution through fiscal policy. It is now held by many that fiscal policy can be utilised to ameliorate existing social and economic conditions.

The increase of government interference and government functions has resulted in a continuous growth of public expenditure which in turn necessitated the levy of more revenue. On the other hand, tax bases have varied as the factors at the foundation of the economic and social life have changed.

In the last few decades an enormous literature on public finance has been written. Special attention has been focused on the social and economic effects of different forms of taxation. Comprehensive studies of fiscal theories and problems have been made. Detailed studies on the fiscal systems of different countries have

been carried out; policies criticised and suggestions offered.

However, fiscal problems have not yet attracted any serious attention in Iraq, partly because of the relative simplicity of economic life, partly because of ignorance, and partly because social consciousness has not yet fully developed. No detailed scientific study of the Fiscal System of Iraq has yet been published. This thesis is an attempt to fill this important gap. It aims to describe and analyze the Iraqi fiscal system.

The first chapter is devoted to the study of the budget. The second and third chapters are devoted to public expenditure and public revenue respectively. Chapters four and to ten deal with taxation--chapter IV, the building and the building sites tax, chapter V customs and excise duties, chapter VI, the income tax, chapter VII, land rent and water right, chapter VIII, the Istinlak tax on agricultural and natural produce and the Istinlak tax on animals and animal produce, chapter IX, the stamp tax and the radio tax. Chapter X is devoted to a discussion on the ^{land} fiscal accounts and financial position. Finally, the last chapter contains a summary and a conclusion.

I am especially indebted to Prof. Saïd B. Hinaden under whose supervision this work has been completed. I am also indebted to all those officials in the Directorate General of Revenue, who helped me in collecting the data for this thesis, especially to Mr. Ali Muntaz, the head of the department and a former minister of finance, for his kind assistance and the special interest he has shown in my work.

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(1)

CHAPTER I

THE BUDGET

I. INTRODUCTION

The term "Budget" is usually defined as a document containing a preliminary approved plan of public revenues and expenditures.⁽¹⁾ Professor Lutz defines the budget as "a comprehensive program of expenditures and revenues, prepared and approved in advance of the operations to be conducted under it."⁽²⁾ Any budget then should possess the following essential characteristics: In the first place it should be a statement forecasting revenues and expenditures. In the second place it should contain an authorization or an order by competent authorities to make or receive the designated expenditures and revenues. And lastly it must be of a limited duration.

The annual budget estimates of public revenue and public expenditure in Iraq are sanctioned by an annual law known as the Budget Law; e.g. the General Budget Law No.40 of 1941, and the General Budget Law No.31, of 1942. However, the difference between the budget as such and the Budget Law is that of form rather than that of substance. Both the budget and the Budget Law are statements

(1) Rene Storun, Le Budget, (Translated from French by Walter McCabb, D. Appleton and Company, London, 1917), p.2 See also the Encyclopaedia of the Social Sciences, Vol. III, p.527.

(2) Harely Lutz, Public Finance (D. Appleton and Company, London, 1936), p.120

(2)

containing full particulars of the estimated revenues and expenditures, but the former is a mere ordinary statement while the latter is a legal statement having the status of a law.

A Complete study of budget procedure in Iraq, necessitates a separate examination of each of the following four major operations: (1) the preparation of the budget; (2) the voting or legislation of the budget; (3) the execution of the budget; and (4) the control of the budget.

II. THE PREPARATION OF THE BUDGET.

A. Description of the Budget

1. General description. There are ten statements usually attached to the annual General Budget Law. Statement "A" gives a detailed account of the annual ordinary expenditures; statement "B" gives a detailed account of the annual ordinary income of the state. Statements "C", "E", "G", and "I" are detailed accounts of receipts, while statements "D", "F", "H", and "J" are detailed accounts of expenditures of the Port Administration, the Fao Bar Dredging Scheme, the Railway Administration and the Currency Board respectively.⁽³⁾

(3) Because of the present war conditions the budget of Capital Development works, which is usually prepared for a period of three or five years, is now prepared for one year only. Thus to the General Budget Law No.31 of 1942 are attached two other statements, "K" for revenues and "L" for expenditures of this budget.

(3)

2. Statements "A" and "B". As we have just mentioned above statement "A" deals with the annual ordinary expenditures of the state. This statement is usually divided into twenty-one chapters and contains one hundred and twenty-five votes.⁽⁴⁾ The classification of chapters is made on the basis of ministries and important departments under certain ministries.⁽⁵⁾ The chapters are divided into as many sections as the number of activities undertaken by each ministry. The chapter devoted to the ministry of Education, for example, is divided into four sections representing the four important divisions of the ministry, namely, Ministry's Headquarters, High Schools, Schools and Antiquities Department. Furthermore, each section is divided into votes which deal with three types of expenditures, that of salaries, of allowances and services, and that of special charges.

(4) See the General Budget Law No.31 of 1942.

(5) The following are the twenty-one chapters to which statement "A" is divided:- Chapter I, Pensions and Gratuities; Chapter II, Civil List of H.M. the King; Chapter III, Parliament; Chapter IV, Comptroller and Auditor General; Chapter V, Council of Ministries; Chapter VI, Ministry of Foreign Affairs; Chapter VII, Ministry of Finance; Chapter VII A, Customs and Excise; Chapter VIII, Ministry of Interior; Chapter VIII A, Iraq Police; Chapter VIII B, Ministry of Social Affairs; Chapter IX, Ministry of Defence; Chapter X, Ministry of Justice; Chapter X A, Tapu and Survey Department; Chapter XI, Ministry of Education; Chapter XII, Ministry of Economics; Chapter XII A, Agricultural and Veterinary Department, Chapter XIII, Ministry of Works and Communication; Chapter XIII A, Works Department; Chapter XIII B, Irrigation Department; and Chapter XIII C, Post and Telegrams Department.

Statement "B" deals with the annual ordinary incomes of the state. It is divided into six chapters and contains usually forty-four votes. The division of chapters is made on the basis of the nature of revenues. Thus, Chapter I is devoted to revenue from taxation on agricultural, natural and animal produce, and rents of Government Properties; Chapter II to revenue from property, income, and stamp taxes; Chapter III to revenue from miscellaneous sources; Chapter IV to revenue from Customs and excise duties; Chapter V to receipts from Posts and Telegram; and Chapter VI to receipts from Government operations and services.

3. Specialization of the Budget.

Universality or Unity of the budget implies the presentation of the full estimates of all state revenues and expenditures in one mass and in one account. Special funding or specialization, on the other hand, implies the isolation of certain branches of government services by separating ~~the~~ ~~from~~ from the mass of budgetary operations the revenues and expenditures relating to the branches in question.⁽⁶⁾

The Iraqi Budget is not a comprehensive or a universal one. It is a specialized one. The General Budget does not sum-up in one consolidated statement all public expenditures and all public revenues; on the contrary, it presents the total expenditure needs to the total

(6) Storun, op.cit. p.144.

(5)

prospective revenues of the country in six autonomous budgets, each with its own expenditures and revenues, and each with an independent accounting system of its own.

Thus besides the ordinary budget, there exist five separate budgets. They are: (1) The Port of Basra Budget; (2) the Fao Dredging Scheme Budget; (3) the Iraqi Currency Board Budget; (4) the Budget of the Iraq State Railways, and (5) the Capital Development Works Budget. Similar to the ordinary budget each one of these five budgets is prepared in two statements, one for revenues and the other for expenditures.⁽⁷⁾

This system of annexed-budgets has its advantages. Of course, the preparation of separate statements of expenditures and revenues for certain revenue-producing enterprises such as the Fao Dredging Scheme, Railways, and the Port of Basra, are very helpful for their proper and efficient operation and administration. But the preparation of separate statements like these can be continued without infringing upon the unity of the General Budget. This can be accomplished if the net result of each of them, whether a surplus or a deficit, is included in the General Budget.

But, ~~unfortunately~~, the Iraqi Government is legally prevented from following such a procedure. According to the agreements between the Iraqi Government and the British Government, the former

(7) Supra, p.2.

(6)

accepted to have the budgets of the railways, the Port, the Fao Scheme, and the Currency Board separated from the General Budget, each with its own separate revenues and expenditures.⁽⁸⁾

The reasons for this limitation imposed upon the Iraqi Government are not so clear. Both the Port and the Railways were the property of the British Government and were sold to the Iraqi Government on yearly instalment basis. To insure the payment of these annual instalments in the proper time the British Government demanded that separate accounts for each of these enterprises should be kept. This may be accepted as a reason, but, in my opinion, it is not the main reason. The British Government would have been able to insure such payments without resorting to this measure. I think that the main reason is to prevent surpluses resulting from the Port or Railway Administration from being utilized for purposes other than the extension and improvements of the Port or the Railway system. In doing so the British Government has been able to protect its interest even after selling the Port and the railways to the Iraqi Government. The British Government, because of military reasons, is interested to see that the Iraqi system of transportation is always maintained in a proper order.

(8) The agreement signed by the Iraqi Government and the British Government in March 31st, 1936, regarding the administration of the Railways, (Al-Wajiyah al-Iraqia No.1508 dated 25 April, 1936) and also the agreement concluded between the two Governments regarding the Administration of the Port of Basra in 1922. See also the Currency Law (in Arabic) No.34 1931, Article 11.

B. Who Prepares the Budget?

It is a world wide practice, and so also in Iraq, to vest the right of preparing the budget estimates with the Executives. The Executives are more in direct touch with the public and so they possess an advantage over all other state authorities in knowing in advance, better than anybody else, the nature, the extent and the reality of the country's needs and resources. The executives therefore, are given the exclusive right of preparing budgetary estimates.

Practically every official in the executive service has his own part to play in the making and the preparation of budgetary estimates. From the insignificant executive official in the Qadha to the senior official in the Liwa are all engaged in preparing these estimates. Each minister, being the head of a certain executive branch, prepares, with the help of his official collaborators, the budgetary estimates of expenditures and receipts of his own ministry.

When the time of budget preparation arrives, the Ministry of Finance sends notices to all ministers asking them to begin estimating the expenditures and receipts of all the departments under their authority. Upon receiving this notice, the ministers will notify its particulars to the heads of departments, and those in turn will send similar requests to executive officials in different Liwas. Similar requests will be sent to heads of departments in Qadhas and Nahiyas.

In such a hierarchy of government officials, two administrative categories may be distinguished: the central administration, and the

(8)

local agencies. The heads of local agencies estimate the expenditures and receipts of their own departments and submit them to the respective heads in the central administration. The latter, besides their power to prepare budgetary estimates of their own departments, act as general controllers on local agencies. They can make any desired revision in the estimates made by the local agencies. They will then combine those estimates with those of their own departments in a unified consolidated statement which they submit to the respective ministers. The ministers, after approving such statements, will present them to the Minister of Finance. The role of each minister consists in summarizing and revising the plans of his various administrative bureaus and offices and in submitting an approved unified statement to the minister of Finance showing the estimates of expenditures and receipts of his ministry.⁽⁹⁾

The Minister of Finance besides preparing the estimates of expenditures of his own ministry has, with the help of his advisors and collaborators, to prepare all revenue estimates for the period. He may propose new taxes, or introduce changes in existing taxes. Furthermore, he has to summarize the estimates reached at by other ministries and prepare two unified statements, one for expenditures (A), and the other for revenues (B). In similar manner all other annexed statements namely, statements C, E, G, I, D, F, H, and J are prepared. Afterwards the Minister of Finance will forward the budget

(9) General Accounting Procedure Law No. 28 of 1940, Article 3.

plan, together with a "statement of supporting arguments" to the Council of Ministers for study and submission to the Parliament during the annual session.⁽¹⁰⁾

The Minister of Finance has no right to change the estimates submitted to him by other ministers without taking the consent of the respective minister. However, his advice to other ministers in connection with the preparation of the budgetary estimates of their ministries is of a paramount importance and should be carefully recognized since he is the person who knows more than anyone else about the general conditions of the Treasury.

C. When is the Budget Prepared?

The financial year commences on the 1st of April and ends on March 31st. Preparation of the Budget starts several months before the beginning of the financial year for which the Budget is prepared. Article 3 of the General Accounting Procedure Law No.28 of 1940 requires all the ministries and departments to finish the budget estimates for the financial year in question before the end of October. This five months period is considered enough for making any sort of revision, amendment, study, as well as for the final study voting of the Budget.

D. Budgetary Estimates of Revenues and Expenditures.

1. Methods of estimating revenues and expenditures. There is no

(10) Ibid.

specific method or accurate measure for estimating expenditures. The extent and nature of any expenditure cannot be accurately foreseen because usually an expenditure is made when a need for it is felt. The making of a proper expenditure estimate demands a knowledge of all possible needs both those that are already felt and those which might arise during the financial year. Furthermore, the extent and nature of expenditures are limited by the possibility of finding the necessary revenue. Therefore, proper estimates of expenditures requires in addition a thorough knowledge of the financial conditions of the Treasury during the period in question.

Until recently revenues from different sources were estimated on the basis of actual receipts in the preceding two years.⁽¹¹⁾ This method is known as the automatic or averaging method. Accordingly facts developed before two years serve as a definite basis for budgetary estimates of revenues. "This procedure puts those who prepare the budget on the ground over which they have been before; it assigns to them the past as the exact model for the future and suggests to them that they enter as estimates the very figures of collection which were previously realized."⁽¹²⁾

The defect of this method has long been recognized in Iraq, and thus revenue officials have been trained to assume the difficult task of direct valuation. In recent years some revenue estimates

(11) Ministry of Finance Notification No.1375 of 19/5/1940.

(12) Storun, op.cit., p.172.

have been made directly i.e. de novo each year. The present method followed in Iraq, therefore, is a combination of the automatic system and the system of direct valuation.

2. Accuracy of budget estimates. The budget anticipates the financial conditions of the state during a fixed future period. With the budget as a guide, the government proceeds to adopt a financial policy which will suit best the anticipated position of the State Treasury during the period in question. Thus it becomes an urgent need that budget estimates of both revenues and expenditures should possess a reasonable degree of accuracy for preventing all sorts of confusion and unrest which always accompany an improper financial policy. The more accurate those estimates are, the greater is the service rendered by the budget.

Table I gives the total actual and estimated ordinary expenditure and revenues for a period of five years, together with the percentage of error in these estimates as compared with the actual figures. It indicates that the average percentage of error in estimates for this period is about 2.27% for expenditure and 9.50% for revenue. It may be said, therefore, that budgetary estimates in Iraq possess a high degree of accuracy--~~9~~⁷8.33% in the case of expenditure estimates and 90.5% in the case of revenue estimates.

Table I

The Degree of Accuracy of Ordinary Budget Estimates of the
Years 1934-35 to 1939-40. (13)

Year	Total Actual Ordinary Expenditure I.D.	Total Estimated Ordinary Expenditure	Per- centage of Error.	Total Actual Ordinary Revenue I.D.	Total Estimated Ordinary Revenue I.D.	Per- centage of Error
1934-35	3794230	3813197	0.50	4012777	3818807	4.60
1935-36	4413016	4727335	0.72	4759700	4283102	11.00
1936-37	4756167	4727335	0.80	5426308	4728780	13.00
1937-38	5169402	5318885	2.30	5801039	5322000	9.20
1938-39	5670738	5469013	3.20	6093053	5665490	7.30
1939-40	6369143	5994632	<u>5.30</u>	6800114	6033000	<u>11.30</u>
Average:-			<u>2.27</u>			9.50

This last statement, however, should be taken with reservation. It may be noticed here that we have been all the time dealing with totals (comparing the totals of actual with that of the totals of estimated revenues and expenditures.). Such comparison is ^{mis}leading and very little instructive. More truth may be revealed by taking budgetary items and not totals as the basis of such comparison. For an accurate estimate of totals does not necessarily mean accurate estimates of individual items. An over-estimation in one item, for instance, may counter-balance an under-estimation in another leaving the general total unaltered. A study of each item separately has revealed

(13) Government Accounts for the years 1934-35 to 1939-40 (in Arabic)

that budgetary estimates in Iraq possess but only a moderate degree of accuracy. Generally speaking, there has always been a tendency to underestimate both revenues and expenditures.⁽¹⁴⁾

Inaccurate budgetary estimates are made because of two main reasons. First, a quite large proportion of revenue in Iraq is derived from taxes on agricultural, natural and animal produce and from customs import duties. Receipts from these sources vary considerably from one year to another according to changes in climatic conditions and the ~~volume~~^{The record shows a} of imports. Secondly, the lack of a reasonable degree of administrative efficiency.

(14) Report of the Accountant's General Department of the Year 1957,
p.3.

III THE VOTING OR LEGISLATION OF THE BUDGET

A. Introduction.

Article 98 of the Iraqi Constitutional Law states that, "budget estimates of income and expenditure for the year in question shall be sanctioned by an annual law known as the Budget Law."⁽¹⁵⁾ The second step immediately taken after the completion of budget estimates by the executives, therefore, is that of giving them a legal status by the legislature. This section contains a brief discussion of certain problems usually connected with budget legislation.

In the previous section of this chapter we have already mentioned that the Minister of Finance forwards the draft law of the budget to the Council of Ministers for study and submission to the Parliament. The draft law of the budget is, in most cases, submitted to the Parliament at a time long enough before the termination of the financial year. The Parliament is given sufficient time to study and vote the new budget before the commencement of the new financial year. Presumably, therefore, the Budget Law would appear before the beginning of the new financial period.

However, there are cases in which the executives fail to submit the new budget plan to the Parliament at the proper time and thus the new financial year begins without the new Budget Law being sanctioned. Let us, then, devote sometime to consider certain important problems usually connected with this, rather exceptional case,

(15) ~~The Iraq Constitution~~, (The Government Press, Baghdad,) Article 98, p.17.

before proceeding with our discussion of those connected with the common one.

B. Temporary Budget Laws.

Should it happen that the new financial period begins without the Budget Law being sanctioned, two procedures are usually followed depending on whether the Parliament is in session or not.

If the Parliament is in session the Minister of Finance submits a temporary budget plan for a period not exceeding two months. After short study and little debate the temporary budget plan is finally sanctioned by a law called a Temporary Budget Law. This law insures the smooth working of government machinery by enabling government officials to continue incurring expenditures. Another temporary budget law for a maximum period of additional two months may be passed by Parliament in case the General Budget Law had not been sanctioned before the expiration of the first two months of a financial year. This practice may be continued until the appearance of the Annual Budget Law.⁽¹⁶⁾

On the other hand if the Parliament is not sitting the budget of the preceding year is followed.⁽¹⁷⁾ The method resorted to in 1931 is that of allowing for each ministry or department a monthly share of expenditure which equals to 1/12 of the last year's appropriation

(16) Ibid., Article 107.

(17) Accounting Procedure Law, Article 4.

until the enactment of the new Budget Law. There is nothing legal, however, to prevent the Minister of Finance from permitting certain ministries or departments to spend more or less than the said limit.

C. The Parliament and the Budget.

In sanctioning the Budget Law the same procedure is followed as in the case of legislating any other law. As soon as the draft law of the budget is submitted to the House of Commons, the secretary of the House announces its receipt and reads its title before the entire assembly. This is known as the first reading of the budget. The draft law is then sent to a committee appointed by the House for the purpose of studying the Budget plan and submitting a report on the result of the study. This committee is called the Budget Commission.⁽¹⁸⁾ Before preparing the report, the Budget Commission will make a detailed and careful study of the budget plan, chapter by chapter. For the purpose of securing additional information it has the right to question ministers and heads of departments on whatever points concerning the finance of their respective departments.⁽¹⁹⁾ Having completed the investigation, the Commission will proceed to prepare the report. In this report the Commission will express its opinion on the budget plan as a whole, point out the merits and

(18) The Status Law of the House of Commons, Article 33.

(19) Ibid.

defects of the plan, and above all give advice to the House regarding the attitude that the deputies should take towards the proposed plan. The report should be completed and submitted to the House before its last session which precedes the commencement of the new financial year. The second reading ~~is~~ of the budget is made in the last session of the Parliament preceding the commencement of the new financial period.⁽²⁰⁾ By that time the report of the Budget Commission would have been printed and distributed to the deputies. By that time, then, everyone of them is ready for arguing and discussing the plan.

It is customary, however, that the second reading of the budget begins with a speech from the Minister of Finance. Whatever form the speech takes, it should be confined to these subjects:

- (1) Changes that have taken place in the new budget, if any.
- (2) Comparison between the last budget and the proposed one.
- (3) Causes of divergences, when they exist, between figures indicated in the preceding and the new budget.
- (4) Comparison between the works already accomplished during the preceding financial year, and those which are expected to be accomplished during the coming financial year, by the different government departments.
- (5) Remark on the general financial position of the state.

(20) The Iraq Constitutional Law, Article 99.

- (6) Supporting arguments to the plan, and answers to the objections and criticisms raised against it by the Budget Commission.

After the Minister of Finance finishes his speech, the proposed budget is put for voting. It is natural that the debate on items of expenditure starts first. The debate and voting on the Budget is made chapter by chapter separately. Then the Budget Law is voted upon as a whole. Consequently, the debate and voting on the Budget Law needs a long time, and frequent meetings.

Budgetary debate and discussion in the Senate is usually very brief. The procedure followed in studying and voting the budget in this House is similar to that of the House of Commons. The budget is voted on chapter by chapter, with practically no debate on chapters on which no dispute has arisen between the executive and the House of Commons.⁽²¹⁾

Different to all other laws, the Budget Law should be sanctioned and the Parliament has no legal power to reject it. Its legal power only consists of decreasing items of expenditures. It cannot propose plans for the expenditure of public funds on new items, nor can it suggest any increase of appropriations above those proposed by the ministers.

We have traced the procedure followed in preparing and sanctioning the budget by a law. But there is still another question to be answered in this connection, namely, the significance of budget legis-

(21) The Status Law of the Senate, Article 30.

lation from the social as well as from the financial point of view. From the social point of view budget legislation protects and safeguards the interest of society as a whole, because the people, through their representatives are made to participate in the formulation of the financial policy. From the financial point of view budget legislation leads to a planned, organized, and controlled financial policy, since through budget legislation the legislature is made able to limit the powers of the executive. The financial powers of the executive are confined only to those delegated to them by the Budget Law. Consequently, the executive cannot:

- 1- spend government money without the consent of the Parliament.⁽²²⁾
- 2- impose any tax or additional rates without the approval of the Parliament.⁽²³⁾
- 3- Exceed the appropriations mentioned in the Budget without additional appropriations being granted.⁽²⁴⁾
- 4- Transfer provisions from one vote to another.⁽²⁵⁾

In Iraq there are two reasons which lead to minimize the significance of budget legislation. The first is the lack of political parties which results in improper representation of all vested interests. The second is the ignorance of the majority of the deputies.

(22) There is however one exceptional case mentioned--Article 106 of the Constitutional Law. "The Chamber of Deputies may not take any decision, nor prepare any amendment to a draft law, involving the reduction of expenditure arising out of Treaties approved by Parliament, or the Constituent Assembly, unless approved by the King."

(23) Iraq Constitutional Law, Article 95.

(24) Ibid., Article 91.

(25) Accounting Procedure Law, Article 5.

The annual financial plan proposed by the executive, whatever shape it might take, frequently finds but little opposition in the Parliament.

IV EXECUTION OF THE BUDGET.

A. Introduction.

The budget Law, similar to any other law, should be enforced and executed. Broadly speaking, the following are the three main operations connected with budget execution: the collection of revenues, disbursement of expenditures, and the safeguard and proper allocation of government cash. A smooth carrying out of these three operations demand both a sound administration and a sound accounting system. Thus, besides discussing these three main operations, a brief description of the Ministry of Finance organization and of the accounting system followed is also desirable.

B. Organisation of the Ministry of Finance.

The Ministry of Finance is responsible for the execution of the Budget Law. The Administrative divisions of the Ministry and the directorates under it, as well as the activities conducted by each administrative division, is prescribed in the Ministry of Finance Regulation No.27 of 1941 which is in accordance with Article 1 of the Law for the Organization of Ministries No.57 of 1933.

Accordingly, the Ministry of Finance is composed of the following administrative divisions:

- 1- The Finance Inspectorate which is under a Chief Finance Inspector directly responsible to the Minister.
- 2- Directorates General

(a) Departments forming the Ministry:

- (1) Directorate General of Finance.
- (2) Directorate General of Revenue.
- (3) The Accountant's General Department.
- (4) The Directorate of Income Tax.
- (5) The Directorate of Legal Affairs.
- (6) The Government Press.

(b) Departments attached to the Ministry:

- (1) Directorate General of Customs and Excise.
- (2) The Tobacco Monopoly Administration.⁽²⁶⁾

Here is a brief account of the activities as well as of the sub-divisions of each of the above mentioned directorates taken one by one.

1. The Directorate General of Finance. The work of this department is confined to budget and finance affairs, preparation of the Cadres (covering the whole staff of the Ministry), inspection, and pensions. This directorate consists of the following branches: service and personnel, budget and finance, pensions, finance inspection, and administration and correspondence.⁽²⁷⁾

(26) Ministry of Finance Regulations No.27 of 1941, Article 4.

(27) Ibid., Article 5.

2. The Directorate General of Revenue. The work of this directorate is confined to land tax affairs, Istihlak and revenue transactions, and Miri land affairs. It is subdivided into Istihlak taxes and land transactions, miscellaneous taxes and state properties, and personnel branches.⁽²⁸⁾

3. The Accountant's General Department. The work of this department is confined to treasury affairs, cash transaction, accounts and audit. Thus the department is divided into the following branches: treasury, transactions relating to officials, transactions relating to audit, inspection and compilation, transaction relating to audit of irrigation department, public works and currency accounts, and administration and correspondence.⁽²⁹⁾

4. The Directorate of Income Tax. The work of this directorate is confined to the administration of the income tax.⁽³⁰⁾

5. The Directorate of Legal Affairs. The work of this directorate is confined to the expression of legal opinion on financial questions and legal matters. It also undertakes the preparation of draft laws and regulation relating to financial matters.⁽³¹⁾

6. The Directorate of Government Press. This directorate carries out the work entrusted to it which is confined to press and stationary affairs.⁽³²⁾

7. The Directorate General of Customs and Excise, and Directorate of Tobacco monopoly. Their work of these directorates covers all matters connected with the administration of customs and excise duti

(28) Ibid., Article 6.

(29) Ibid., Article 7.

(29) Ibid., Article 8.

(31) Ibid., Article 9.

(32) Ibid., Article 10.

and the Government monopoly on tobacco.⁽³³⁾

The Ministry is headed by the Minister of Finance who is in charge with all its affairs. He delegates part of his power to the directors of the above mentioned departments, but he is still responsible for the whole activities of the ministry and their proper performance by its officials. All laws concerning financial matters are executed under his authority.⁽³⁴⁾ Consequently, he is the person who is directly responsible to the Council of Ministers for the proper execution and supervision of the Budget Law.

The Ministry of Finance is, then, organized in such a way as the nature of its various activities requires. A specialized administrative system as this increases administrative efficiency and insures a proper conduct of its affairs. Furthermore by clearly stating the activities of each administrative unit, the system fixes their responsibilities and so the responsibility of the officers becomes direct and inescapable.

C. Collection of Revenues.

The Budget Law only contains estimates of what is expected to be collected. But the methods of collecting any tax or fee and the persons liable to it are prescribed by special laws, regulations, and various instructions. There is no tax without a law, and no fee without

(33) Ibid., Article 8.

(34) Ibid., Article 2.

regulations and instructions. Consequently, the collection of revenue may be made in accordance with such laws, regulations and instructions without the existence of any Budget Law. The methods of collection of taxes will be dealt with under the discussion of the separate taxes.

There remains one point worth mentioning here: Whatever the source of revenue is and whatever method of collection is employed, public revenues are not collected except by the officials appointed by the Minister of Finance and against a receipt voucher whose form is prescribed by the Minister or any official authorized by him.⁽³⁵⁾ These vouchers are of different forms. The most commonly used are receipt voucher No. 34 which is used by the Treasury, and receipt voucher No. 38 used by tax collectors.

D. Disbursement of Expenditures.

The Budget Law authorizes every department ^{to} spend out of public funds a certain sum of money not exceeding the limit of the appropriation stated in the statements annexed to it. The manner in which disbursements are made is subject to special laws and regulations.

Broadly speaking, each expenditure passes through three stages, namely, that of justifying the need for the expenditure, that of authorizing the making of the expenditure, and the actual payment of the expenditure. Thus before incurring any expenditure the Minister of Finance, or any person authorized by him, should first justify its

(35) Accounting Procedure Law, Articles 22-26. See also Ministry of Finance Regulations, Article 21.

, and whenever such expenditure is found necessary, he, or any person authorized by him, will order that it must so be incurred. A voucher is then prepared and signed by the responsible official for receiving the necessary cash from the Treasury.⁽³⁶⁾ The justification should be of both the nature and the amount of the expenditure.

The appointment of a government official by a certain department for example, necessitates a new expenditure. And, therefore, before his appointment, the approval of the Minister of Finance, or any person authorized by him, must be secured; and if such appointment is deemed necessary, the official will be so appointed and his salary will be paid accordingly by the Treasury.

Every expenditure transaction must be supported by payment vouchers, and also supported by receipts taken from the payee or the creditor. The voucher is an order to pay. It must be countersigned by the person who justifies the need for the expenditure and the person who gives the order for payment (or who prepares the vouchers). It is strictly forbidden to vest these two powers (of justifying the need for expenditure and of ordering the making of the expenditure) with one official only.⁽³⁷⁾

The vote against which the expenditure is to be charged should also be mentioned in the voucher. Treasury departs before actually paying any cash must make sure that the account of the vote against

(36) Accounting Procedure Law, Articles 23, 26, and 35.

(37) Ibid., Article 36.

which the expenditure is going to be charged still shows a credit balance, otherwise they must stop payment until additional appropriation is secured.

On the other hand, the credits allocated in the budget must not be expended in other than the financial year for which they were allocated. Any budgetary credit, not utilized wholly or in part during the financial year concerned, lapses with the close of the year.⁽³⁸⁾ Furthermore, all expenditures incurred in a financial year must be actually paid before the end of the period and properly charged to articles and votes in the accounts of that year.⁽³⁹⁾

E. The Safeguarding and Proper Allocation of Government Cash.

The Public Treasury resembles in its function the human heart. Like veins and arteries which carry all blood from the different parts of the body to the heart and vice versa, so government officials, scattered all over the country, bring all cash collected to, and receive all cash needed from the Public Treasury.

This task, however, is not a simple and easy one. It demands a great efficiency on the part of the officials concerned to be able to allocate the cash at its disposal, at the proper time, in the place where it is most urgently needed. It needs a continuous planning and budgeting. The task becomes much more complicated in periods when the Treasury is short of funds and what is needed is

(38) Ibid., Article 25.

(39) Ibid.

more than what is flowing in. Such condition may often exist in short periods, since collection of revenues and disbursements of expenditures do not go hand in hand. Government expenditure does not vary so much from one season to another or from one month to another, while government receipts vary considerable from one season or month to another.

To overcome this difficulty the Budget Law authorises the Minister of Finance to issue Treasury Bills, when the Treasury is short of funds. Treasury Bills are usually of short duration and are paid, as funds accumulate again in the Treasury.

F. Accounting Procedure.

The accounting period commences on the date of the application of the Budget Law and ends therewith. During this period, therefore, all transactions arising out of the application of the Budget Law should be adjusted for.

No revenue or expenditure are recorded in the books without being actually received or paid in cash. It follows that all revenues relating to a financial year by actually received in the following year, and also all sums expended for services rendered or works completed in a financial year, but payment of which is not effected during the same year, are charged as revenue or expenditure to the accounts of the financial year in which receipt or payment actually take place.⁽⁴⁰⁾

(40) Accounting Procedure Law, op.cit., Article 12.

Although the accounting period ends in March 31st, yet the accounts are not finally closed until August 31st, or sometimes September 30. This complementary period of five or six months is confined to the adjustment of the outstanding transactions remaining not adjusted before the end of the accounting period. The accounts of this period don't embody any actual receipt or expenditure transaction. They are called March Final accounts to be distinguished from the accounts of the ordinary accounting period. March Final accounts begin immediately after March 31st, and end, in any time, not later than September 30.⁽⁴¹⁾ The accounts of a financial year are finally closed with the approval of the Minister of Finance. They are, then, submitted to the Comptroller and Auditor General for audit.

V. BUDGET CONTROL AND SUPERVISION.

Budget control assumes three different forms: (1) administrative control; (2) judicial control; (3) legislative or parliamentary control.

A. Administrative Control.

Administrative control is that which is exercised by superior officials in the executive service over their subordinates. Broadly speaking, the Minister of Finance controls all the financial transactions of the State.⁽⁴²⁾ He is responsible for all receipts and pay-

(41) Ibid.

(42) Ibid., Article 33.

ments made by all ministers and departments, whether such receipts or payments relate to the ordinary budget or to any other budget. The Minister of Finance is represented by the Accountant General who is directly responsible to the Minister. The Accountant General delegates part of his power to the Munazzin of Accounts, Accountants, and Treasury Maamurs in the Liwaa, who are in turn responsible to him for the accuracy of the financial and accounting transactions which are conducted under their authority. They are responsible for the proper conduct of financial transactions which include all matters pertaining to revenue collection, transactions relating to disbursements, custody and safety of government cash and properties, and the carrying out of all financial laws, regulations, and instructions. To check any contravention to financial laws and regulations by these officials in particular, and all finance officials in general, two methods are usually employed. The first is that of annual auditing, the second is that of periodical finance inspection. The accounts of the Munazzin and those of Treasury Maamurs are regularly audited at the end of each financial year. Special auditing is made on the termination of the appointment of such officials.

Besides annual auditing, there is the periodical finance inspection. The Minister of Finance, from time to time, deposes inspectors, inspectorate missions, or auditors, to inspect and examine the financial and accounting transactions of different departments.⁽⁴³⁾

(43) Finance Inspection Law No.51 of 1954, Article 3 and 4.

When it is intended to inspect a department, the head of that department is informed about it in writing. The inspectors, by the help of the head of such a department, will make all the necessary investigations and enquiries from all parties concerned with receipts and disbursements of cash, irrespective of whether they are official or non-official.⁽⁴⁴⁾ Whenever an improper act, or a state of affairs which contravenes any laws, regulations, and orders in force, is discovered the inspector will immediately report that to the head of the department to take the necessary measures. Thanks to the administrative system followed, which fixes responsibilities and makes them inescapable, the official who conducts such an act can very easily be found and reported.

As soon as inspection is completed, the inspectors prepare reports and forward them to the Minister of Finance. Reports prepared by inspectors are of significant importance. Many recent administrative improvements have been the result of suggestions included in such reports. These reports are of three types, namely, the ordinary report, the investigation report, and the general report,⁽⁴⁵⁾ the most important of which is the last, which embodies all important matters revealed to the inspector through his enquiry and includes proposals as to the necessary measures for improvements.

B. Judicial Control.

In the Ministry of Finance there is set a Board called the Ac-

(44) Ibid., Article 3 and 14.

(45) Ibid., Article 17.

counts Board.⁽⁴⁶⁾ This Board is the arbitrator between the Minister of Finance and the Mumaizin of Accounts on any dispute concerning the legal justification of any financial transaction which arises out from the application of any financial law, regulation, or instruction. The Board looks upon such cases only when they are referred to it by the Minister of Finance. Besides, the Board drafts all instructions for regulating accounting procedure, and all financial laws before being legislated. The other function of the Board is to look upon cases of officials who intentionally or unintentionally cause a loss to the Treasury. Furthermore it looks upon cases in which disbursements are made without any legal justification.

Decisions of the Board regarding all these matters are by no means final.⁽⁴⁷⁾ They are only advices to the Minister of Finance, who may or may not consider them. In this respect, we may say, that judicial control in Iraq is only formal and not actual.

C. Legislative and Parliamentary Control.

According to the Article 104 of the Constitutional Law there is formed a department called the Comptroller and Auditor General department for the purpose of examining the accounts prepared by the Accountant's General Department, and for drawing up a report on same

(46) Accounting Procedure Law, Article 39.

(47) Ibid., Article 60.

to the Parliament.⁽⁴⁸⁾ The head of this department is appointed by Royal Irada, and is directly responsible to Parliament. This department annually audits government accounts and investigates, (a) whether disbursements are made in conformity with the budgetary appropriations approved by the Parliament, (b) whether expenditures are made for works actually done, (c) and whether they are paid to a real creditor of the State.

The accounts, then, after being studied and audited by this department, will be submitted to Parliament before the end of December each year. These accounts embody completely and accurately all expenditures and revenues actually paid and received during the financial year concerned.

The form in which the Comptroller General's report is prepared is made in accordance with Article 16 of the Accounts Procedure Law No.28 of 1941. On the revenue side it must embody the following: (1) amounts of estimated revenues, (2) amounts of actual revenues, (3) amounts collected, (4) amounts of arrears. On the expenditure side it must embody the following: (1) amounts of estimated expenditures, (2) amounts of actual expenditures, (3) amounts of deficit or surplus, (4) amounts of additional appropriations.

The Parliament is given to study this report, and after becoming sure of the validity of the accounts, and where no contravention to the Budget Law or any other financial law exists, it will approve

(48) Auditor and Comptroller General Department Regulations No.17 of 1927, Article 3.

the final accounts by a special law. The budgetary cycle thus ends.

This type of control is of a paramount importance, through which the legislature is able to check on the financial acts of the executive. The Parliament is made able to discover any fictitious warrant, irregular expenditure, exceeding of appropriations, and any other action of a similar nature, whether due to negligence or fraud, which is committed in any stage of the execution of the Budget Law. Accordingly, through this control, the general interest of the public is safeguarded and protected.

32-33	1933-34	1934-35	1935-36	1936-37	1937-38	1938-39	1939-40	1940-41
86160	736445	3794280	4413016	4756167	5174302	5670738	6369148	7144911
62605	428505	428222	1235576	2402788	2372740	2463565	2232916	2709428
-----	-----	-----	-----	514652	607748	839780	754008	839028
63569	173042	211434	219571	327734	336342	365517	362234	391458
98978	218834	200955	190494	140377	167317	211713	213321	262523
-----	-----	112567	108008	138000	94874	72666	84224	86061
<u>81308</u>	<u>4556826</u>	<u>4747458</u>	<u>6166665</u>	<u>8279724</u>	<u>8753323</u>	<u>962397910015851</u>		<u>11435409</u>

CHAPTER IIPUBLIC EXPENDITURE.

Public expenditure in Iraq includes the ordinary expenditure, the extraordinary expenditure, the expenditure of the Fao Scheme, the Port of Basra, the issue of currency and the expenditure of the railways.

Table II gives the actual amount of public expenditure for the period 1925-26 to 1940-41.

Table II

Actual Public Expenditure for the Years 1925-26 to 1940-41 in
in I.D.⁽⁴⁹⁾

Items	1925-26	1926-27	1927-28	1928-29	1929-30	1930-31	1931-32
Ordinary expenditure.	3850350	4025400	4149150	4396275	5668050	3836650	3612975
Extraordinary expenditure.	-----	-----	125325	96300	94050	-----	181575
Expenditure on Railways	-----	-----	-----	-----	-----	-----	-----
Expenditure on the Port of Basra.	180917	179520	202075	196398	193584	197965	170322
Expenditure on the Fao Dredging Scheme.	-----	103854	101784	132294	176136	166431	287677
Expenditure on the issue of currency.	-----	-----	-----	-----	-----	-----	-----
Total:	4031267	4308774	4578337	4821267	6131820	4201748	4252549

(49) The Accounts of the Iraqi Government of the Years 1925-26 to 1940-41.

I. INCREASE OF PUBLIC EXPENDITURE

Table III gives the annual public expenditure of the Iraqi Government for a period of sixteen years, the corresponding per capita public expenditure and an index number expressing in terms of a percentage, the relation of public expenditure in each successive year with that of the base year 1925-26. Public expenditure during this period amounted to I.D.100284311, on a yearly average of I.D.6267769. From the year 1925-26 to 1940-41 it increased by about 133 per cent.. During the same period the average increase was 55.6 per cent..

Table III

Total Actual Public Expenditure and Per Capita Public Expenditure for the Years 1925-26 to 1940-41 in I.D.⁽⁵⁰⁾

Year	Total Public Index Number Expenditures 1925-26=100		Per Capita Public Expenditure	
	I.D.		Dinars	Fils
1925-26	4031267	100	1	008
1926-27	4303774	106.8	1	077
1927-28	4578337	113.5	1	144
1928-29	4821267	119.5	1	205
1929-30	6131320	152.1	1	533
1930-31	4201748	104.2	1	050
1931-32	4252549	105.6	1	063
1932-33	4381308	108.6	1	095
1933-34	4556826	115.2	1	139
1934-35	4747458	117.7	1	186
1935-36	6166665	152.9	1	542

Table III Continued.

Year	Total Public Expenditures 1925-26=100		Per Capita Public Expenditure	
	I.D.	Index Number	Dinars	Fils
1936-37	8279724	205.3	2	070
1937-38	8753323	217.1	2	188
1938-39	9623979	238.7	2	406
1939-40	10015851	248.4	2	504
1940-41	11433409	283.6	2	858
Totals:	100234311	2483.7	25	004
Averages:	6267769.4	155.6	1	500

The main reason for such an increase is the increase of Government functions, whether due to the assumption of additional functions or to the extension of old ones. Until the year 1934-35 the increase of public expenditure was ~~about~~ almost regular and very slight from one year to another. The greatest increase was made in the period between 1934-35 and 1936-37 during which the Iraqi Government assumed the responsibility of the issue of currency and of the administration of railways. A large portion of this increase was due to the great increase of expenditure on capital development works.

The increase of public expenditure since 1937-38 is due to the great expenditure on the army and police, and in 1939-40 and 1940-41 to the cost of administering new functions such as the administration of rationing, control of supplies, control of exchanges, censorship, propaganda and similar other new functions necessitated by the present war.⁽⁵¹⁾

(51) From a speech by the Minister of Finance to the Public, published in the Al-Zaman newspaper No.1379 dated 17 July, 1942.

Furthermore the war has necessitated the granting of war allowances to Government officials. In 1940-41 the war allowances granted to Government officials amounted to I.D. 526040.⁽⁵²⁾ Part of the increase in public expenditure in 1939-40 and 1940-41 is due to the inflation of currency.

On the basis of a population of 4,000,000, and if we consider that the population has remained stationary, the per capita public expenditure in Iraq would have risen from about one dinar in 1925-26 to about 3 dinars in 1940-41. The per capita public expenditure in Iraq in 1940-41 may be compared with \$3.4 in Egypt, \$1.8 in Iran, \$1.5 in Syria, \$5.5 in Palestine, \$24 in the U.S.A., and \$62 in England.⁽⁵³⁾

II. PUBLIC EXPENDITURE UNDER MAIN HEADS--GOVERNMENT CLASSIFICATION

In Iraq, public expenditure comes under six main heads. Let us consider each one of them separately.

A. Ordinary Expenditure.

Ordinary expenditure includes all expenses necessary for the general administration of the government. It constituted, on the average of the sixteen years, 1925-27 to 1940-41, about 78.4 per cent. of the total public expenditure. In the financial year 1940-41, it amounted to I.D. 7144911 or about 62 percent. of the total public ex-

(52) Ibid.

(53) Figures for Egypt, Iran, U.S.A., and England are compiled from the League of Nations Annual Statistics of the Year 1940-41. The figure for Syria is compiled from the Bulletin Economie Trimestriel of 1940, and the figure for Palestine is compiled from the Statistical Abstract of Palestine of the year 1941.

penditure of the said period. Table IV gives the amount of actual ordinary expenditure of the period 1925-1941.

Table IV

Total Actual Ordinary Expenditure and its Relation to Total Public Expenditure for the Years 1925-26 to 1940-41, in I \pounds D.⁽⁵⁴⁾

Year	Total Ordinary Expenditure I.D.	Index Number 1925-26=100	Percentage of Total Public Expenditure
1925-26	3850350	100	95.5
1926-27	4025400	105	93.4
1927-28	4149150	108	90.6
1928-29	4396275	110	91.1
1929-30	5668050	148	92.4
1930-31	3836850	99	91.3
1931-32	3612975	93.8	84.9
1932-33	3586160	93.1	81.8
1933-34	3736445	97	82
1934-35	3794280	98.5	79.9
1935-36	4413016	114.6	71.5
1936-37	4756167	123.5	57.4
1937-38	5174302	134.3	59
1938-39	5670738	147.2	58.9
1939-40	6369148	165.4	63.3
1940-41	7144911	185.5	62.5
Total:	74184217	1922.9	1285.5
Average:	4636513.5	120.18	78.4

(54) The Accounts of the Iraqi Government of the Years 1925-26 to 1940-41.

1935-36	1936-37	1937-38	1938-39	1939-40	1940-41
214855	197931	194421	190254	245405	229526
60350	59152	67828	58058	53104	56646
70066	26478	69828	41738	69317	65531
6780	8518	7740	3668	8690	9021

The above table shows that although ordinary expenditure was increased (by 85 per cent. from 1925-26 to 1940-41), yet its importance to the total public expenditure declined (from 95.5 per cent. in 1925-26 to 62.5 per cent. in 1940-41). This indicates that the expansion of public expenditure in Iraq has been both vertical and horizontal. Although the general administration of the government is becoming more costly, yet the importance of this type of expenditure to total public expenditure is declining as the Government assumes more and more functions.

Table V gives the amount of the actual ordinary expenditure for the period 1931-32 to 1940-41 according to the various Government departments as they are classified in statement "A" of the ordinary budget. Table VI expresses in terms of a percentage the relative importance of expenditures on different objects that come under the ordinary budget. The table shows that the most important object of ordinary expenditure is salaries, which constitute on the average about 54 per cent. of the total ordinary expenditure.

Table V

Actual Ordinary Expenditure Under Various Votes for the Years
1931-32 to 1941-42 in I.D. (55)

Votes	1931-32	1932-33	1933-34	1934-35
1- Pensions and Gratuities	293782	260229	268893	199883
2- Civil List of H.M. the King	58148	58392	58901	57259
3- Parliament	54285	34954	69257	38577
4- Comptroller and Auditor General	8014	9173	9127	9187

(55) The Accounts of the Iraqi Government of the Years 1931-32 to 1940-41.

1934-35	1935-36	1936-37	1937-38	1938-39	1939-40	1940-41
13554	18521	19356	15258	12586	15580	18383
48559	61610	75570	65715	79152	92272	92328
274335	291633	297920	350251	363282	345622	473418
165023	170338	167563	174039	184979	198543	200616
323383	386347	339530	425780	495916	495479	451095
573864	644643	622261	658913	674575	686950	726744
219150	243029	286513	372836	357999	362323	457541
360233	1041099	1253612	1215033	1620030	1969167	2215615
130297	129067	127444	145146	149738	146240	153754
36003	34056	34341	36967	39299	71899	79480
373355	428034	523505	726347	718100	828465	865954
34189	59793	66104	-----	-----	29024	33336
55241	87553	90347	101514	96266	117711	146436
184404	304247	359060	67282	70348	69985	66312
-----	-----	-----	-----	-----	209069	256893
-----	-----	-----	351367	-----	125499	197105
149304	160995	200362	218837	204857	227969	252317
3794280	4413016	4756167	5174302	5670738	6369148	7144911

Table V Continued.

Votes	1931-32	1932-33	1933-34
5- Council of Ministers	14240	20363	32489
6- Ministry of Foreign Affairs	24569	29906	40725
7- Ministry of Finance	268599	253190	271859
7A-Customs and Excise	164877	156770	152791
8- Ministry of Interior	281636	291214	298760
8A-Iraq Police	547964	541759	567568
8B-Public Health	190161	176251	137640
9- Ministry of Defence	745290	801442	789208
10- Ministry of Justice	100402	105422	116768
10A-Tapu Department	28585	28383	32938
11- Ministry of Education	288856	306994	348559
12- Ministry of Economics. (Previously Ministry of Economics and Trans- portation.)	74800	86538	55168
12A-Agricultural and Veteriary Department.	43201	32836	69746
12B-Irrigation and Works. (Later on Ministry of Communications and Works.)	244690	219132	193737
13- Public Works Department.	-----	-----	-----
13A-Irrigation Department.	-----	-----	-----
13B-Posts and Telegrams Department.	180925	163212	160309
Total:	3612975	3586160	3736445

Table VI

Relative Importance of Actual Ordinary Expenditure on Different Objects for the Years 1938-39 to 1940-41. (56)

Items of Expenditure	1938-39		1939-40		1940-41		
	Actual Expenditure I.D.	Percentage of Total	Actual Expenditure I.D.	Percentage of Total	Actual Expenditure I.D.	Percentage of Total	Three Years Average
1. Salaries.	3151226	55.5	3454949	54.2	3709207	51.9	53.6
2. Allowances and Services.	76497	1.1	75780	1.2	81080	1.2	1.1
3. Transport Allowances	98702	1.7	119469	1.8	82835	1.2	1.6
4. Furniture and Fixture	11431	0.2	13624	0.2	26801	0.3	0.2
5. Books	5958	0.1	28491	0.5	14681	0.3	0.2
6. Printing	21249	0.4	21836	0.3	30872	0.4	0.3
7. Stationary	28262	0.5	32354	0.5	37776	0.5	0.5
8. Posts and Telegrams and Telephones.	59639	1.5	67523	1.0	73419	1.1	1.2
9. Rents	55021	0.9	60429	0.9	65123	0.9	0.9
10. Water and Electricity.	43531	0.8	44840	0.7	5195	0.6	0.7
11. Repairs	15315	0.2	14962	0.2	17400	0.2	0.2
12. Various Expenses	58308	1.0	65267	1.0	65221	0.9	1.0
13. Salaries and allowances for Temporary Employees.	305213	5.4	365636	5.7	342909	4.8	5.3
14. Aids and Charities	349617	6.1	183451	2.9	264485	4.2	4.3
15. Salaries for Over-time works.	58156	1.0	47628	0.7	58756	0.8	0.8
16. Automobiles	79722	1.4	95008	1.5	112866	1.6	1.4
17. Arms and Munitions	88269	1.5	45693	0.7	15634	0.3	6.3

(56) The Accounts of the Iraqi Government for the Years 1938-39 to 1940-41.

Table VI Continued.

Items of Expenditure	1938-39		1939-40		1940-41		Percentage of Total Three Years
	Actual Expenditure I.D.	Percentage of Total	Actual Expenditure I.D.	Percentage of Total	Actual Expenditure I.D.	Percentage of Total	
13. Fodderstuffs and Fodder	330525	5.8	391197	6.1	533679	7.4	6.
19. Clothes and Uniforms	90479	1.6	107234	1.7	100 ²⁴³ 690	1.4	1.
20. Roads and Buildings	208310	3.6	230399	3.6	230690	3.2	3.
21. Irrigation Works	33557	0.6	62737	0.9	123151	1.7	1.
22. Equipments and Tools	176666	3.1	281517	4.4	379632	5.3	4.
23. Medical Instruments and Hospital Equipments.	73791	1.3	66099	1.0	25 154477	1.7	1.
24. Remittances	97364	1.7	75348	1.1	109386	1.5	15
25. Expenses of repatriation of Foreigners	15680	0.2	18975	0.3	12771	0.2	0.
26. Iraq share of the expenditure of the League	4574	0.7	5312	0.8	4000	0.1	0.
27. Burseries	48434 241	0.7	57547	0.9	47396	0.7	0.
28. Miscellaneous Expenses	84434	1.4	124524	1.9	145952	2.1	1.
29. The Share of municipalities from the Building Tax and Excise on kerosene.	-----	-----	211313	3.3	253273	3.5	<u>26</u> 100

B. Extraordinary expenditure (Called "Expenditure on Capital Development Works."

Extraordinary expenditure, or as it is called expenditure on capital development works, constituted, on the average of the fourteen years, 1927-28 to 1940-41, about 14 per cent. of the total public expenditure. Since 1931-32 there has been a large increase in this type of expenditure. In 1940-41 it amounted to about 22 times its figures in 1927-28. Table VII gives the amount of actual extraordinary expenditure of the period 1927-28 to 1940-41.

Table VII

Total Actual Extraordinary Expenditure and its Relation to the Total Public Expenditure for the Years 1927-28 to 1940-41, in I.D.⁽⁵⁷⁾

Year	Total Expenditure on Capital Development Works I.D.	Index Number 1927-28=100	Percentage of Total Public Expenditure
1927-28	125325	100	2.7
1928-29	96500	76.8	1.9
1929-30	94050	75.0	
1930-31	-----	----	----
1931-32	181575	144.8	4.2
1932-33	332605	265.3	7.5
1933-34	428505	341.9	9.4
1934-35	428222	341.6	9.0
1935-36	1235576	985.8	20.0
1936-37	2402788	1917.2	29.0
1937-38	2372740	2612.2	27.0

(57) The Accounts of the Iraqi Government of the Years 1927-28 to 1940-

Table VII Continued.

Year	Total Expenditure on Capital Development works I. D.	Index Number 1927-28=100	Percentage of Total Public Expenditure.
1938-39	2463565	1965.8	25.5
1939-40	2232916	1781.7	22.2
1940-41	2709428	2161.9	25.7
Total:	15103607	12770.0	183.6
Average:	1161815	982.3	14.1

This type of expenditure consists of expenses incurred on large enterprises a large proportion of which is destined to increase the productivity of the country. It includes expenditure on irrigation works, transportation and communication, buildings, banks, and subsidies. That is why this expenditure is often called expenditure on capital development works. However, a large part of this expenditure is not destined for productive purposes but rather for other purposes, such as the expenditure on the army - arm; expenditure amounted in 1938-39 to I. D. 1483378 or about 60 per cent. of the total expenditure. In 1939-40 and 1940-41 it amounted to I. D. 708756 and I. D. 983326 or about 31 and 32 per cent. of the total expenditure respectively. Hence, this type of expenditure may be better called extraordinary expenditure and not expenditure on capital development works. Table VIII gives the annual amounts spent on the various items under the extraordinary expenditure for the years 1931-32 to 1940-41.

(45)

1935-36	1936-37	1937-38	1938-39	1939-40	1940-41
463016	433615	486324	285000	275730	757004
169270	515909	363019	381000	365417	278897
-----	-----	-----	900000	668341	701562
-----	-----	-----	183505	-----	193014
559748	686817	-----	-----	-----	-----
43542	80851	-----	18458	1417	42722
-----	-----	104688	112224	679210	420000
-----	386602	703365	-----	70000	30000
-----	-----	62 5324	583378	40415	281764
-----	-----	-----	-----	132366	104465
1235576	2402794	2372740	2463565	2232916	2709428

Table VIII

Actual Extraordinary Expenditure Under Various Items for the
Period 1931-32 to 1940-41, in I.D.⁽⁵⁸⁾

V o t e	1931-32	1932-33	1933-34	1934-35
1- Irrigation works	24133	84277	72242	92932
2- Roads, Bridges, Telegraphs and Telephones.	124640	133072	156857	109462
3- Military Buildings and Equipment.	-----	-----	-----	-----
4- Buildings and Expropriation	-----	-----	-----	-----
5- Buildings and Equipment	29034	81199	164888	183927
6- Subsidies and Industrial Works.	3750	34056	34522	41901
7- Loans	-----	-----	-----	-----
8- Banks	-----	-----	-----	-----
9- Arms and munitions	-----	-----	-----	-----
10- Foreign Loan Service	-----	-----	-----	-----
Total:	181557	332604	428506	428222

C. Expenditure on railways.

The average expenditure on railways for the five years, 1936-37 to 1940-41, amounted to about 7 per cent. of the total public expenditure. This type of expenditure consists of all expenses necessary for the administration of the Iraqi State Railways. Table IX

(58) The Accounts of the Iraqi Government of the Years 1937-32 to 1940-41.

gives the amount of expenditure on railways for the years 1936-37 to 1940-41.

Table IX

Total Actual Expenditure on Railways and its Relation to the Total Public Expenditure for the Period 1936-37 to 1940-41, in I.D.⁽⁵⁹⁾

Year	Total Expenditure on Railways, in I.D.	Index Number 1936-37=100	Percentage of Total Public Expenditure.
1936-37	514652	100	6.1
1937-38	607748	118	6.8
1938-39	839780	163	8.7
1939-40	754008	146	7.5
1940-41	839028	163	7.3
Total:	3555216	690	36.4
Average:	711043	138	7.3

D. Expenditure on the Port of Basra.

Expenditure on the Port of Basra constituted, on the average of the sixteen years, 1925-26 to 1940-41, about 4 per cent. of the total public expenditure. It includes all expenses needed for the administration of the Port. Table X gives the annual amount of this expenditure for the years 1925-26 to 1940-41.

(59) The Annual Reports of the Railway Administration of the Years 1936-37 to 1940-41.

Table X

Total actual Expenditure on the Port of Basra and its Relation to the Total Public Expenditure for the Years 1925-26 to 1940-41 in I.D.⁽⁶⁰⁾

Year	Total Expenditure on the Port of Basra, in I.D.	Index Number 1925-26=100	Percentage of Total Public Expenditure.
1925-26	180917	100	4.5
1926-27	179520	99.2	4.2
1927-28	202075	111.7	4.5
1928-29	196398	108.6	4.1
1929-30	193584	107.0	3.3
1930-31	197965	109.4	4.8
1931-32	170322	94.1	4.2
1932-33	163569	90.4	3.9
1933-34	173042	95.6	3.8
1934-35	211434	116.9	4.6
1935-36	219571	121.3	3.7
1936-37	327734	181.1	4.3
1937-38	336342	185.8	3.7
1938-39	365517	202.0	3.9
1939-40	362234	200.2	3.9
1940-41	391458	218.4	3.6
Total:	3871682	2141.7	65.0
Average:	241980	133.9	4.0

(60) The Annual Reports of the Directorate General of the Port of Basra of the Years 1925-26 to 1940-41.

E. Expenditure on the Fao Bar Dredging Scheme.

On the average of the fifteen years, 1926-27 to 1940-41, expenditure on the Fao Dredging Scheme constituted about 3.3 per cent. of the total public expenditure. It includes all expenses incurred for building and widening the Fao Bar channel.

The original idea of the scheme was to build and maintain a channel through the Bar, at the mouth of the Shatt al-Arab, 300 feet wide and 30 feet wide deep at high water, for the purpose of enabling large ships drawing 30 feet of water at high tides to pass through the Bar to Shatt-al-Arab.⁽⁶¹⁾ This channel was completed in 1936. In that year another plan for widening and deepening the original channel was put into action. At the present time the operations consist of widening, deepening, and maintaining the channel.⁽⁶²⁾

The Fao Bar Dredging Scheme has converted the Port of Basra (Agil on Shatt-al-Arab), from one which could only be entered by vessels of a draft of 20 feet into one to and from which vessels drawing 32 feet can freely pass. "An ocean steamer of ordinary size can now take her full cargo into, or ship it direct from, the Port, whereas under former conditions two thirds of the cargo had to be lightened a distance of fifty to one hundred miles and transferred at sea. The extra handling risk and delay attendant on the former state of affairs were all reflected in the very high rates then prevailing for freight."⁽⁶³⁾

(61) The Annual Report of the Directorate General of the Port of Basra of the Year 1930-31, p.6.

(62) The Annual Report of the Directorate General of the Port of Basra of the Year 1940-41, p.73.

(63) The Annual Report of the Directorate General of the Port of Basra of the Year 1935-36, p.9

The Annual saving in transport costs effected by the scheme is estimated, on the average of the ten years period (1931-32 to 1940-41), to be about three million sterling on all classes of cargo coming into and leaving the Port.⁽⁶⁴⁾ The Government imposes special dredging dues chargeable on all ships using the channel. The annual dredging due imposed on ships passing the channel did not amount in any year more than I.D. 503921. (See Table XIX, p. 72). Table XI gives the annual amount of expenditure on the Fao Scheme for the period 1926-27 to 1940-41.

Table XI

Total Actual Expenditure on the Fao Bar Dredging scheme and its Relation to the Total Public Expenditure for the Years 1926-27 to 1940-41 in I.D. ⁽⁶⁵⁾

Year	Total Expenditure on the Fao Dredging Scheme, in I.D.	Index Number 1926-27=100	Percentage of Total Public Expenditure.
1926-27	103854	100	2.4
1927-28	101787	98	2.2
1928-29	132294	127	2.9
1929-30	176136	169	2.8
1930-31	166931	161	3.9
1931-32	287677	277	6.7
1932-33	298978	287	6.8
1933-34	218834	210	4.8
1934-35	200955	193	4.2
1935-36	190494	183	3.1

(64) The Annual Report of the Directorate General of the Port of Basra of the Year 1940-41, p.12.

(65) The Annual Reports of the Directorate General of the Port of Basra of the Years 1926-27 to 1940-41.

Table XI Continued.

Year	Total Expenditure on the Fao Dredging Scheme, in I.D.	Index Number 1926-27=100	Percentage of Total Public Expenditure
1936-37	140577	135	1.7
1937-38	167317	161	1.8
1938-39	211713	204	2.3
1939-40	213321	205	2.2
1940-41	262523	252	2.2
Total:	2873189	2752	50.0
Average:	191545.9	133.47	3.3

F. Expenditure on the Issue of Currency.

The expenditure of the Currency Board constituted, on the average of the seven years, 1934-35 to 1940-41, about 1.4 per cent. of the total public expenditure. It includes all expenses necessary for the issue, transport, and safety of the currency. Table XII gives the annual amounts of this expenditure for the period 1934-35 to 1940-

Table XII

Total Actual Expenditure of the Iraq Currency Board and its Relation to Total Public Expenditure for the Years 1934-35 to 1940-41 in I.D. (66)

Year	Total Expenditure on the Issue of Currency.	Index Number 1934-35=100	Percentage of Total Public Expenditure.
1934-35	112567	100	2.3
1935-36	108008	95.8	1.7

(66) The Accounts of the Iraqi Government of the Years 1934-35 to 1940-41.

Table XII Continued.

Year	Total Expenditure on the Issue of Currency	Index Number 1934-35=100	Percentage of the Total Public Expenditure.
1936-37	138000	122.5	1.5
1937-38	94874	80.4	1.7
1938-39	72666	64.5	0.7
1939-40	54224	74.8	0.9
1940-41	86061	76.6	0.7
Total:	696400	614.6	9.5
Average:	99485.7	87.8	1.4

The proportion of actual expenditure on each of the six budgets to total public expenditure during the years 1936-37 to 1940-41 is shown in Table XIII.

Table XIII

The Distribution of Actual Public expenditure on the Six Budgets During the Years 1936-37 to 1940-41.

Items of Expenditure.	Percentage of Total actual Public Expenditure.					
	1936-37	1937-38	1938-39	1939-40	1940-41	Average
1. Ordinary Expenditure	57.4	59	58.9	63.3	62.5	60.2
2. Extraordinary Expenditure.	29.0	27.0	25.5	22.2	23.7	25.5
3. Expenditure on the railways.	6.1	6.8	8.7	7.5	7.3	7.3
4. Expenditure on the Port of Vasco.	4.3	3.7	3.9	3.9	3.6	3.9

Table XIII Continued.

Items of Expenditure	Percentage of Total Actual Public Expenditure					
	1956-57	1957-58	1958-59	1959-60	1960-61	Average
4. Expenditure on the Tso Dredging Scheme	1.7	1.5	2.5	2.2	2.2	2.0
5. Expenditure for the Issue of Currency	1.5	1.7	0.7	0.9	0.7	1.1

III EVALUATION OF PUBLIC EXPENDITURE

The evaluation of public expenditure requires a knowledge of the way in which such expenditure is apportioned among the various Government services. The lack of a proper classification of public expenditure in Iraq makes it difficult to secure such information directly from government publications. Government classification neither distinguishes clearly between the objects of the different expenditures according to the various government functions, nor does it draw any sharp line of distinction between different expenditures in respect of their nature *as* whether they are for ordinary operation and maintenance or for capital outlay.

The following classification may be taken as a basis for the evaluation of public expenditure in Iraq.

- I. Ordinary Administrative expenditure
 - A. Ordinary Operations and maintenance.
 - B. Capital Outlay.

II. Expenditure for Protection.

A. Ordinary Operations and Maintenance.

1. Army
2. Police

B. Capital Outlay

1. Army
2. Police

III. Expenditure for the Economic Development of the Country.

A. Ordinary Operations and Maintenance.

1. Irrigation
2. Agriculture and Veterinary
3. Roads and Bridges
4. Banks
5. Subsidies

B. Capital Outlay

1. Irrigation
2. Agriculture and Veterinary
3. Roads and Bridges
4. Banks

IV. Expenditure for Government Enterprises.

A. Ordinary Operations and Maintenance.

1. Post and Telegraphs
 2. Port of Basra
 3. Railways
 4. The Fao Scheme
 5. The Issue of Currency
-

V. Expenditure for Social Purposes.

A. Ordinary Operations and Maintenance.

1. Education
2. Health and Recreation
3. Pensions and Gratuities

B. Capital Outlay.

1. Education
2. Health and Recreation

VI. Public Debt

Table XIV is constructed by roughly adjusting the figures given in Tables IV-XII according to the above classification. It shows the relative importance of public expenditure on the various government services for the period 1936-37 to 1940-41. Due to the lack of the necessary data no distinction is made in this table concerning the nature of the expenditure. Both expenditures for ordinary operations and maintenance and for capital outlay are treated together.

Table XIV

The Relative Importance of Actual Public Expenditure on the Various Government Services for the Years 1936-37 to 1940-41, in I.D.

Items	Amounts of Expenditure in I.D.						Percentage of Total Public Expenditure
	1936-37	1937-38	1938-39	1939-40	1940-41	Average	
Ordinary Administrative Expenditure.	1222586	1368702	1738308	1536605	1730468	1719332	18.90
Expenditure for Protection	1875873	2489320	2777983	3354873	3925685	3084747	30.70
A. Army	1253612	1830407	3103408	2667923	3198941	2410858	24.5
B. Police	622261	658913	674575	686950	726744	673889	6.2
Expenditure for Economic Development	2165384	2072891	1034577	1234828	1868373	1675211	17.18
A. Irrigation	792675	904973	355348	471214	920421	688927	7.07
B. Agriculture and Veterinary	90347	101514	96266	117711	146436	110455	1.13
C. Roads and Bridges	314909	363019	564505	574486	728794	509143	5.20
D. Subsidies	80851	----	18458	1417	42722	28689	0.30
E. Banks	886602	703385	-----	70000	30000	337997	3.48
Expenditure for Government Enterprises	1321145	1425118	1694533	1641756	1831387	1582787	16.14
A. Post and Telegraphs	200362	218837	204857	227969	252317	220868	2.13
B. Port of Basra	327734	336342	365517	362234	391458	356658	3.60
C. Railways	514652	607748	839780	754008	839028	711044	7.31
D. The Rao Scheme	140377	167317	211713	213321	262523	199051	2.00
E. The Issue of Currency	138000	94874	72666	84224	86061	95166	0.90

Table XIV Continued.

Items	A m o u n t s o f E x p e n d i t u r e i n I. D.						
	1936-37	1937-38	1938-39	1939-40	1940-41	Average	Percentage of Total Public Expenditure
Expenditure for Social Purposes	1007949	1292604	1266353	1436193	1553021	1311224	13.50
A. Education	523505	726347	718100	828465	865954	732474	7.53
B. Health and Recreation	286513	372836	357999	362323	457541	367442	3.78
C. Pensions and Gratuities	197931	193421	190254	245405	229526	211308	2.17
Public Debt	686797	104688	112224	811596	524465	447954	4.38
Total:	8279724	8753323	9623979	10015851	11433409	9821255	100.00

On the five years average of, 1936-37 to 1940-41, public expenditure in Iraq was distributed among the various Government services in the following manner:

1. Ordinary administrative expenditure.....	18.10 per cent.
2. Expenditure for Protection	30.70 per cent.
3. Expenditure for Economic Development	17.18 per cent.
4. Expenditure for Government enterprises	16.14 per cent.
5. Expenditure for social purposes	13.50 per cent.
6. Public Debt	<u>4.38</u> per cent.
Total:	<u>100.00</u>

This shows that the most important type of expenditure is that for protection. Next come in order of their importance, the ordinary administrative expenditure, the expenditure for economic development

the expenditure for Government enterprises, the expenditure for social purposes, and the expenditure for public debt.

Table XV compares the relative importance of public expenditure ~~in Iraq~~ on various government services in Iraq with those of Egypt, Palestine, and Syria and Lebanon in the year 1937-38. Comparing Iraq with Egypt we find that Iraq spends a larger proportion of the public expenditure on protection, while Egypt, on the other hand, spends a larger proportion on social services. Both countries spend about equal proportions on general administration, capital works, government enterprises and public debt.

Table XV

The Relative Importance of Public Expenditure on Various Government Services in Iraq, Egypt, Palestine, Syria and Lebanon, in the Year 1937-38.⁽⁶⁷⁾

Type of expenditure	Percentage of Total Actual Public Expenditure.			
	Iraq	Egypt	Palestine	Syria and Lebanon.
1. Ordinary Administrative Expenditure.	17.3	18.1	18.7	28.4
2. Expenditure for Protection.	28.4	18.4	26.1	29.2
3. Expenditure for Economic Development.	22.7	26.6	47.8	20.9
4. Expenditure for Government Enterprises.	16.3	14.5		
5. Expenditure for Social Purposes.	14.2	21.2	7.4	19.8
6. Public Debt	1.1	1.2	----	----

(67) Figures for Egypt are compiled from the Budget of the Egyptian State of the Year 1938-39; figures for Palestine are compiled from the Statistical Abstract of Palestine of the Year 1938-39; and figures for Syria & Lebanon are compiled from the Bulletin Economie Trimestriel of the Year 1937-38.

Table XV Continued.

Type of Expenditure	Percentage of Total Actual Public Expenditure.			
	Iraq	Egypt	Palestine	Syria and Lebanon
7. Miscellaneous	----	----	----	1.7
Total:	100	100	100	100

Comparing Iraq with Palestine we find that Iraq spends a much larger share of public expenditure on social services, while Palestine spends a larger proportion on capital development works and economic services, i.e. 47.8 per cent. in Palestine as compared with 39 per cent. in Iraq (Economic development 22.7+16.3 per cent. on government enterprises). Both countries almost spend equal proportion on general administration and defence.

Lastly, comparing Iraq with Syria and Lebanon we find that the former spends relatively more on economic development, while the latter spends relatively more on general administration and more on social services. Both spend the same proportions on defence.

With the exception of the relatively large expenditure on defence and the relatively small expenditure on social services, one may assert that public expenditure is fairly well distributed in Iraq among the various government services.

The position of public expenditure allocated to the army and police was greatly increased during the period 1937-38 to 1940-41.

In 1937-38 the expenditure on the army and the police constituted about 28.4 per cent. of the total public expenditure as compared with ~~3.5~~ 35 per cent. in 1940-41. This extra expenditure was mainly devoted to the army. The increase of the expenditure on the army during this period was due to unclear political reasons.

Expenditure on social services, i.e. education, health, pensions and gratuities, constituted in 1937-38 about 14.2 per cent. of the total public expenditure as compared with 13.3 per cent. in 1940-41. On the average of the five years, 1936-37 to 1940-41, it constituted about 13.5 per cent. of the total public expenditure, of which 7.53 per cent. was allocated for education, 3.78 per cent. for health and recreation, and 2.17 per cent. for pensions and gratuities.

Expenditure on education amounted in 1940-41 to I.D. 732474 which was sufficient to maintain 44 Government intermediary and secondary schools, 761 elementary and primary schools, and 141 schools for the illiterate. These schools provided free education to about 107075 students. In addition there were about 3680 students receiving free education in the Royal Law College, the Royal Engineering School, the Teachers Training School, the Technical Training School, and the Royal School of Medicine. The number of *burmese* students in the same period was 217.⁽⁶⁸⁾

Free medical service is also given to a great number of the poor population both in cities and villages. At the present time there is

(68) Report of the Education Department of the Year 1940-41, p.16.

at least one Government hospital and between 5-^{and}30 clinics in every city, and not less than one clinic in every village.⁽⁶⁹⁾

With the exception of the small amount granted annually in the form of pensions and gratuities, the government does not spend anything on social security and social insurance.

A good portion of public expenditure is devoted to Government enterprises. Expenditure for government enterprises constituted on the average of the five years, 1936-37 to 1940-41, about 16.14 per cent. of the total public expenditure. This in turn was distributed among the different enterprises as follows: 2.13 per cent. on posts and telegraphs, 3.67 per cent. on the Port of Basra, 7.31 per cent. on the railways, 2.05 per cent. on the Fao Scheme, and 0.98 per cent. on the issue of currency.

During this period about 20 new post and telegraph offices were opened, and 18169 miles of telephone wires were extended. Moreover, 462 kilometers of railway track were built, and 10 locomotives, 18 railway coaches and 317 railway wagons were bought.⁽⁷⁰⁾ The Fao Bar Channel was completed and operations to widen and deepen it has began.

Expenditure for the economic development of the country constituted on the average of the five years, 1936-37 to 1940-41, about 17.18 per cent. of the total public expenditure. This in turn was distributed as follows: 7.07 per cent. on irrigation, 1.13 per cent. on agriculture and veterinary, 5.20 per cent. on roads and bridges,

(69) Report of the Health Department of the Year 1940-41, p.4.

(70) The Statistical Abstract of the Iraqi Government of the Year 1940-41, p.155 and p.162.

0.30 per cent. on subsidies, and 3.48 per cent. on banks.

The most important among these expenditures is that on irrigation works. It is not an exaggeration to assert that in no other field public expenditure was more productive than in this field. Since 1927 four large irrigation schemes were planned which once they are completed would increase enormously the agricultural production of the country. They are the Kut Barrage of Al-Garraf scheme, the Al-Habbaniyah scheme, the Al-Ishaqi scheme, and the Qazil Robot scheme.

The Kut Barrage or Al-Garraf scheme comprises the erection of a dam on the Tigris to raise its level in order to enable the Al-Garraf river to draw water from the Tigris in the summer season. The scheme was completed in 1938 and cost the Government I.D.1,119,430.⁽⁷¹⁾ It is estimated that the scheme resulted in the irrigation of more than 1,200,000 misharas of land suitable for cultivation.⁽⁷²⁾

The Al-Habbaniyah scheme comprises the creation of three large regulators and the digging of three canals, to link the Euphrates with Habbaniyah Lake, south of Ramadi, another between the Euphrates and the Lake near Sin Al-Dhibhan, and the third between the Lake and Hor Abu-Diblis. This scheme has two aims: (1) to reduce the danger of Euphrates flood by diverting the extra water to the Habbaniyah Lake, and to Hor Abu-Diblis when the Lake is full; (2) to utilize the water of the Lake in the summer season by returning it to the Euphrates through the canal near Sin-Al-Dhibhan. It is estimated

(71) The Iraq Directorate of the Year 1936, p.482.

(72) Report of the Irrigation Department of the Year 1940-41, p.8.

A mishara equals 2500 square meters.

that the extra capacity of the Lake is 1,300,000,000 cubic meters of water which would be sufficient to irrigate 936 thousand acres of land cultivated with cereals and cotton.⁽⁷³⁾ This scheme has not yet been completed.

Besides the above two large schemes, there are two other schemes of a lesser importance still under consideration. The first is that of Al-Ishaqi for the irrigation of 150,000 misharas, the second is that of Qazil Robot for the irrigation of 900,000 misharas.⁽⁷⁴⁾

In addition to the expenditure on irrigation a great deal was spent by the Agriculture and Veterinary departments for the purpose of improving and increasing agricultural and natural production. Great achievements were made in the field of experimentation, cross-breeding, control of pests and diseases, and the supply of agricultural information to farmers. A good deal was also spent on the building of roads and bridges. In 1938-39 two modern bridges were constructed on the Tigris linking the two sides of the Capital, namely, the Karkh and the Rasafa which costed I.D.270,000. During the period 1936-37 to 1940-41 the Government helped the establishment of three banks by granting each a loan of half a million dinars. These banks are the Agricultural Bank, the Industrial Bank and the Rafidain Bank.

Until 1937-38 expenditure on public debt did not occupy any important position in the public expenditure. From 1938-39 to 1940-41 expenditure on public debt was greatly increased, i.e. from 1.1 per cent. of the public expenditure in 1937-38 to 4.6 per cent. in 1940-1941. This is due to the payment of the interest chargeable on the

(73) The Iraq Directorate of the Year 1936, p.482.

(74) Report of the Irrigation Department of the Year, 1940-41, p.10.

loan of £3,000,000 secured from the British Government in 1937.⁽⁷⁵⁾
On the average of the five years, 1936-37 to 1940-41, expenditure on public debt constituted 4.38 per cent. of the total public expenditure.

(75) See Infra, p. 227.

1936-37	1937-38	1938-39	1939-40	1940-41
2995344	4540723	4582660	4887447	4810743
997321	1144159	2144231	1245988	1697643
932327	1063583	2060364	2087627	1651386
57656	64861	71687	45325	29121
7341	15715	11680	13036	17136

CHAPTER IIIPUBLIC REVENUE.

Public revenue may be generally defined as all sums received by the Government and contemplated for public expenditure. An important part of public revenue is the result of compulsory payments made by individuals to the government to defray the charges incurred in the common interest of all. This part of public revenue is called tax-revenue. The remaining part is called non-tax revenue. Table XVI shows the public revenues for the years 1932-33 to 1940-41.

This chapter is mainly devoted to the discussion of the non-tax revenue. The discussion of tax-revenue is postponed to the following chapters.

Table XVI

Total Actual Public Revenues for the Years 1932-33 to 1940-41,
in I.D.⁽⁷⁶⁾

I t e m s	1932-33	1933-34	1934-35	1935-36
I. Non-Tax Revenue.	1859142	1750085	2263012	2170164
A. Revenue from Public Domain.	758455	627178	1106679	966673
1. Oil Royalties	694172	574787	1036972	890733
2. Rent of Property	48011	43337	55251	57075
3. Sales of Property	16272	9054	14456	18815

(76) Figures for the Port of Basra and the Fao Scheme are taken from The Port of Basra Annual Administrative Report for the Years 1932-33 to 1940-41; figures for the railways are taken from the Iraq State Railways Annual Report of the Years 1932-33 to 1940-41; all other figures are secured from the Accounts of the Iraqi Government of the Years 1932-33 to 1940-41.

Table XVI Continued.

I t e m s	1932-33	1933-34	1934-35
B. Revenue from Government Enterprises	746891	809138	788454
A. Railways	-----	-----	-----
1. Post and Telegraphs	205798	199555	204222
2. Port of Basra	243956	275400	297744
3. The Fao Scheme	267327	303921	240138
4. The Issue of Currency	-----	-----	14981
C. Revenue from Fees, Licences and Fines	215241	203107	238231
1. Court fees and Fines	81072	73262	79467
2. Tapu fees	56647	44166	51390
3. Health Services	11330	10222	12633
4. Schools	9626	10570	14283
5. Police	13072	14053	24794
6. Army	13175	18043	10122
7. Minerals	565	370	708
8. Irrigation Department	6923	3845	1636
9. Public Works Department	6941	7655	12639
10. Survey Department	1252	1589	1070
11. Navigation	6225	5966	7034
12. Customs Department	967	1088	412
13. Agricultural Department	1573	3306	6567
14. Veterinary Department	1681	3306	6567
15. Antiquities Department	80	36	264
16. Civil Aviation.	----	1785	2753

(65)

Table XV⁺ Continued

1935-36	1936-37	1937-38	1938-39	1939-40	1940-41
797714	1546081	1742631	1785540	1913302	2194969
-----	606626	678217	697306	711356	884176
220855	243658	260198	285404	338349	434979
193425	380863	418996	444142	418060	426357
199016	230034	286541	249949	241324	243251
39950	42450	48625	60000	130000	170000
269660	308913	412960	342295	467025	565620
80432	77253	92352	99680	100950	106346
58652	70354	84749	77111	82244	96734
12110	14426	20025	25225	26103	28324
15110	19671	10888	52672	52382	54832
28861	33056	36937	38938	42466	96987
31588	47439	61830	71373	84352	92782
564	160	4192	78	6199	4328
2932	1582	58770	4111	2376	2611
5736	8230	9021	19140	6941	7239
911	1321	1175	1241	1906	2103
7593	7280	8914	8742	8104	3924
1951	6404	3868	3675	3649	3424
9356	6159	7248	3739	3092	4568
1427	1779	2007	1322	2192	3437
178	259	227	160	119	254
2450	3038	4926	4413	1510	2679

Table XVI Continued.

1935-36	1936-37	1937-38	1938-39	1939-40	1940-41
136117	143029	240973	310594	361132	352511
3679786	4210506	4798025	4760406	4826659	5154315
112792	121625	115244	129885	152466	164723
-----	-----	-----	-----	-----	19824
2083225	2278505	2705892	2634073	2630802	2417118
459081	544596	656667	675313	796349	820686
248613	268734	237561	315977	370013	553122
357558	528169	517914	479344	497169	550228
85005	108204	126101	121201	140367	172633
215978	227732	241911	251484	190292	308635
116634	132941	146735	149832	145970	143484
-----	-----	-----	3292	3231	3862
5849950	7205850	9338748	9343066	9714106	9965058

Table XVI Continued

<u>I t e m s</u>	<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
D. Miscellaneous Non-Tax Revenues	138555	109662	129648
II. Taxes	2867602	2982157	3304527
A. The Building Tax	112370	105449	116484
B. The Building Sites Tax	-----	-----	-----
C. Customs Duties	1561236	1641663	1892671
D. Excise Duties	369708	405343	432421
E. The Income Tax	112544	123275	114288
F. Rent of <u>Mipi</u> Land and Water Right	325588	339497	386457
G. The Istihlak Tax on Agriculture and Natural Produce.	70850	71670	70685
H. The Istihlak Tax on Animals and Animal Produce.	210950	191990	205209
I. Stamp Duties	104354	103272	06313
J. Radio Tax	-----	-----	-----
Totals:	4726744	4732242	5567539

I. NON-TAX REVENUE.A. The Increase of Non-Tax Revenue.

In the last decade public revenue in Iraq was continuously growing. Tax-revenue as well as non-tax revenue were increasing from one year to another. However, the increase of the former lagged

behind that of the latter. The relation between total public revenue of 1932-33 and that of 1940-41 is that of 100:222; that of tax - revenue is of 100:179; whereas that of non-tax revenue is of 100:265. (See Table XVII).

Table XVII

Total Public Revenue, Total Tax Revenue, and Total Non-Tax Revenue for the Years 1932-33 to 1940-41 in I.D.

Year	Total Public Revenue	Index Number	Total Tax Revenue	Index Number	Total Non Tax Revenue	Index Number	Percentage of Non-Tax Revenue to Total Public Revenue
1932-33	4726744	100	2867602	100	1859142	100	42
1933-34	4732242	101.2	2982157	104.1	1750085	98.3	37.8
1934-35	5567539	120.5	3304527	113.7	2263012	122.3	44.5
1935-36	5849950	122.4	3679786	127.2	2170164	117.6	37.6
1936-37	7205850	153.2	4210506	145.3	2995344	161.1	41.5
1937-38	9338748	209.5	4798025	167.4	4540723	250.7	48.6
1938-39	9343066	210.1	4760406	166.0	4582660	254.2	49.3
1939-40	9714106	218.7	4826659	168.2	4887447	269.2	50.4
1940-41	9965058	222.2	5154315	178.8	4810743	265.6	47.9
Total:	-----	1457.8	-----	1276.1	-----	1639.0	399.6
Average:	-----	161.8	-----	141.8	-----	182.1	44.4

In recent years, in spite of the introduction of new taxes, the percentage of tax-revenue to total public revenue has declined. Non-tax revenue is playing a new and a more important part. In 1939-40 it constituted 50.4 per cent. of the total public revenue, as compared with 42. per cent. in 1932-33. In 1940-41 it constituted about 48 per cent. .

The increase of non-tax revenue in recent years is mainly due to the continuous increase of revenue from oil royalties payable to the government by the Oil Companies, as a result of the new agreement concluded between the Government and those companies. Until 1931, the Iraqi Government was not permitted to grant new concessions for the purpose of oil exploitation in Iraq to other companies without first taking the consent of the Iraq Petroleum Company. In 1931 an agreement was concluded between the Iraqi Government and the I.P.C., in accordance with which the Iraqi Government was left free to grant such concessions. In 1932 a concession was granted to the British X Oil Development Company. According to the agreement between the B.O.D. and the Government, the B.O.D. is permitted to exploit oil resources in Iraq on condition that she pays for⁴ gold shillings on each ton of oil so produced.⁽⁷⁷⁾ The B.O.D. started producing in 1939. In that year oil production in Iraq was raised enormously from 115000 in 1939, to 1031000 tons.⁽⁷⁸⁾ The revenue from oil royalties was,

(77) Special Report on the Administration of Iraq of the Year 1933, p.102.

(78) Said Himadeh, Economic Organization of Iraq (in Arabic), (American Press, Beirut, 1938), p.99.

therefore, increased from I.D.574787 in 1933-34 to I.D.1036972 in 1934-35. Since that time oil production, and thus the share of the Government from oil royalties has been constantly increasing.

B. Sources of Non-Tax Revenue.

In Iraq non-tax revenue includes: revenue from public domain; revenue from Government enterprises in the form of prices; revenue from different Government departments as fees, licences, and fines; and miscellaneous receipts.

1. Revenue from public domain. Revenue from public domain in Iraq includes the annual sums received by the Government from ~~all~~ the oil companies, from ^{rent} ~~tax~~ of government property (excluding rent of agricultural lands which will be dealt with in Chapter VII, "Rent of Miri Land and Water Right"), bridge tolls, and sales of government property.

The most important source of revenue from public domain is that of oil royalties, the revenue of which has been constantly increasing in recent years. The total amount received from the Iraq Petroleum Company, the British Petroleum Company and the British Oil Development Company, in 1940-41 as royalties and compensation in lieu of exemption from taxation amounted to I.D.1,651,386. This amount is expected to rise to two million dinars as the annual production of oil would reach the estimated figure of eight million tons.⁽⁷⁹⁾

(79) Ibid.; "The production of crude petroleum in Iraq amounted in 1939-40 about 4,106,000 metric tons. In addition Iraq produced 22,000 tons of motor spirit, 20,000 tons of kerosene, and 112,000 tons of heavy oil." League of Nations, Statistical Year Book of 1939-40, p.131.

Receipts from rent or sales of Government property are not so important, while bridge tolls were abolished in April, 1940.⁽⁸⁰⁾

Table XVIII

Revenue from Public Domain for the Years 1932-33 to 1940-41,
in I.D.⁽⁸¹⁾

Year	Gov's share from Oil Companies	Rates of Government property and Bridge Tolls	Sales of Government Property	Total Receipts from Public Domain	Index Number	Percentage to total Non-Tax Revenue	Percentage to total Public Revenue
1932-33	694172	48011	16272	758455	100	39.3	16.7
1933-34	574787	43337	9054	627178	82.7	33.9	12.5
1934-35	1036972	55251	14456	1106679	146.0	46.9	20.5
1935-36	890783	57075	19815	966673	127.4	42.8	13.3
1936-37	932327	57656	7341	997321	131.4	32.3	14.7
1937-38	1063533	64361	15715	1144159	150.8	31.5	14.1
1938-39	2060364	71687	11680	2144231	282.7	45.7	22.8
1939-40	2087627	45325	13036	2145988	283.0	42.8	21.5
1940-41	1651386	29121	17136	1697643	223.8	34.1	16.4
Total:		-----	-----	-----	1527.8	349.3	153.2
Average:		-----	-----	-----	169.75	38.40	17.69

(80) Law Amending Land Transport Law No.22 of 1939.

(81) The Accounts of the Iraqi Government of the Years 1932-33 to 1940-41.

Table XVIII shows that revenue from public domain has been on the increase. That of 1940-41 is about 124 per cent. greater than that of 1932-33. On the average of the nine years, 1932-33 to 1940-41, revenue from public domain constituted about 38 per cent. of the total non-tax revenue and about 18 per cent. of the total public revenue.

2. Revenue from Government enterprises. Revenue from Government enterprises constituted on the average of the nine years, 1932-33 to 1940-41, about 44 per cent of the total non-tax revenue, and about 19 per cent. of the total public revenue. It includes all receipts from the Post and Telegraph Department, the Railway Administration, the Port Administration, the Fao Scheme, the Government Press, and the Currency Board.

Table XIX shows the revenue from government enterprises for the years 1932-33 to 1940-41. It will be noted that since 1936-37 railway receipts have been included among public revenues. This has been as a result of the transfer of the administration and operation of the railways to the Iraqi Government. The Currency Board was created in 1934-35 when the national currency was substituted for the Indian currency.

Table XIX

Revenue from Government Enterprises for the Years 1932-33 to 1940-41,
in I.D.

Year	Post and Telegraphs.	Rail- ways.	Port of Basra	Fao Scheme	Issue of Curren- cy.	Govern- ment Press	Total revenue for Govern- ment Enter- prises.	Index Number	Per- cen- tage for Total Non- Tax Reve- nue.	Percen- tage of Total Public Reve- nues.
2-33	205798	-----	243956	267327	-----	29800	746391	100	42.5	18.1
3-34	199555	-----	275400	303921	-----	30262	809138	105.2	49.1	18.8
4-35	204222	-----	297744	240138	14981	31359	788454	102.4	37.2	16.6
5-36	220655	-----	193425	199016	39950	44468	797714	103.6	39.1	17.4
6-37	243658	606626	380863	230034	42450	42450	1546081	200.1	53.0	20.7
7-38	200198	673217	413996	286541	48625	50054	1742631	220.7	50.3	24.8
8-39	235404	697306	444142	249949	60000	57739	1785540	230.3	40.3	20.1
9-40	338349	711356	413060	241324	130000	74213	1913302	248.4	40.5	20.6
10-41	434979	884176	426357	243251	170000	36206	2194969	288.6	47.3	22.6
Total:	-----	-----	-----	-----	-----	-----	-----	1606.3	3399.3	174.8
Average:	---	-----	-----	-----	-----	-----	-----	156.2	44.56	19.42

3. Fees, Licences, and fines. Receipts made by the various government departments in the form of fees, licences and fines constituted, on the average of the nine years, 1932-33 to 1940-41, about 10.5 per cent. of the total non-tax revenue, and about 4.5

per cent. of the total public revenue. Table XX gives a detailed account of such receipts for the period 1932-33 to 1940-41.

Table XX

Revenue from Fees, Licences, and Fines for the Years 1932-33 to 1940-41, in I.£.⁽⁸²⁾

I t e m s.	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38	1938-39	1939-40	1940-41	Average
Court fees and fines.	81672	73262	79464	80432	77253	92352	99680	100950	106346	
Tapu fees	56647	44166	51390	58652	70354	84749	77111	82244	96734	
Health services.	11830	10222	12633	12110	14426	20025	25225	26103	28324	
Schools.	9626	10570	14283	15110	19671	10868	52672	52382	54832	
Police.	13072	14053	24794	28861	33056	36937	38938	42466	96987	
Army.	13175	18043	10122	31588	47439	61830	71373	84852	92782	
Jails.	3612	3345	5392	9809	10502	9965	10661	9940	10238	
Minerals.	565	870	708	564	160	4192	78	6199	4328	
Irrigation Department	6923	3845	1636	2932	1582	56770	4111	2376	2611	
Public Works Department.	6941	7655	12639	5736	8230	9021	19140	6941	7289	
Survey Department.	1252	1589	1070	911	1321	1175	1241	1906	2103	
General Navigation Authority.	6225	5966	7034	7539	7280	8914	8742	8104	8324	
Agriculture Department.	1573	3306	6567	9356	6159	7248	8739	31092	14568	
Census Department.	967	1088	412	1951	6404	3868	3675	3649	3424	
Veterinary Department.	1681	3306	6567	1424	1779	2007	1922	2192	3437	

2) The Accounts of the Iraqi Government of the Years 1932-33 to 1940-41.

Table IX Continued.

I t e m s.	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38	1938-39	1939-40	1940-41	Average
16. Antiquities Department.	80	36	264	178	259	227	160	119	254	
17. Civil Aviation.	---	1785	2753	2450	3038	4926	4413	1510	2679	
Total:	215241	203107	238231	269660	308913	412960	342295	467025	565620	
Index Number.	100	94.3	110.6	125.2	143.5	191.8	159	216.9	262.7	
Percentage to Total Non-Tax Revenue.	11.1	10.9	10.1	11.9	10.0	11.3	7.2	9.3	11.3	10.5
Percentage to Total Public Revenue.	4.4	4.2	4.7	4.6	4.2	5.4	3.2	4.7	5.5	4.5

4. Miscellaneous revenue. Table XXI gives the items as well as the amounts of non-tax revenue from miscellaneous sources. Miscellaneous non-tax revenue constituted, on the average of the nine years, 1932-33 to 1940-41, about 6.5 per cent. of the total non-tax revenue, and about 3 per cent. of the total public revenue.

Table XXI

Non-Tax revenue from Miscellaneous Sources for the Years 1932-33 to 1940-1941 in I.D.(83)

I t e m s.	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38	1938-39	1939-40	1940-41	Average
Pension Contributions.	67672	70254	79043	84256	86566	97952	114195	128138	128246	
Interest	6988	9692	12732	17733	8683	3352	---	---		

35) The Accounts of the Iraqi Government of the Years 1932-33 to 1940-41.

Table XXI Continued.

Items	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38	1938-39	1939-40	1940-41	Average
Reserve and Treasury Operations.	31653 639	13009 1318	24999 791	27470 1353	36786 389	26354 275	21395 35670	30651 75272	6354 96220	
Refunds	603	2005	1341	182	447	57	-----	-----	-----	
Royalties of the Government from Oil Companies in compensation in lieu of exemption from Taxation.	-----	9009	4492	5123	10158	44032	83407	73540	10472	
Miscellaneous	31653	13009	24999	27470	36786	26354	21395	30651	6354	
Receipts from other Companies.	-----	-----	-----	-----	-----	59374	17866	10662	-----	
Repayment of Agricultural Loans Advances and Interest.	-----	4375	6250	-----	-----	29572	38061	42869	46219	
Help from British Government for Army Expenditure in Iraq.	31000	-----	-----	-----	-----	-----	-----	-----	-----	
Total	138555	109662	129648	136117	143029	240973	310594	361132	352511	
Index Number	100	79.1	93.5	98.2	103.2	173.9	224.1	260.6	254.4	154.1
Percentage to Total Non-tax Revenue.	7.1	5.9	5.5	6.0	4.6	6.6	6.6	7.2	7.1	6.50
Percentage to Total Public Revenue.	2.8	2.3	2.7	2.3	2.9	3.1	3.4	3.6	3.4	2.79

II TAXES

Tax-revenue in Iraq constituted, on the average of the nine years, 1932-33 to 1940-41, about 56 per cent. of the total public revenue. The Iraqi tax system is composed of the following taxes: the building tax; the building sites tax; the income tax; rent of miri land and water right (so called land tax); the Istihlak tax on agricultural and natural produce; the Istihlak tax on animals and animal produce; customs and excise duties; the radio tax; and the stamp tax.

Each of the following six chapters is devoted to a separate discussion on: (1) The Building and the building sites tax, (2) Customs and excise duties, (3) the income tax, (4) rent of miri land and water right, (5) the Istihlak tax on agricultural and natural produce and the Istihlak tax on animals and animal produce, and (6) the radio tax and the stamp tax.

Tax revenue for the years 1932-33 to 1940-41, are given in the second part of Table XVI. Table XXII shows the relative importance of the different taxes to tax revenue and to public revenue on the average of the nine years, 1932-33 to 1940-41.

Table XIII

Relative Importance of the Various Taxes to Tax-Revenue and Public Revenue on the average of the nine Years, 1932-33 to 1940-41.

I t e m s.	Percentage of Total Tax Revenue.	Percentage of Total Public Revenue.
1. Customs Duties	53.80	30.28
2. Excise Duties	13.69	7.48
3. Rent of Miri Land and Water Right.	3.69	1.70
4. The Income Tax	6.25	3.47
5. Istihlak Tax on Animals and Animal Produce.	3.66	1.68
6. The Building Tax.	2.92	1.51
7. Stamp Duties.	4.84	3.42
8. Istihlak Tax on Agriculture	11.05	6.06
Total:	100.00	55.60

CHAPTER IVTAXES ON BUILDINGS AND BUILDING SITES.

The present building tax is the remnant of the old Ottoman Musakaffat tax imposed in all countries under the Ottoman regime. Although this tax was imposed in most of the Ottoman Vilayets before the 1st war, it was never imposed in Iraq during the lifetime of the Ottoman Empire. After the British Occupation of Baghdad in 1917 the military authorities granted the municipality of Baghdad and other municipalities in other Liwas, the right to impose this tax.⁽⁸⁴⁾ The administration and collection of the Musakaffat tax remained in the hands of municipalities until the year 1923. In that year the Ottoman Musakaffat tax law was repealed and the first Iraqi Building Tax Law was sanctioned by the Iraqi Government.⁽⁸⁵⁾ Since that time the building tax has become a State tax, and the right of municipalities to this tax has been preserved in granting them a share from the tax collections.⁽⁸⁶⁾ The law of 1923 was then repealed by the Building Tax Law No.35 of 1927, which was later amended in 1933 by the Amending Law No.58 of 1933. Law No.35 of 1927 and its Amending Law No.58 of 1933 were also repealed. On April 1940 a new Building Tax Law, No.17 of 1940, was established.

On March 10, 1940 a new tax on building sites was imposed by the Building Sites Tax Law No.15 of 1940. This law was amended by the Amending Law No.24 of 1941. It was only enforced for a very

(84) The Iraq Directorate, (Danqoor Press, Baghdad, 1931), p.352.

(85) Ibid.

(86) Law for Granting a Share from the Building Tax Collections to Municipalities No.41 of 1931.

short period. Its execution was suspended beginning April, 1942, with the intention of re-imposing it after a period not exceeding two years from the end of the present war, for reasons that we shall mention hereafter.

Taxes on buildings and building sites are not so important from the fiscal point of view. In 1940-41 when the building sites tax was collected, revenue from these two taxes formed only 3.5 per cent. of the total tax revenue, and about 1.2 per cent. of the total public revenue.

I. THE BUILDING TAX.

A. Basis and Rate of the Tax.

The building tax is a ten per cent. tax on the annual rental value of building property. For the purpose of applying the tax the annual rental value is taken to mean the annual actual gross rental value.⁽⁸⁷⁾ Hence no allowance or deduction is made in respect of depreciation, repairs, and other expenses incurred by the owner for the maintenance and the upkeep of his property. Mortgaged property and property free of mortgage are taxed alike.

Building property, as enumerated in paragraph "b)" of Article 1 of the Building Tax Law, includes the following:

- 1- "All dwelling houses including courtyards and gardens (regardless of ^{area} ~~owner~~).

(87) The Building Tax Law No.17 of 1940, Article 2.

- 2- Shops, warehouses, Khans, Hammans, A'lwas, factories and workshops including courtyards or lands of whatever size adjoining same and used in connection therewith and all other places and sites used for exploitation.
- 3- All stationary river crafts which are used for the installation of machinery or for the storage of goods, or as laundries, coffeeshops, or for any commercial purposes.
- 4- Land leased for other than agricultural purposes, irrespective of its situation.

Stationary river crafts are such as crafts used for the manufacture of ice which are common in Baghdad, Basra, and Mosul.

Lands leased for other than agricultural purposes are such as land rented to the government to be used for building camps for the army.

The Building Tax Law does not limit the maximum area of a garden or courtyard which can be attached to a dwelling house, factory, Abna ^{and} the like. This practice is, of course, very objectionable especially after a tax on building sites has been instituted. Those who own ~~land~~ large areas of vacant land, which is subject to the building sites tax (the building sites tax is a tax on the capital value of lands on which there is no building, or vacant land), can very easily evade this tax by building a small dwelling house on their site and retain the remaining area as a garden connected to the house. The present practice, therefore, renders it possible to some people to acquire large areas of land and pay small taxes at the same time.

B. Exemptions.

There are three kinds of exemptions: (1) permanent exemptions, (2) temporary exemptions, and (3) partial exemptions.

1. Permanent exemptions. The following properties are permanently exempted from the building tax:⁽⁸⁸⁾

- (a) "Government property."
- (b) Property belonging to the municipalities which do not produce any revenue and is used for public purposes.
- (c) All Mosques, Takias, Churches, Synagogues, Monasteries, and their dependant property provided that the same are the property of (and are occupied and used by) the religious authorities in charge of such institutions.
- (d) Schools and other educational or benevolent institutions which are the property of (and occupied and used by) the Communities and Associations managing them.
- (e) Property exempted in accordance with treaties and agreements which have been, or may be concluded, between the Iraqi Government and Foreign States. This may also include all premises of duly accredited representatives and consuls, provided that the property belongs to the State concerned."
- (f) Dwelling houses if the annual value is:
 - (1) 13 Dinars or less in the case of Baghdad, Basra, and Mosul.
 - (2) 6½ Dinars or less in the case of other towns and villages.

(88) The Building Tax Law No.17 of 1940, Article 2.

- (g) All property situated outside towns and villages if the annual assessed value thereof is 12 Dinars or less.
- (h) All buildings (erected in the fields and villages) which are used for agricultural purposes such as warehouses for agricultural produce, dumps for agricultural machinery, plants and implements, places for shelter of animals and cattle and places used for silk worm breeding, cotton ginning and flax macerating, and other similar buildings.
- (i) Property of the Awqaf Department which is used for public purposes and which has no yield."

2. Temporary exemptions. There are properties which, under certain conditions are exempted from the tax for a certain period of time. Under temporary exemptions come:

- (a) The exemption of newly constructed buildings. Property that is newly constructed is exempted from the tax for a period of one full year from the date on which construction is completed, or the date on which they become fit for habitation. This exemption is not applicable to property on which improvements, repairs or additions are made, nor to newly constructed buildings whose owners fail to apply to the Finance Authorities within 180 days from the date of the issue of the permit for construction. This exemption is granted for the purpose of encouraging building industry in the country.
-

- (b) The exemption of industrial houses. Property used by industrial houses, the encouragement of which is desired, and which fulfil the conditions laid down in Article 1 of the Encouragement of the Industrial Undertakings Law No 14 of 1929, are exempted from the tax for a period of ten years. The exemption is granted by a resolution of the Council of Ministers.
- (c) The exemption of property occupied by tribes. Property constructed for the settlement of nomadic tribes are exempted from the tax for a period of twenty years from the date of completing the construction. This exemption is intended to encourage the settlement of tribes.
- (d) The exemption of vacant property. Any property that remains vacant continuously for a period of three months or more is exempted from the tax for the whole period in which it remains vacant, provided that the owner of such a property will notify the Finance Authorities of the vacancy within 30 days from the date on which the property became vacant. The tax will be again collected as soon as the property becomes again occupied. This exemption is quite natural, for as the income from the property ceases, the tax, being imposed on income, must also cease with it.

3. Partial exemptions. The yearly value of any dwelling house situated in Bagdad, Basra, and Mosul is taxed after deducting I.D.13,

and that of any dwelling house situated in other towns and villages after deduction of I.D.5.

By dwelling house is meant a house which is inhabited by its owner (or owners). Thus this partial exemption is only granted when the property is occupied by its owner; once it is rented no exemption will be granted and the whole yearly value is taxed. The amount of the tax payable in respect of a dwelling house situated in Baghdad, for example, whose yearly value is assessed to be I.D.140 is I.D.12 and 700 Fils, i.e., $\frac{(140-13) 10}{100} = 12.700$ Dinars. On the other hand, the tax payable in respect of a similar rented property with the same yearly value is I.D.14, i.e., $\frac{140 \times 10}{100} = 14$ Dinars.

C. Assessment.

1. Methods of assessment. The assessment of the yearly value of any property subject to the building tax is made once in every five years. For the purpose of assessment there is set a committee, in each Qadna, called the Assessment Committee. The Assessment Committee in each Qadna is composed of two official and two non-official members, who are nominated by the Mutassariff (in the case of Headquarters Qadnas), or by the Muhammar (in the case of the other Qadnas).⁽⁸⁹⁾ The Assessment Committee in each Qadna independently carries on the five-years general assessment of all property subject to the tax in the Qadna after receiving a special request from the Minister of Finance.

(89) The Building Tax Law No.17 of 1940, Articles 8 and 9.

General assessments are not made at the same time in all Qadhas, but they are carried on at different times in different Qadhas. However, it would have been much more convenient, and probably more equitable, if general assessments were carried on at the same time all over the country.

As soon as the Mutassariff or the Qaimnakan receives a request from the Minister of Finance for a general assessment in a certain Qadha, an Assessment Committee is formed, in the manner stated above, for the purpose of making the assessment.

Two ways of assessment are used. The first takes the actual annual rent of a leased property at the time of assessment as the annual value of that property for the purpose of the tax. In the second the annual value of the leased property will be ascertained directly in the same manner as if the property were not leased.⁽⁹⁰⁾ This is used particularly when the alleged rent appears to the Committee not to be genuine.

The first practice is generally used in the case of the assessment of yearly values of property which is under the direct management of the Awqaf Department or which belongs to municipalities. The annual rental value of such property is taken as it is mentioned in lists submitted to the Minister of Finance and approved by the local Mudir Awqaf, the President of the Municipality, or the Amin

(90) Ibid., Article 11. The assessment of any property owned by by more than one owner in undivided shares is made on the whole property, and not on the separate shares of the co-owners.

Al-Asina. In most of the remaining cases the method of direct assessment is followed. In making a direct assessment, the Assessment Committee bases its estimates on certain indices which are thought to reflect, at least approximately, the annual value of property. It will consider (a) the size, materials, and state of repair of the property, the space available for use and the amenities, and value of the site; (b) the use to which the property is put; and (c) the rent paid for, or the revenue produced by, other similar properties in the same locality.⁽⁹¹⁾

Such investigation if carried on properly, by expert and honest assessors, will, in most probability, lead to an exact determination of rental values of property. However, the lack of a sufficient number of experienced and honest assessors has been responsible for frequent inaccurate assessments.⁽⁹²⁾ To improve the quality of assessors is the first step towards increasing the fiscal adequacy as well as the equity of the building tax. The urgency of the need for better assessors will be much more appreciated if we know that most of the properties subject to the building tax are either occupied by their owners, or when leased, most contracts are made orally and on ambiguous terms. Consequently resort to direct assessment is very frequent.⁽⁹³⁾

Once the general assessment is completed, the Assessment Committee will notify the results to the owner of the property asses-

(91) Building Tax Law No.17 of 1940, Article 6.

(92) Interview with the Director General of Revenue.

(93) Annual Report of the Directorate General of Revenue, (Government Press, Baghdad, 1939), p.42.

sed and to the Finance Authorities in writing. The notice of assessment is sent to the occupier in case the place of residence of the owner is not known. Such notification is legally considered as a notification to the owner. The tax is supposed to be payable by the owner on the basis of the assessment for a period of five years commencing from the date on which the general assessment has been completed.

2. Re-assessment. Although assessment is made once in every five years, yet the annual rental value of a property needs not remain stable during this long period. On the contrary, actual annual rental values often fluctuate from one year to another, they are sometimes higher and sometimes lower than the assessed values.

But it is frequently argued in favour of this practice that although there may be small fluctuations from one year to another, the average rental value of a property for a period of five years, in most probability, will correspond to the assessed value. Consequently, neither the tax-payers nor the government will be aggrieved as a result. This argument may contain an element of truth only if yearly fluctuations were very light. But if, because of one reason or another, the annual rental value of a property has been greatly increased or decreased since the general assessment, and that the assessed value will continue to be the basis of the tax, the above argument is merely a fallacy.

Thus, judged from the point of view of equity, general assessments should be carried on once in every year. On the other hand, an-

nual assessment is inconvenient from the administrative point of view, because it would increase administrative difficulties and expenses. The present practice of five-years assessment combined with the possibility of reassessment whenever that is necessary is, therefore, the best practice that can be followed. It affords a reasonable degree of equity as well as a reasonable degree of administrative efficiency.

Although general assessment is made once in every five years, yet during this period Assessment Committees will proceed to re-assess the annual value of any property by an order from the Finance Authorities in the following four cases.⁽⁹⁴⁾

- (a) When the tax-payer, submits a claim to the government that his property has been destroyed or has sustained damage.
- (b) When the use to which the property is put has been changed.
- (c) When the tax-payer submits a claim proving that the revenue from his property has decreased by 15 per cent. or more since the last assessment.
- (d) When it appears to the Finance Authorities that the annual value of a property has increased by 15 per cent. or more since the last assessment.

By re-assessment, therefore, great deviations of actual rental values from assessed values of properties are always corrected.

⁴
(94) Building Tax Law No.17 of 1940, Article 11.

3. Appeal against assessment. Both parties, the tax-payers and the Finance Authorities may appeal against the result of the assessment reached at by the Assessment Committee within 30 days from the date of the notification of the result of the assessment. The appeal must be made in writing, and must contain particulars of the property and the assessment, date of notification, and the grounds of appeal. The letter of appeal is submitted to the Assessment Revision Committee through the Assessment Committee.

Assessment Revision Committees in Liwas Headquarters, Qadhas are constituted of a president, who may be the Mutassariff or any other official appointed by the Minister of Finance, an official member appointed by the Mutassariff, and two non-official members elected from the Liwa Administrative Council. In other Qadhas, Revision Committees are constituted of the Qaimnakam as a president, an official member appointed by him, and two non-official members elected from the Qadha Administrative Council. However, no member of an Assessment Committee is eligible for membership in a Revision Committee.⁽⁹⁵⁾

In studying any case submitted to it, a Revision Committee will depend on information secured from persons possessing local knowledge, and from official documents. An examination of the property at the spot is made by at least two members of the Committee (one official and one non-official member) who after examining the property will prepare a report to the Committee. After making all the necessary

(95) Ibid., Article 18.

investigations the Revision Committee may either dismiss the appeal or change the assessment. The decision of the Committee is then notified to the appellant. This decision is final.

Besides disagreements on matters concerning assessment, there may arise differences of opinion concerning matters affecting the procedure and the enforcement of the Building Tax Law. Cases of this sort are referred, either by tax-payers or the Finance Authorities, to a special committee called the Property Tax Board, or Diwan. The Board is composed of a president and two members--all of them appointed by the Minister of Finance. It is the highest legal body in the country that decides upon problems arising from the enforcement of the Building Tax Law, and its decision in all such matters is final. No civil court of any degree can hear a case connected with the building tax, or a case raised against the Board.

D. Collections.

1. Persons liable to the tax. When the owner is the possessor of a property subject to the tax, he is required to pay the building tax. When the property is a Waqf, the Mutawalli (trustee) ~~who~~ has to pay the tax. In cases where the property is owned by more than one persons in ~~individual~~ shares, one of the co-owners, usually who happens to be the occupier, is deemed liable to pay the tax with his right to recover from the partners, each in proportion to his share.

Whenever the owner of the property (in case the property is owned by one person) or any of the co-owners (in case the property is owned by more than one person) are unknown or absent from the place where the property is located, the occupant of the property is liable for the payment of the tax. If, however, such property is mortgaged with the right to use and sub-let, the mortgagee is held responsible for the payment. In both cases the occupant or the mortgagee have the right to recover the amount paid by them on behalf of the owner.

2. Payment of the tax. The tax is paid in two equal instalments; the first falling on the 1st of April, and the second on the 1st. of October of each year. It is paid, as we have seen above, either by the owner, one of the co-owners, the occupant, or the mortgagee. No delay in payment is justified, on the ground that an appeal has been made against the assessment. In such a case the tax must be paid, and a refund will be granted on the excess collected if the Revision Committee reduces the amount of assessment.

The method of collection at the source is employed when the lessee of a property is a legal person, an official department or an institution. The lessee is responsible for the deduction of the tax from the amount of rent payable by him to the lessor and has to pay it to the Finance Authorities.

3. Who ultimately pays the tax? From the above discussion it seems clear enough that the owner is the person who is ultimately

responsible for the payment of the building tax. He is not only the ultimate payer in the sense that he is legally responsible to pay this tax, but also in the sense that he is the one who assumes the ultimate burden of the whole amount of the tax. The building tax is a direct tax whose ultimate burden rests on the owner.

Under certain conditions, however, the owner is able to shift this burden, in full or in part, to the user or the occupier of the property. Whether the tax will be shifted or not and the extent to which such shifting takes place depends on the current relations between the supply of, and the demand for buildings. In prosperous growing quarters where demand for buildings is greater than the existing supply, property owners are able to obtain rents high enough to cover the amount of the building tax and a satisfactory return on the investment. Property owners whose property is situated in the Bataween Square, Jadoon Square, King Faisal Street in the City of Baghdad, or the Muwafaqiya Street and Maqil in the city of Basra, for example, have been always able to demand very high rents and, most probably, they have been able to shift the whole of the building tax to the occupiers.

4. Fiscal adequacy. The building tax in Iraq is not so important from the fiscal point of view. This is not only because the annual collection from this tax is insignificant, but also because half of its net yield is given to local municipalities, and only the remaining half is taken by the central government.⁽⁹⁶⁾

(96) Law for Granting a Share from Building Tax Collections to Municipalities No.12 of 1937.

The following table gives the amounts of annual collections for the last nine years. It shows that the yield from the building tax on the average of the nine years 1932-33 to 1940-41, constituted about 3.7 per cent. of the total tax-revenue and about 1.7 per cent. of the total public revenue.

Table XXIII

Building Tax Collections for the Years 1932-33 to 1940-41,
in I.D.⁽⁹⁷⁾

Year	Amount I. D.	Index Number	Percentage to Tax- Revenues.	Percentage to total Public Revenues.
1932-33	112370	100.0	4.0	2.1
1933-34	105449	93.8	3.7	2.3
1934-35	116484	103.6	3.7	1.8
1935-36	112792	100.3	3.0	2.0
1936-37	121625	108.2	3.0	1.8
1937-38	115244	102.5	2.6	1.2
1938-39	129885	115.5	2.51	1.3
1939-40	152466	135.6	3.30	1.5
1940-41	164723	146.5	3.50	1.3
Total:	-----	1006.0	29.31	15.30
Average:	-----	111.7	3.69	1.70

(97) The Accounts of the Iraqi Government of the Years 1932-33 to 1940-41.

II. THE BUILDING SITES TAX

A. Introduction.

The Building Sites Tax was introduced for the first time in Iraq in March 1940 by the first Sites Tax Law No.15 of 1940 for the purpose of encouraging building industry in the country. Owners of sites subject to this tax, it was thought, would prefer either to sell their sites or convert them into buildings rather than to pay taxes on properties which gave no yield. The introduction of this tax in war times, however, when building materials and labour are scarce and very expensive, prevented it from achieving its purpose. On the contrary it proved to be an unjust form of a tax, since in order to escape its payment, owners of sites have to construct buildings under the most unfavourable conditions.

Consequently, after one year of its application, owners of sites seriously objected against the government and demanded an immediate, fair and just treatment.⁽⁹⁸⁾ As a result, the execution of the Sites Tax Law was suspended beginning April 1942 to be resumed after a period not exceeding two years from the end of the present war.⁽⁹⁹⁾

In the post-war period the sites tax will undoubtedly play a very important role in the solution of the problem of rent, a problem which has long been increasing in intensity and seriousness.

(98) Sawt Al-Anabi, loc.cit., No.795, February 16th, 1942.

(99) Law for the Postponement of the Execution of the Building Sites Tax Law No.35 of 1942.

If the rate of this tax will be made high enough so as to oblige the present owners of sites either to sell them or to build on them, supply of buildings would necessarily increase and, therefore, rent would fall. Besides decreasing rent, the tax would, by encouraging the conversion of vacant sites into buildings, add something to the general prosperity and beauty of the country.

B. Basis and Rate of the Tax.

The building sites tax is a one per cent. tax on the capital value of all sites, whether fenced or not, ^{A site is defined as "land} situated within municipal limits, whether it be a Mulk, granted in Tapu, granted in Lazma, or waqf, on which no building has been erected and which has not been liable to building tax, including gardens and farms purchased during the 15 years preceding 1940, and parcelled into sites or proved to have been purchased with the intent of parcelling them into sites for the erection of buildings thereon."⁽¹⁰⁰⁾

From the above definition of a site we may conclude that no tax would be payable on any site unless the following four conditions are satisfied: (1) the site must be situated within municipal limits of Liwas Headquarters. Thus all sites outside municipal limits, or in qadhas or Naniyas are not subject to this tax; (2) the site must be vacant and no building of any size has been constructed on

(100) The Building Sites Tax Law No.15 of 1940, Article 1.

it; (3) the site should not be subjected to the building tax; i.e., if a site is rented for non-agricultural purpose, it will be subject to the building tax and not to the sites tax, and (4) agricultural lands or gardens within municipality limits are subject to this tax only when they were purchased during 1925-40 for the purpose of parcelling them into sites on which to construct buildings.

C. Exemptions.

All sites that do not satisfy the above mentioned four conditions are exempted from the tax. In addition the following sites are also exempted:

- (1) "Government sites of whatever nature and however used.
- (2) Sites belonging to the Awqaf Department and Municipalities including Amanat Al-Asima.
- (3) Sites which are considered to form a part of mosques, Taxias, churches, monasteries, synagogues, schools and ~~as~~ educational and benevolent institutes.
- (4) Sites exempted in accordance with treaties and agreements made by the Iraqi Government and other foreign states.⁽¹⁰¹⁾

D. Assessment and Administration.

As the sites tax is a tax on the capital value of sites, the first thing to be done, therefore, is to determine the capital value

(101) Ibid., Article 4.

of all sites subject to it. In some cases the assessment of the capital value of sites involves no difficult problem. The value according to which Tapu fees have been collected is taken as the basis of the tax, provided that a transaction had been carried out with regard to the property in the Tapu Departments during the period 1925-1940. In all other cases direct assessment is carried on by the Building Tax Assessment Committee in a manner similar to that of the assessment of the building tax. All the provisions of the Building Tax Law relating to objection and appeal against assessment and to any other administrative matter are applicable in the assessment and administration of the sites in the same manner as they apply in the case of the building tax.

E. Fiscal Adequacy.

During the financial year 1940-41 collections from the sites tax amounted only to I.D. 19824, or about 0.03 per cent. of the total tax revenue in the same period.⁽¹⁰²⁾ The sites tax is not so productive, but it helps to encourage building.

(102) The Accounts of the Iraqi Government of the Year 1940-41.

CHAPTER VCUSTOMS AND EXCISE DUTIES.

Customs and excise duties are the most important source of revenue in Iraq. The revenue derived from customs and excise duties constituted on the average of the nine years, 1932-33 to 1940-41, about 67 per cent. of the total tax revenue, and about 37 per cent. of the total public revenue.

I. CUSTOMS DUTIES.A. Historical Survey.

To understand the present Customs System it is necessary to trace back its major developments from the Ottoman period to the present time.

Until the British Occupation of Iraq, the Customs System enforced in the country was that of the Ottoman Empire. The Ottoman Customs Policy was wholly lacking in any purposeful planning and organization. The Capitulations granted to Foreign Powers was a serious handicap which prevented the Turkish Government from adopting a tariff policy favourable to the development of its local industry.⁽¹⁰³⁾

In the early part of the Nineteenth Century a uniform duty of 3 per cent. ad valorem was levied on the assessed value of all imported commodities. In the year 1838 the Ottoman Government introduced certain changes in the tariff rates, which were not applied in Iraq until later.⁽¹⁰⁴⁾ In that year the Ottoman Government signed a commer-

(103) Hlaadeh, Economic Organization of Iraq (in Arabic), (American Press, Beirut, 1938), p.465.

(104) Yusuf Gasriza, Trade of Iraq in the Past and Present (in Arabic), (Al-Iraq Press, Baghdad, 1922), p.111.

cial treaty with Great Britain, and similar treaties with other Powers, which enabled her to raise the duty from 3 to 5 per cent.⁽¹⁰⁵⁾ In the year 1861, after considerable negotiations and at the cost of other concessions, the Ottoman Government was able to reach an agreement for raising the duty to 8 per cent.. Later on in 1907 she was allowed by the Powers to levy an import duty of 11 per cent. ad valorem of which 3 per cent. was to be ceded to the Ottoman Public Debt Administration.⁽¹⁰⁶⁾ However, in the year 1914, the Ottoman Government, having declared war against the Allies was in great need of additional revenue to meet the heavy war expenditure. Accordingly, it first raised the duty to 15 per cent, and then at another period during the war to 30 per cent.⁽¹⁰⁷⁾

Following the British Occupation of Basra in 1914 and Baghdad in 1917, a number of changes in the customs administration took place. During the time of occupation the duty on imports was reduced again to 10 per cent. and the proportion allocated to the Ottoman Public Debt Administration was abolished. On the first of April, 1919, a revised Customs Tariff was enforced by an official proclamation which provided for a general rise of import duty on all goods from 10 to 11 per cent.⁽¹⁰⁸⁾

Under the National Constitutional Government, tariff rates began to show a rising tendency and a wide diversity. The first important

(105) Himaden, Economic Organization of Iraq, op.cit., p.464.

(106) Review of the Civil Administration of Mesopotamia, (H.M.S.O., London, 1920), p.8

(107) Ibid.

(108) Review of the Civil Administration, op.cit., p.8

change was made in the year 1923. In this year the Iraqi Government issued the Customs Code Law of 1923, which embraced import and export duties, exemptions and prohibitions. The tariff rates according to the new law ranged between 11 and 25 per cent. ad valorem.⁽¹⁰⁹⁾

The second important reform was made in the year 1927. Until that time tariff policy was mainly directed towards increasing revenue, but in that year the first symptom of utilising the tariff policy as an instrument for encouraging local industry and agriculture by means of protection, came into being.⁽¹¹⁰⁾ Customs Tariff Law No.30 of 1927 was enacted to favour the new policy. The new law provided exemption from import duty upon certain classified items of machinery, instruments and apparatus (including their distinctive component parts); reduction of 4 per cent. (from 15 to 11) ad valorem duty upon other kinds of machinery and mechanical contrivances not yet exempted, and upon materials used for packing; and lastly a reduction of 5 per cent. (from 20 to 15) ad valorem duty upon raw materials.⁽¹¹¹⁾

In 1926 a drawback law, No55 of 1926, and in 1929 a transit law, No.45 of 1929, were passed. In the year 1931, however, a new codified customs law to embrace sea, land, transit and drawback requirements was passed which was known as the Customs Law No.56 of 1931. Accordingly, all customs laws and regulations (with the exception of Customs Tariff Law of 1927), enforced before 1931, i.e.,

(109) Customs Code Law of 1923.

(110) Special Report on Iraq, (H.M.S.O., London, 1920), p.102.

(111) Customs Tariff Law No.30 of 1927.

Customs Law of 1925, Transit Law No.45 of 1929, and Drawback Law No.55 of 1926, were repealed. This law was amended on three occasions by Amendment Laws No.9 of 1932, No.28 of 1932, and No.21 of 1938.

From the year 1927 on several changes in the tariff policy were made by the Government. In the year 1933 the Minister of Finance, taking into consideration the reforms suggested by two British experts in customs organization, (Messrs.J.Van der Poel and A.J.Jonsson), and in the light of past experience gained in Iraq and other countries, revised the previous Customs Tariff Law of 1927 and passed a new law known as Customs Tariff Law No.11 of 1933. (112) Since that time this law has been amended on five different occasions by Amendment Laws No.3 of 1934, No.29 of 1935, No.65 of 1935 No.10 of 1939, and No.10 of 1941.

Our present discussion, therefore, is based on Customs Law No.56 of 1931 and its amendments, and Customs Tariff Law No.11 of 1933 and its amendments.

B. General Features of the Iraqi Customs System.

1. Imposition of customs duties. The Iraqi Customs Law distinguishes three types of goods, namely, goods that are not permitted to cross the frontier, goods that are freely permitted to enter or leave the country without the payment of any duty, and lastly goods

(112) The Magazine of the Baghdad Chamber of Commerce, (Danqoor Press, Baghdad, December 1938,)p. 8.

that are permitted to enter or leave the country after the payment of the necessary duties.

a. Prohibition. Article 11 of the Customs Law specifically enumerates those goods which are legally prohibited from entering the country.⁽¹¹³⁾ These goods are prohibited for the purpose of maintaining order and security or for some hygienic or moral purposes. Furthermore the export of some goods, such as offshoots and ostrich feather, mentioned in Article 12 of the Customs Law is strictly forbidden.

b. Exemptions. (1) Exemptions for educational purposes. All books, periodicals, charts and maps of all kinds are exempted from customs import duties. Also school apparatus to a value not exceeding 80 Dinars per annum for each pupil are similarly exempted, provided that they are imported by the Ministry of Education, or by any school recognized by it, under a certificate from the Director General of Education. Furthermore, cinematographic films which are imported for free exhibition for health or educational purposes are also exempted.⁽¹¹⁴⁾

(2) Exemptions for agricultural and industrial purposes. This is the most important type of exemptions. It includes the exemption of tractors, internal combustion engines or gas engines used in

(113) This include some books, magazines, periodicals, photographs; forfeited currency; machines used for coinage; goods that carry forfeited trade marks; matches made of white phosphorous; revolvers and other kinds of arms.

(114) Customs Law No.56 of 1931, Article 13.

agriculture, electric dynamos, mechanical apparatus and appliances, natural and chemical fertilizers, insecticides, crude oil and fuels, cotton-seed, packing materials, transmission and conveyer-belts for machinery whether made of leather, skin or rubber. These exemptions are mainly intended to encourage and develop local industry and agriculture. The significance of these exemptions will be discussed later on in another section of the present chapter.

(3) Special exemptions.

(a) All goods designated to be used by foreign diplomatic agents in Iraq are exempted from import duty on the basis of a reciprocal treatment.

(b) All goods imported by the British Authorities in Iraq, the Oil Companies, and the Baghdad Electric Company are exempted from import duties in accordance with the Anglo-Iraqian Treaty and the agreements made by the Government on the one hand, and the Oil Companies and the Baghdad Electric Company on the other.⁽¹¹⁵⁾

(4) Personal exemptions: This type of exemptions include the exemption of all articles carried by post on which the duty does not exceed 25 fils, samples and patents of no commercial value, and certain articles carried by a passenger during his journey.⁽¹¹⁶⁾

g. Goods subject to duty. Except for the above-mentioned prohibited or exempted goods, all other goods are liable for the payment of customs import duties before being cleared for local con-

(115) Ibid., Article 23 and 24.

(116) Ibid., Article 20.

sumption. On the other hand, all goods exported are exempted from customs export duties with the exception of *dates*, gold, horses and liquorice root.

2. The classification of the Customs Tariff Law. The present Customs Tariff Law is made up of two schedules: the Import Schedule, and the Export Schedule. The Import Schedule is divided into twenty-one sections and contains 414 items, while the Export Schedule contains only four items. This classification is made in accordance with the instructions recommended by the League of Nations. All terms and expressions mentioned in the Customs Tariff Law are based on the League of Nations Standardized Nomenclature.⁽¹¹⁷⁾

Each item is subject to a special duty. It becomes of a primary importance, therefore, to classify each imported article under the proper item of the Code before knowing the duty applicable to it. The Tariff Law, is so carefully and scientifically classified in order to overcome this difficulty. However, many cases may arise in which there will be a dispute regarding the item under which a certain article may be correctly classified. In such cases the article is classified under the item which is more special than general to it. Whenever it is not possible to distinguish between the special and the general items, the article is classified under the item that provides for the higher rate of the duty.⁽¹¹⁸⁾

Here is an illustration which will make this point clear. Under

(117) Department of Customs and Excise Administration Report,
(Government Press, Baghdad, 1934), p.10.

(118) Customs Tariff Law No.11 of 1933, Article 7.

what item should a refrigerator, for example, be classified? Should it be classified under item 323 or item 324? Item 323 is for all apparatus for heating, cooling, boiling, and distilling, rectifying, and condensing which provides for an ad valorem duty of 11%. On the other hand item 324 is for freezing plant and machinery which provides for free duty. Item 324 is more special to a refrigerator than item 323, and for this reason a refrigerator is classified under this item and is taxed at the rate of 11% on its value. However, if customs assessors are not convinced with this fact they will also classify it under article 323 because it provides for a higher rate of duty.

It is not always easy to distinguish between a great number of articles and to classify each one correctly under the proper item in the Code. This difficulty becomes even much greater when it is necessary to differentiate between different grades of the same article. This fact is a sufficient justification for not applying varying rates to different grades of an article subject to the fixed scale of customs duties. The reader is asked to keep this point in mind when he comes to read the following section.

3. Types of customs duties. In Iraq customs import and export duties are of two different types; (1) ad valorem duties which are proportional duties on the basis of value, and (2) specific duties which are fixed sums payable on the basis of some measure of quantity.

At the present time ad valorem import duties are of the following proportions: 5%, 8%, 11%, 15%, 20%, 25%, 33%, and 50%. The rate changes in accordance with the nature of the article taxed. The low scale of the duty from 5% to 11% applies to some kinds of machinery and mechanical apparatus intended for agricultural and industrial purposes and different kinds of raw materials. Duties ranging from 11% to 33% are usually applied to base metals and articles made therefrom such as iron, steel, copper, nickel, aluminum, lead, tin, etc. Also they are applied to automobiles, cycles and other vehicles. The lower rates (from 11 to 15 per cent.) apply mainly to construction materials such as iron and steel bars, beams, joists, wires, etc., for the purpose of encouraging building industry in the country.

Duties ranging from 20 to 50 per cent. are applied to textiles such as artificial silk, cotton and woollen piece goods, clothing, underwear, etc.; and also to some agricultural and animal products. The high rates of 40% and 50% apply mainly to luxurious articles and to articles and products whose production is intended to be encouraged locally.

On the other hand specific import duties of varying rates are applied to certain agricultural products such as coffee, sugar, tea, spices, etc.; fatty substances; beverages, alcoholic liquors and vinegars; and chemical and pharmaceutical products.

The four items subject to export duties are dates of all kinds, ginseng, ginseng, and liquorice root. The first two items are subject to ad valorem duty of 1% and the other two items to specific duties

(horses 750 fils per head, and liquorice root 40 fils per 1000 k.N.).

Since the year 1931 the Iraqi Government has been pursuing a policy of changing customs duties, in all suitable cases, from ad valorem to fixed basis. In the year 1931 nearly 33 per cent. of all dutiable articles were subjected to fixed duties. This percentage increased to approximately 44 per cent. in the year 1933 and about 47 per cent. in 1939. In affecting such a revision the Government has been mainly led by the desire of insuring more revenue and more protection.

Under the ad valorem basis, customs officials have to assume the difficult task of assessing the values of all dutiable articles. The assessment may be made either on the basis of the invoice value or on the basis of the value of the imported good in the Iraqi market. In most cases proper assessment for the purpose of ad valorem customs duties is very difficult, and values of imported articles often arbitrarily determined by uncertain methods. The problem becomes much more complicated in a country like Iraq where there are only a few honest and experienced customs appraisers. Bribery is very common among customs officials. It plays a very important role in the evasion of duties, and consequently in the great loss of revenue. Furthermore, ignorance of customs officials is the cause of a great injustice to the importers. The writer was told about, and can recall many cases in which imported goods were assessed at so high figures that the duties payable on them were greater than

their actual market value. Cases where importers preferred to subvert their goods rather than to pay the necessary duties ~~or~~ were also reported.

Fixed duties are, therefore, better than ad valorem duties for importers, local producers, *and* the Government. To the importers fixed duties are beneficial because they enable them to calculate in advance the actual amount of the duty payable on any particular kind of commodity at the time of making the order. To local producers fixed duties are better because they afford more protection than ad valorem duties. Fixed duties are better to the Government since they are administered more easily, less exposed to evasion and at the same time they assure a higher degree of stability of revenue.⁽¹¹⁹⁾

However, fixed duties are objectionable from the consumers point of view. They are more regressive in their operation than ad valorem duties. Their regressiveness is due to the fact that crude and cheaper qualities of a commodity are taxed more heavily than a similar superior commodity. In the second place their burden becomes much more intense with a fall in prices.⁽¹²⁰⁾ In Iraq the first objection is, to a certain extent, weakened by the graduation of specific duties, as much as possible, according to various qualities and grades of goods. But we must admit that fixed duties still remain regressive as it is not possible to carry on a policy of gradu-

(119) Cf., Carl C. Plehn, Introduction to Public Finance, (The Macmillan Company, New York, 1926), p.150.

(120) Cf., Findlay Shirras, The Science of Public Finance, (Macmillan, London, 1925), p.347.

ation to any desirable extent.

4. The Iraqi Tariff Policy. The aim of the Iraqi Tariff Policy is twofold: First, to insure a sufficient amount of revenue to the Government, and secondly, to provide for a reasonable degree of protection to local industry and agriculture. In pursuing this policy, Iraq treats all countries alike.

According to Article No.11 of the Mandate Government, and Article No.16 of the Anglo-Iraqian Treaty of 1922, the Iraqi Government has undertaken to apply indiscriminately the most favoured nation treatment to all countries members of the League of Nations. However, Iraq was allowed on the ground of contiguity to institute any special customs agreements with the adjoining countries which had been separated from the Ottoman Empire. But until the present time the Iraqi Government has not made any important use of this stipulation. (121)

In the present time Iraq has a single customs tariff applicable to all foreign countries, whether they are members of the League of Nations, non-members, or adjoining countries. This equality of treatment has been perhaps responsible for maintaining good commercial relations with other countries, and has prevented any conflict of interests which otherwise would have arisen. Furthermore, it has greatly simplified, and cheapened the cost of the collection of customs duties since there is only one duty applicable for each ar-

(121) The only important commercial agreement of the kind is the agreement made between Iraq and Palestine in 1937 for the purpose of encouraging trade between these two countries. For full particulars of the agreement see, "Special Customs Agreement for Facilitating Trade Between Iraq and Palestine, (Al-Waqai al-Iraqiya Noll of 1937); also see Himadeh, Economic Organisation of Iraq, op.cit., p.426.

ticle regardless of its origin.

After Iraq became a member of the League of Nations it was permitted to take a retaliatory action whenever that may be deemed necessary for protecting its economic interest. Article 5 of the Customs Tariff Amending Law No.65 of 1935 gives power to the Minister of Finance to increase the import duties on goods originating from any country when at least one of the following two conditions are satisfied:

- (1) When that country collects excessive duties or taxes on Iraqi goods or imposes import or export prohibitions and restrictions to hinder trade with Iraq.
- (2) When the currency of that country has depreciated to such an extent that it tends to endanger Iraqi commerce.

In either case the import duty on any good originating from such a country may be doubled. In case an article has not been liable to duty, it may be subject to a new ad valorem duty of 20 per cent.

The Iraqi Government has not found it necessary to retaliate against any foreign country at any time. Throughout it followed the same policy of non-discrimination, while protecting its interest, whenever that has been necessary, by a policy of imports limitation and quotas. The policy of imports limitation has not been exercised in Iraq for any purpose of protection, but rather for the purpose of maintaining a reasonable balance of payments with other countries, especially with those countries, such as Japan, where the balance

diverges greatly in their favour.⁽¹²²⁾

The balance of payment between Iraq and Japan is at any time greatly favourable to the latter. Consequently, in the year 1936 the Government issued regulations for restricting the importation of certain goods of Japanese origin, unless Iraqi Goods (with the exception of oil and oil bye-products), were in return exported to Japan to the extent of 15 per cent. of the value of Japanese goods so imported. The percentage was later on raised to 25 per cent. and finally to 35 per cent.⁽¹²³⁾ In 1939, seeing the effectiveness of this policy in increasing Iraqi exports to Japan, the Government extended its application to include Czechoslovakia, Germany, Poland, Switzerland, and Italy. The above mentioned States have to import from Iraq, goods to the amount of 25% of the value of goods that they can in return export to the country.⁽¹²⁴⁾

The policy of imports restriction, although only applicable to some countries is very far from being discriminatory. Countries whose imports are not restricted are those whose imports from Iraq automatically and without any restriction, amount to much more than the required limits of 25 or 35 per cent. of their exports to it.

C. The Protective Aspect of Customs Duties.

1. Tariff and agriculture. In Iraq tariff policy has been employed for the purpose of encouraging agriculture in three ways:

(123) Customs Regulations No.22 of 1936 and No.16 of 1939.

(124) Customs Regulations No.17 of 1939.

(1) by exempting from duty all machinery destined to be used in agriculture; (2) by imposing import duties on certain imported agricultural products; (3) and by removing export duties on all agricultural products, with the exception of dates and liquorice root.

Agricultural machinery including all machines and mechanical contrivances, instruments and apparatus for employment in farming operations which comprise tilling, sowing, cultivating, harvesting, threshing, manuring, and winnowing are exempted from customs import duties. This has encouraged some cultivators to import and use such modern machines and to abandon the primitive agricultural tools. Furthermore, the exemption of seeds, fertilizers and insecticides has served the same purpose. However, this measure has not proved to be so much effective. This can be shown from the small rise in the value of imported agricultural machinery during the years 1922-23 to 1939-40.

Table XXIV

Value of Imported Agricultural Machinery During the Period
1922-23 to 1939-40 in I.D.⁽¹²⁵⁾

Year	Value in I.D.
1922-23	17,541
1923-24	3,271
1924-25	5,709
1925-26	8,833
1926-27	43,279
1927-28	72,802
1928-29	79,516
1929-30	36,046
1930-31	30,186
1931-32	4,589
1932-33	5,572
1933-34	10,478
1934-35	2,920
1935-36	2,137
1936-37	3,502
1937-38	8,539
1938-39	21,066
1939-40	13,997

(125) Department of Customs and Excise reports of the Years 1922-23 to 1934-35 and Iraqi Foreign Trade Statistics of the Years 1935-36 to 1939-40.

Of the agricultural products that the government specially intended to protect are wheat, barley, cotton, wool, and tobacco. Wheat and barley are subject to an ad valorem import duty of 20 per cent., cotton to a fixed duty of 3 fils per K.N., wool to an ad valorem duty of 11 per cent., and tobacco to a fixed duty of 700 fils per K.N.⁽¹²⁶⁾ The effect of the tariff on agricultural development may be illustrated by the increase of the production of these protected crops.

a. wheat and barley. Iraq is not a wheat and barley importing country. The imports of wheat and barley in any year does not exceed some few metric tons. (See Table XXV). On the contrary, it is a wheat and barley exporting country. The quantity of wheat and barley exported from Iraq is subject to very wide fluctuations from one year to another depending on the volume of the local produce and on the prevailing prices in the international market.

In the year 1934 an ad valorem import duty of 20 per cent. on wheat and barley was imposed. Table XXV gives the quantities of wheat and barley exported from Iraq during the period 1933-34 to 1940-41. It shows that during this period the export of both wheat and barley has increased. The increase ~~in the value~~ of exports was undoubtedly due to some increase in the local production. But apparently such an increase in the local production cannot at all be attributed to the tariff. It is rather due to other promoting factors such as the use of modern means of cultivation, the use of

(126) Customs Tariff Law No.11 of 1933 and its Amendments.

better irrigation facilities, the control of insects pests and diseases, and the like. Tariff on wheat and barley, therefore, does not provide any real protection.

Table XXV

Imports and exports of Wheat and Barley During the Years
1933-34 to 1940-41 in Metric Tons. ⁽¹²⁷⁾

Year	Wheat		Barley	
	Imports	Exports	Imports	Exports
1933-34	8	15413	1	8255
1934-35	2	8207	1	225006
1935-36	220	10907	13	113362
1936-37	222	47205	2	251457
1937-38	13	113161	32	286877
1938-39	56	84125	--	163853
1939-40	8	37078	1	208102
1940-41	884	26255	--	182943

b. Cotton. Before the Great War cotton occupied a very minor position among the agricultural crops in Iraq. The quantity of cotton grown was insufficient to meet the limited demand of the native population for such domestic needs as mattress and pillow making. ⁽¹²⁸⁾ With the passing of time, cotton has taken its place permanently among the staple crops of the country. Investigation has shown that

(127) The Statistical Abstract of the Iraqi Government of the Years 1933-34, to 1940-41.

(128) Report on the Progress of Iraq of the Year 1920, p.195.

Iraq is a promising land for the cultivation of cotton.⁽¹²⁹⁾ The best hopes for the economic future of the country lies in cotton cultivation.⁽¹³⁰⁾

The quantity of cotton produced in 1920 amounted to 60 bales only. In 1940 the figure reached to 35,600 bales. The increase of the local production of cotton was also coupled by a decline in the imports and a rise in the exports of raw cotton. Table XXVI shows the number of bales of cotton produced locally during the period 1920 to 1941. Table XXVII shows the number of bales of cotton imported and exported during the period 1933 to 1940.

Table XXVI

Local Production of Cotton During the Period 1920 to 1941 in Bales.⁽¹³¹⁾

Year	Number of Bales
1920	60
1921	60
1922	300
1923	1,100
1924	2,400
1925	2,540
1926	3,500

(129) Thomas Roger, Report on Cotton Experimental Work in Mesopotamia, (Government Press, Baghdad, 1920), p.1.

(130) Mr. Tomas Roger believes that Iraq can grow more than one million bales of cotton annually.

(131) Figures secured from the Department of Agriculture.

Table XXVI Continued.

<u>Year</u>	<u>Number of Bales.</u>
1927	1,800
1928	5,202
1929	4,749
1930	3,315
1931	1,007
1932	410
1933	512
1934	2,037
1935	4,602
1936	9,667
1937	20,400
1938	15,500
1939	15,600
1940	35,030
1941	41,722

Table XXVII

Imports and Exports of Cotton During the Period 1933-1940
in Bales. (132)

<u>Year</u>	<u>Imports</u>	<u>Exports</u>
1933	2,719	138
1934	2,213	942

(132) Iraq Foreign Trade Statistics of the Years 1933 to 1940.
A bale equals 400 pounds.

Table XXVII Continued.

Year	Imports	Exports
1935	2,971	2,463
1936	465	3,805
1937	112	4,375
1938	125	13,970
1939	105	12,315
1940	72	21,490

The increase of cotton production in Iraq has been due to many promoting measures undertaken by the government such as the exemption of land cultivated with cotton from the land rent and water right, the distribution of cotton seeds freely to farmers, and the grant of subsidies to cotton cultivators. But undoubtedly the tariff has also facilitated the progress of cotton cultivation in Iraq to a certain extent. On the other hand, the absence of any export duty ^{may} ~~also~~ have fostered such an increase in the exports.

c. Wool. Iraq has for a long time been known as a sheep-raising country. Thanks to the general good grazing conditions made possible by the abundance of fertile soil and water, the country has an enormous prospect in the rearing of sheep and the production of raw wool. ⁽¹³³⁾ Several measures have been undertaken by the Government in order to increase the quantity and improve the quality

(133) Annual Report of the Directorate of Veterinary Affairs of 1938-1939, p.37.

of wool. The tariff policy being one of these measures.

Tariff policy has encouraged the production of wool by exempting from import duties all kinds of machinery and appliances used for chipping and shaving of livestock, and similar other appliances such as leaden discs, and apparatus used for the cleaning of wool.⁽¹³⁴⁾ The absence of any export duty on wool leaving the country, might have also encouraged wool exports and, thus, wool production. Finally, the tariff has provided an import duty of 11 per cent. ad valorem on imported raw wool.

Table XXVIII shows the quantities of raw ^{wool} ~~cotton~~ produced locally, and the quantities of wool exported and imported during the period 1933-34 to 1940-41. Both local production and exports have increased. The quantity of imported wool has been negligible.

(134) Customs Law No. 56 of 1931, Article 19.

Table XXVIII

Local Production, Exports and Imports of Raw Wool During the Period 1933-34 to 1940-41 in metric tons.⁽¹³⁵⁾

Year	Local Production. (a)	Imports (b)	Exports (c)
1933-34	7,100	49	3,675
1934-35	7,000	58	4,710
1935-36	8,200	13	4,014
1936-37	3,300	2	5,625
1937-38	3,000	79	7,784
1938-39	3,200	6	4,559
1939-40	3,100	33	6,017
1940-41	9,700	17	8,360

d. Tobacco. Since 1929 the Iraqi Government has exerted great efforts for the purpose of increasing the quantity and improving the quality of tobacco in the country. The government has exempted certain lands cultivated with tobacco from the land rent and water right, granted subsidies and extended loans to tobacco cultivators. The Agricultural Department has given valuable instruction to tobacco cultivators in respect of the use of modern methods of cultivation, and conducted many successful experiments concerning the introduction of new varieties of seeds and the use of modern methods of cultivation and preparation.⁽¹³⁶⁾

(135) (a) Statistics secured directly from the Directorate of Veterinary Affairs in Baghdad. (b) and (c) figures were secured from the Iraqi Foreign Trade Statistics of the Years 1933-34 to 1940-41

(136) Annual report of the Agricultural Department of the Year 1938-1939, p.16.

Tariff policy has been another measure utilized for the same purpose. In 1929 an import duty of Rs.4 (300fils) per K.N. was imposed on imported tobacco. Later in 1934 the duty was raised to 700fils per K.N.. Table XXIX gives the quantities of tobacco locally produced, imported and exported during the period 1929-30 to 1940-41. It shows that local production since then has been continuously increasing, while imports has declined. The country can also now spare some of the tobacco produced locally for export. Undoubtedly, the tariff has greatly facilitated the progress of tobacco cultivation in Iraq.

Table XXIX

Local Production, exports, and imports of Tobacco During the Period 1929-30 to 1940-41 in metric tons.⁽¹³⁷⁾

Year	Local Production (a)	Imports (b)	Exports (c)
1929-30	1	174	---
1930-31	7	150	---
1931-32	154	80	---
1932-33	405	42	---
1933-34	705	2	76
1934-35	1169	1	37
1935-36	1047	2	94
1936-37	1217	2	50
1937-38	1689	2	86

(137) (a) The Statistical Abstract of the Iraqi Government of the Years 1929-30 to 1940-41; (b) and (c) Iraqi Trade Statistics of the Years 1929-30 to 1940-41.

Table XXIA Continued.

Year	Local Production (a)	Imports (b)	Exports (c)
1938-39	1269	2	62
1939-40	1122	2	68
1940-41	1631	2	47

2. Tariff and industry. It is generally admitted that Iraq does not aspire to be an important industrial country, in all the sense that the modern term implies. Yet, the country has a potentiality to develop some industries, which, if given the necessary time and protection, would in the future prove to be very important in satisfying the local needs. Most important among them are textiles, matches, soap, shoes, liquors, and cigarettes industries.⁽¹³⁸⁾

It has already been mentioned that until the year 1927, customs duties in Iraq were mainly for revenue purposes. Later on, the policy has been directed towards encouraging local industry by means of exemption and protection. As a result, about seventy industrial undertakings, equipped with modern machinery, (enjoying the privileges provided by the Encouragement Industrial Undertakings Law) were established in the last fifteen years.⁽¹³⁹⁾ In addition, about 350 firms (not enjoying the privilege provided by the said Law) were

(138) Annual Report of the Industrial Research Department for the Years 1935-40, (Government Press, Baghdad, 1940).

(139) These undertaking are given subsidies and sometimes exempted from the income tax and the building tax.

also established.⁽¹⁴⁰⁾ The effect of the tariff on industrial development may be illustrated by the growth of the textile and cigarette industries, both of which being very highly protected.

a. The textile industry. The textile industry in Iraq until the year 1927 was of a minor significance. Since that date the Government has undertaken to adjust the Tariff Policy with the view of facilitating its development. Factory machinery and raw materials have been exempted or subjected to very low duties. In addition very high import duties were imposed on textile goods imported in order to curtail foreign competition. Articles made of silk whether natural or artificial are subjected to an ad valorem duty of 50 per cent; woollen articles pay a duty of 25 per cent; cotton piece goods are subjected to 15 to 25 per cent. ad valorem, or to a specific duty ranging between 15 to 187 fils per N.K.; and hosiery made of silk, wool or cotton is subject to ad valorem duty ranging from 25 to 50 per cent.⁽¹⁴¹⁾

At the present time there are three modern spinning and weaving factories in the country. These factories produce more than 500,000 yards of cloth annually and employ more than 600 native and foreign workers. In addition, there are two large and many other small factories manufacturing articles such as stockings, socks, shawls, etc.⁽¹⁴²⁾

There are no detailed statistics concerning the development of

(140) Statistical Abstract of the Iraqi Government of the Years 1937-38 to 1939-40.

(141) Customs Tariff Law No.11 of 1933.

(142) Information directly secured from the Director of the Industrial Research Department.

these different enterprises by showing the amount of capital investments, number of employees, raw materials consumed and output. The development of the textile industry may however, be inferred from the increase in imports of raw materials used and from the decline in the imports of textile goods. The most important raw material used in the textile industry in Iraq is imported Australian wool known as Marino No.62.4. Table XXX gives the value of imported Australian wool in the last eleven years.

Table XXX

Value of Imported Australian Wool Yarn During the Period
1929-30 to 1939-40 in I.Ds.⁽¹⁴³⁾

Year	Value in I.Ds.
1929-30	24,512
1930-31	11,340
1931-32	11,845
1932-33	15,563
1933-34	32,333
1934-35	57,242
1935-36	56,277
1936-37	46,304
1937-38	65,593
1938-39	98,541
1939-40	84,236

(143) Iraq Foreign Trade Statistics (Customs and Excise Department, Baghdad), of the Years 1929-30 to 1939-40.

The following table gives the value of textile goods imported during the last fifteen years.

Table XXXI

Value of Imported Textile Goods During the Period 1927-28 to 1939-40 in I.Ds.⁽¹⁴⁴⁾

Year	Value in ^{thousands of} I.Ds.
1927-28	2,291
1928-29	2,000
1929-30	1,936
1930-31	1,321
1931-32	1,640
1932-33	1,557
1933-34	1,363
1934-35	1,434
1935-36	1,518
1936-37	1,399
1937-38	1,921
1938-39	1,525
1939-40	1,589

It may be seen from the above two tables that during the last fifteen years there has been^a considerable increase in the importation of wool and a considerable decline in the imports of textile goods. These observations at least indicate that as a result of the Tariff

(144) Ibid.

the textile industry in Iraq has made some progress, but this progress has not been a remarkable one.

This does not at all imply that the country has no potentiality to develop this industry. But according to Mr. Shit Na'man, (Director of the Industrial Research Department), the rather limited expansion is due to the fact that the protection provided by the Tariff has been more than moderate. Owners of factories have not placed a much importance to the technical side of their enterprises. Once a factory is established it goes on successfully due to the lack of competition and finds it unnecessary to introduce improvements.

b. The cigarettes-making industry. The cigarettes-making industry is a typical example of an industry created by the Tariff. Until the year 1929 there was no single cigarette-making factory in the country. To-day there are nine large factories equipped with modern machinery with a daily output of 180 million cigarettes.⁽¹⁴⁵⁾ The industry produces mainly for local consumption with little exports to neighbouring countries of Kuwait, Saudi Arabia, and Bahrain.⁽¹⁴⁶⁾

It cannot be denied that a high import duty of 750 fils per a net kilogramme on imported cigarettes encouraged greatly this industry. Table XXXII gives us an idea of the sharp decline in the value of imported cigarettes as a result of such a high duty. The value of imported cigarettes declined from I.D.45300 in 1929-30 to I.D. 18652 in 1939-40.

(145) Magazine of the Baghdad Chamber of Commerce, (Baghdad, February 1941), p.101.

(146) Iraq Foreign Trade Statistics of the years 1929-30 to 1939-40.

Table XXXII

Value of Cigarettes Imported During the Period 1929-30 to
1939-40 in I.Ds.⁽¹⁴⁷⁾

Year	Value in I.Ds.
1929-30	45,300
1930-31	39,097
1931-32	31,735
1932-33	35,293
1933-34	27,794
1934-35	19,484
1935-36	28,864
1936-37	15,413
1937-38	16,412
1938-39	13,001
1939-40	13,652

3. The "Tariff Wall". There is no acceptable way of measuring the "height" of the tariff or the degree to which the tariff is restrictive. The ambiguous concept of the "Tariff Wall" is widely employed in this connection. "Tariff Wall" does not always mean the same thing, nor is it always calculated or constructed in one known method.⁽¹⁴⁸⁾ For our purpose, therefore, I shall mean by the "Tariff

(147) Iraq Foreign Trade Statistics of the Years 1929-30 to 1939-40.

(148) Cf., Encyclopedian of the Social Sciences, Vol.XIV, p.521.

"Wall" the degree to which imports are restricted by means of customs duties. I shall express this degree in a percentage form showing the proportion of customs duties collected to the total value of all dutiable imports.

Table XXXIII

Value of Dutiable Imports and its Relation to Total Import Duty collected during the Period 1926-27 to 1940-41 in I.Ds. (the Tariff Wall Around Iraq).⁽¹⁴⁹⁾

Year	Value of Imports Cleared from Customs.	Value of Imports Exempted from Duty.	Value of Imports Subject to Duty.	Total Import Duty Collected.	The Height of the Tariff Wall.
1926-27	7309227	548253	6760974	1524982	20.86
1927-28	7758861	506303	7252558	1607022	20.71
1928-29	7125217	227195	6898022	1534050	21.52
1929-30	7367215	234174	7133041	1567200	21.27
1930-31	5353546	402700	4950846	1310678	24.48
1931-32	4798288	80745	4717543	1412317	29.43
1932-33	6239365	1212311	5027054	1519921	24.36
1933-34	6099112	1067895	4941207	1602401	26.66
1934-35	5993336	416123	5577213	1827296	30.48
1935-36	7177110	645982	6531128	2055108	28.35
1936-37	9365970	457419	9108551	2223990	23.24
1937-38	9361004	103959	9257045	2641301	28.21
1938-39	8156179	407339	7749840	2573494	31.55
1939-40	8692900	426218	8266682	2578120	29.65
1940-41	6980710	323221	6657489	2323575	33.28
Total:	-----	-----	-----	-----	394.05
Average:	-----	-----	-----	-----	26.27

(149) Iraq Foreign Trade Statistics and the Iraqi Government Accounts of the Years 1926-27 to 1940-41.

The above table shows that the tariff wall around Iraq rose by about 13% in the period between 1926-27 to 1940-41. On the average of the last fifteen years, Iraq has been surrounded by a tariff wall of about 26 per cent.. The tariff wall ~~is~~ around Syria was 28 per cent. in 1934.⁽¹⁵⁰⁾ However, because of a reduction between 20 to 35 per cent. in the import duties on some goods, the wall fell to 23 per cent. in 1935 and to 22 per cent. in 1936.⁽¹⁵¹⁾ The tariff wall surrounding Palestine was in 1937 about 25 per cent.⁽¹⁵²⁾

D. The Revenue Aspect of Customs Duties.

Since the year 1927, although a considerable attention has been paid to the policy of protecting local industry and agriculture in Iraq, yet the revenue aspect continued to play an important role in determining customs policy.

Revenue from customs duties, including import duties, export duties, and transit, constituted, on the average of the last fifteen years, about 50 per cent. of the total tax revenue and about 31 per cent. of the total public revenue. Customs duties are the most important ~~one single~~ source of tax revenue in Iraq. The following table gives the amount of customs duties, their percentage to total tax revenue and total public revenue during the period 1926-27 to 1940-41.

(150) Himaden, Economic Organization of Syria, (American Press, Beirut 1936), p.279.

(151) Figures for the Years 1935-36 compiled from Statistiques General et Commerce Du Levant de 1938, and Bulletin de la Banque de Syrie et du Grand Liban of 1938-38.

(152) Himadeh, Economic Organization of Palestine, (American Press, Beirut, 1938), p.456.

Table XXXIV

Total Revenue from Customs During the Period 1926-27 to 1940-41 in I.Ds. and its Relation to Total Tax-Revenue and Total Public Revenue. ⁽¹⁵³⁾

Year	Export Duties	Import Duties	Transit	Miscellaneous Customs Revenue.	Total Revenue From Customs	Index Number	Percentage of Total Public Revenue	Percentage of Total Tax Revenue.
1926-27	60138	1524982	25880	18175	1629175	100.0	32.83	44.59
1927-28	73387	1607022	24592	14763	1719769	105.5	34.35	44.79
1928-29	66375	1534050	24150	17223	1641798	100.7	30.73	41.66
1929-30	68550	1567200	18975	16990	1671715	102.6	32.04	44.46
1930-31	46162	1310678	12244	18155	1387239	85.1	32.37	47.57
1931-32	46526	1412317	8267	18235	1485365	91.1	32.38	51.30
1932-33	21925	1519921	1923	17467	1561236	95.8	31.53	53.10
1933-34	14651	1602401	3027	21584	1641663	100.7	33.70	53.72
1934-35	12804	1327296	2357	29714	1872671	114.9	31.61	55.73
1935-36	11736	2035108	2137	34244	2083225	127.6	34.64	55.10
1936-37	11533	2223990	1698	41234	2278505	139.8	31.22	53.82
1937-38	10602	2641301	2197	51792	2705892	166.1	29.19	54.60
1938-39	10076	2573494	3446	47162	2634078	161.6	27.66	54.71
1939-40	11360	2573120	1815	39507	2630802	161.6	26.51	52.70
1940-41	11059	2323575	13845	68639	2417118	142.2	25.60	49.02
Average:	-----	-----	-----	-----	-----	119.7	31.04	50.35

(153) The Accounts of the Iraqi Government of the Years 1926-27 to 1940-41.

II. EXCISE DUTIES.

In Iraq excise duties are levied on tobacco, tumbak, salt, oil and oil products, liquors, and cigarettes produced and consumed locally.

A. Excise Duties on Tobacco and Tumbak.

Excise duties on tobacco and tumbak are collected in accordance with Excise Law No.18 of 1933. The duty is imposed at the rate of 60 fils per kilogram in case of tobacco and at the rate of 50 fils per kilo in the case of tumbak. Exporters can claim a refund of the amount of such duty on all exported tobacco and tumbak, provided that the necessary legal formalities have been carried on properly. The collection of excise duties on tobacco and tumbak is very easy as the sale of tobacco and tumbak is a government monopoly. All tobacco and tumbak produced in the country must be sold by cultivators directly to the government and stored in government warehouses. The government adds the amount of the duty to the price at which it sells to licenced wholesalers or retailers.

B. Excise Duties on Salt.

Excise duties on salt are collected in accordance with Excise Law No.4 of 1929 and its Amendment Law No.18 of 1933. The duty is imposed at the rate of 2 fils per kilogram of salt produced and

consumed locally. However, salt consumed by some tribes who live in the Western parts of the country is exempted from the duty in accordance with Excise Law No.20 of 1934. The production and sale of salt are government monopolies.

Excise duties on salt are collected in one of the following three ways: (1) by adding the duty to the cost price when salt is issued for local consumption from government stores to licensed private dealers; (2) by receiving it from licensed private producers when salt is transferred from the salt works; and (3) by leaving its collection to private individuals who give the highest bid on a yearly contracted basis.⁽¹⁵⁴⁾ The most convenient and most widely used method is the first method.

Allowances for the whole amount of excise duties on exported salt used for preserving exported fish are granted in accordance with Excise Law No.29 of 1932. In recent years the government has been very successful in its measures to prevent smuggling. This can be noticed from the increase in the quantities of salt issued for local consumption from government stores and the corresponding rise in the amount of excise duties collected on salt. The quantities issued from Government stores in 1940-41 amounted to 10,378 tons, in contrast with 8,822 tons in 1939-40, 7,495 tons in 1936-37 and 5,791 tons in 1927-28.⁽¹⁵⁵⁾ The revenue collected from excise duty on salt amounted to I.D.42,739 in 1940-41 as compared with I.D.38,574

(154) Salt Excise Law, Article 5.

(155) The Yearly Statistical Abstract of Iraq for the Years 1936-37 and 1940-41.

in 1939-40, I.D.22,335 in 1936-37 and I.D.46,547 in 1927-28.⁽¹⁵⁶⁾
 (See Table XXXV).

C. Excise Duties on Oil and Oil Products.

Excise duties on oil and oil products are collected in accordance with Excise Law No.9 of 1933 and its Amendment Law No.9 of 1941. The duty is collected on the different sorts of oil and oil products, in the following manner:

- (1) Motor spirit and inflammable liquids or mixtures capable of being used as fuel for internal combustion engines and having a flash point below 35 degrees centigrade by close test--a rate of 137 fils per 25 liters.
- (2) Refined oils having a flash point not below 35 degrees centigrade but below 63 degrees by close test: 144 fils per 200 liters.
- (3) Refined oil having a flash point ^{not} below 63 degrees centigrade but below 125 degrees by close test and of specific gravity amount less than 0.85--144 fils per 200 liters.
- (4) Crude oil--duty free.

Exported oil and oil products are exempted from the duty, and if a duty has already been paid, it is always refunded when the product on which duties have been collected are exported. Furthermore, no excise duties are levied upon such products used by H.B.M.'s Forces in Iraq for their official purposes, and by all other persons who are by special laws exempted from the payment of such duties.⁽¹⁵⁷⁾

(156) The excise duty on salt was before 1933 5 fils per kilo.

(157) Oil and Oil Products Excise Law, Article 2.

An exemption of 243 fils is also granted to all civil Aviation companies who have branches in the country for each 100 liters of motor spirit used by them.⁽¹⁵⁸⁾

Excise duties on oil products are collected by the Oil Companies on behalf of the government. The excise duty is added to the price of these products when they are sold by the Companies to the consumers. To insure the proper collection of duties by the Companies, the government asks every exploiter of oil products to keep accounts showing:- (a) quantities of crude oil refined; (b) quantities of kerosene and motor spirit (petrol) separately obtained on refining; (c) quantities of oil waste resulting after refining. Such accounts are opened at any time to inspection by a senior officer of the Customs and Excise Department.⁽¹⁵⁹⁾

D. Excise Duties on Liquors.

Excise duties on liquors are collected in accordance with Excise Law No.17 of 1937, and its Amendment Laws No.8 of 1941, and No.2 of 1942. The duty is imposed at the following rates:

- (1) On potable spirits obtained by distillation, except Ethyl-alcohol (rectified spirit)--150 fils per litre of strength 10 degrees below London Proof.
- (2) On rectified spirit (Ethyl-Alcohol) of London Proof strength --200 fils per litre.

(158) Ibid., Article 3.

(159) Excise Regulation No.36 of 1932, (Al-waqiya al-Iraqiya, No.14 of 1932.)

- (3) On denatured spirit (Methylated alcohol)--15 fils per litre.
- (4) On ale, beer, porter, cider, and other liquors obtained by process of fermentation, except wine manufactured from raisins or grapes--10 fils per litre.
- (5) On wine obtained by fermentation of raisins--20 fils per kilogramme of raisins so used.
- (6) On wine obtained by fermentation of grapes--10 fils per kilogramme of grapes so used.

For the purpose of collecting the excise duties on all liquors produced or consumed locally, the government assumes a proper supervision on producers and sellers of liquors by a system of licenses. No person is allowed to produce or sell liquors without first securing a license from the Custom and Excise Authorities. These licenses must be renewed annually, and every time a small payment has to be made by the licensed person.

Excise duties are collected from the licensed producer in the place of production. However, the payment may be postponed until the goods are sold to wholesalers or retailers, provided that during this time they are stored in special places and cannot be removed without the permission from the government. Producers are allowed to sell only to licensed sellers.

Excise duties paid on liquors locally produced and intended for export are always refunded. Also a refund of $\frac{7}{8}$ of the excise duty is granted on rectified spirit produced locally and intended

for use in medical preparations by the Government Medical stores or by any licensed pharmacist, subject in the case of the latter, to a maximum quantity of 15 liters per annum for each pharmacy. Alcohols used in the production of perfumes in Iraq are exempted from $\frac{1}{2}$ the amount of excise duties collected on a maximum quantity of 200 liters monthly.

E. Excise on Cigarettes.

Excise duty on cigarettes is of a recent origin. It was imposed for the first time in the year 1939 in accordance with Excise Law No.8 of 1939 which was later on amended by Amending Law No.1 of 1942. The duty is imposed on all machine-made or hand-made cigarettes of all kinds as well as cigars produced in Iraq, in addition to the tobacco Excise duties. The duty is collected at the following rates:

- (1) One fils per 10 machine-made cigarettes, provided that if the boxes or packets wherein such cigarettes are kept contain more than 10 cigarettes, the duty is 1 fils per 10 cigarettes or part thereof.
- (2) One fils per 20 hand-made cigarettes, provided that if the packets or boxes wherein such cigarettes are kept contain more than 20 cigarettes, the duty is one fils per 20 cigarettes or part thereof.

The cigarettes excise duty is collected by means of labels or bandrolles which are furnished to the cigarettes producers against

payment of the duty leviable on their produce. Such labels are affixed to the boxes or packets of cigarettes by the producers before ^{being} they cleared from the factory.

In order to avoid the loss of revenue the following measures are taken:

- (1) No person is allowed to manufacture cigarettes without a license granted by the Director General of Revenue.
- (2) No person is allowed to clear from the factory cigarettes which are not packed in boxes.
- (3) No person is permitted to smoke inside the cigarette factory cigarettes from boxes that are not labelled.
- (4) All factories must submit monthly statistics to the Excise Authorities containing such information: (a) quantity of tobacco taxed during the month, (b) quantity of tobacco entering the factory during the month, (c) quantity of cigarettes manufactured and entering the store, (d) quantity of cigarettes cleared for sales during the month, (e) number of labels purchased from the Excise Authorities during the month.⁽¹⁶⁰⁾

Cigarettes kept in boxes or packets and claimed to be exported from Iraq are exempted from excise duties.

F. Fiscal Adequacy of Excise Duties.

Revenue from excise duties constituted, on the average of the

(160) Excise Notification No.1 of 1940, (Al-#aqiya al-Iraqiya No.1769 of 1940.).

last fifteen years, about 13 per cent of the total tax-revenue and about 8 per cent. of the total public revenue. Revenue from excises has been continuously increasing in the last few years. The following table gives the amount of excise collections during the period 1926-27 to 1940-41 and its relation to total tax-revenue and total public revenue.

Table XXXV

Total revenue from Excise Duties on Tobacco, Salt, Oil, Liquors, and Cigarettes for the Period 1926-27 to 1940-41 and its Relation to Total Tax Revenue and Total Public Revenue for the same Period, in I.Ds.⁽¹⁶¹⁾

Year	Tobacco and Tumbak	Salt	Oil and Oil Products	Liquors	Cigarettes	Miscellaneous Excise Receipts	Total Excise Duties Collected.	Index Number	Percentage of Total Tax Revenue	Percentage of Total Public Revenue.
1926-27	-----	-----	-----	-----	-----	-----	256204	100	7.0	5.7
1927-28	-----	-----	-----	-----	-----	-----	344263	129.3	9.6	6.9
1928-29	219186	46547	71612	74460	-----	9541	421346	153.2	13.4	8.4
1929-30	182859	44193	76236	75230	-----	9504	388022	145.7	11.0	7.9
1930-31	191284	28684	78831	71795	-----	7301	377895	141.9	13.7	9.3
1931-32	167392	22027	117472	62983	-----	3146	373020	140.1	13.5	8.5
1932-33	178601	20165	114078	55009	-----	1855	369703	138.8	12.9	7.5
1933-34	197185	16569	127043	63837	-----	709	405343	152.2	13.7	8.5
1934-35	212726	17174	126826	74681	-----	1014	432421	162.4	12.9	7.4
1935-36	223844	22335	134263	79226	-----	313	459981	172.8	12.3	7.8
1936-37	256439	31055	166895	90120	-----	27	544596	208.3	13.1	7.6
1937-38	275335	32361	189375	107304	-----	51792	656667	250.4	13.2	7.10
1938-39	272585	36768	204541	114257	-----	47162	675313	257.4	14.4	7.2
1939-40	313426	38374	262084	113902	29056	39507	796349	302.1	16.41	8.1
1940-41	270406	42739	293436	112508	32958	68639	820686	308.2	15.1	7.9
Average	-----	-----	-----	-----	-----	-----	-----	184.4	13.2	7.6

(161) The Iraqi Government Accounts of the Years 1926-27 to 1940-41.

CHAPTER VITHE INCOME TAX.I. HISTORICAL SURVEY.

Before 1927 there was in Iraq no direct tax on the profits of business and professions, or on salaries and fixed incomes. During the first World War there was in use the former Turkish Tamatu, which was abolished in the early part of the British Occupation. The Tamatu consisted of a tax on the earnings of public utility companies, on salaries and wages, and on the profits of trades and professions. Strictly speaking, the Tamatu was not a direct tax on the profits of business and professions, because it was assessed on the basis of some indices as "signs of wealth," and not on the basis of net income.⁽¹⁶²⁾

In the year 1925, a Financial Mission was appointed by the British Secretary of State for Colonies to enquire into the financial position and prospect of the Government of Iraq. After making the necessary investigation the Mission suggested an immediate introduction of an efficient direct tax on salaries and other fixed incomes, and on the profits of business and profession. The Iraqi Government welcomed the idea, and through its collaboration with this Mission, an Income Tax Law was drafted preparing the ground for an important

(162) Report of the Financial Mission to Iraq Appointed by the British Government, (H.M.S.O., 1925), p.18.

(163) Himadeh, Economic Organization of Iraq, op.cit., p.467.

reform in the Revenue System of the country.

In 1927 the first Income Tax Law was passed in Iraq and came into force on the first of April of that year. It is known as the Income Tax Law No.52 of 1927. It was subjected to a considerable criticism in the local Press, but passed through the Chamber of Deputies and the Senate with practically no opposition. The main criticisms directed against it was that it was an unsuitable form of a tax for the country.⁽¹⁶⁴⁾ A large number of the population reacted very badly against it, and considered it as unjust, for in their opinion a tax which takes a part of one's income is nothing but confiscation.⁽¹⁶⁵⁾

The wisdom of the Government in making the rates very low at the beginning was responsible to a great extent in lessening the strength of such an opposition. The Income Tax Law of 1927 was of a very simple construction, exempting all incomes under I.D.300 and taxing the remainder with a proportional rate of 3.64%.⁽¹⁶⁶⁾ It was realized that the enforcement of the Income Tax Law would be very difficult at the outset, and for this reason the Government was not looking after revenue in administering the tax in the first two years. The Law was so framed that the labour of the first and second years of the operations of the tax were applied mainly to the introduction of the principle of a direct tax on income and of testing and establishing efficient machinery for its enforcement.⁽¹⁶⁷⁾

(164) Report on Iraq by His Majesty's Government submitted to the League of Nations, (H.M.S.O., 1927), p.4.

(165) Ibid.

(166) Income Tax Law No.52 of 1927.

(167) Report on Iraq by His Majesty's Government submitted to the League of Nations, (H.M.S.O., 1928), p.83

The Income Tax Law of 1927 was amended four times. The first Amendment Law (Law No.51) was passed in the year 1930; the second (Law No.73) was passed in the year 1931; the third (Law No.60) was passed in the year 1933; and the fourth amendment Law (Law No.58) was passed in the year 1936. It was seen fit later to put into one code all the laws related to the income tax so that a thorough understanding of its contents and implications on the part of the officials concerned might be facilitated.

A new Income Tax Law was passed at Baghdad on the 29th of July, 1939, and published in the Waqayi' al-Iraqiya on the 7th. of August of that year. It is known as the Income Tax Law No.36 of 1939. Accordingly Income Tax Law No.52 of 1927 and all its amendments were repealed. All the provisions of the new Law in respect of chargeable incomes, allowances, rates of tax, methods of assessments and procedures relating to those problems, were for the first time applied in the year of assessment 1939-40.⁽¹⁶⁸⁾ The new Law imposes higher rates, steeper progression, and grants more equitable allowances and exemptions. In addition it introduces a basic improvement in the old methods of assessment, which past experience had proved unsatisfactory. This Law was supplemented by the Income Sur-Tax Law No.63 of 1943. The discussion in this chapter, therefore, depends on the Income Tax Law No.36 of 1939, and the Income Sur-Tax Law No.63 of 1943.

(168) Al waqayi' al-Iraqiya No.1723 dated 7/8/1939.

II. GENERAL FEATURES OF THE IRAQI INCOME TAX.

A. Taxable Income.

In Iraq the income tax is payable upon any income which accrues or is derived from or received in Iraq, in respect of:

- (a) Gains or profits from any trade, business, profession, or vocation.
- (b) Gains or profits from any employment including the estimated annual value of any quarter or board or residence, or of any other allowance granted in respect of employment whether in money or otherwise.
- (c) Dividends, interests or discounts.
- (d) Any premium charge or annuity.
- (e) Any income that is raised in Iraq and which is not subject to any kind of tax in Iraq.⁽¹⁶⁹⁾

The Iraqi Income Tax is not an income tax proper. It does not include all incomes, but only the above mentioned ones. Income from agriculture, property, and income derived from the possession of animals are exempted. Agriculturalists and property owners are not subject to the income tax but to other special taxes such as the land tax, the Istihlak tax on agricultural and natural produce and the building tax. The economic effects as well as the criticisms of this policy are given in another place of the present chapter.

(169) Income Tax Law No. 36 of 1959, Article 2.

B. Persons Subject to the Tax.

Generally speaking, the tax is imposed on any person who receives an income, which, according to the provisions of the Law, is subject to the income tax. There are, however, four chief aspects of this problem which need to be considered here:

1. The relation of the individual to the income of the household.
2. The status of a person resident in Iraq and a person not resident in Iraq.
3. The status of the corporation in income taxation.
4. Persons exempted from the tax.

1. The relation of the individual to the income of the household. The distinction between the income of the individual and the joint income of the household is of practical importance under a system of rate graduation. The sum total income pays a smaller graduated tax with separable liability of the family member than if assessed as a whole. In Iraq the household is taken as the tax unit. The income of children under the age of 18 years is added to the income of the father and is charged in the name of the father, or, if he is deceased, in the name of the mother. On the other hand, adult children over 18 are subject to individual taxation.

Similarly the income of a married woman is added to the income of the husband. This practice is followed in almost every country.

2. The status of resident and non-resident persons, in Iraq. Persons resident and persons not resident in Iraq are subject to the income tax when they raise or receive income in Iraq. But the rates applicable to each of these two groups are different. It becomes necessary therefore, to distinguish clearly between them. By a person resident in Iraq is meant: (a) any person resident in Iraq and any body of persons incorporated under Iraqi Law or whose principal place of business or its "permanent establishment" is situated in Iraq, (b) any official of the Iraqi Government outside Iraq, (c) any Iraqi who is resident outside Iraq for temporary purposes and has a permanent place of residence or a principal place of business in Iraq, and finally (d) any Iraqi who is resident in Iraq during any year of assessment for a period of four months or more.⁽¹⁷⁰⁾ The term "persons not resident in Iraq", means: (a) any non-Iraqi person whose residence is due to the fact that he is engaged in a salaried post in Iraq, or his residence in Iraq is due to a certain temporary purpose only, (b) any person who is resident outside Iraq and derives in Iraq any income liable to tax or exercises by any means whatever, any trade, business, profession or vocation in Iraq, and finally (c) any body of persons not incorporated in Iraq or registered in Iraq which carries on business or has a "permanent establishment" in Iraq.⁽¹⁷¹⁾

3. The status of the corporation in income taxation. Different

(170) Income Tax Law No. 36 of 1939, Article 1.

(171) Ibid.

countries have adopted different practices concerning the taxation of corporate income. The most important among these practices are; (a) taxing either the corporation or the individual stockholder, (b) taxing both the corporation and the stock holder, (c) the division of the tax between the sockholder and the corporation.⁽¹⁷²⁾ The difference in practice arises from confusion of various theories which we need not discuss here. Furthermore, we are not here in a position to go into the details of each of the above mentioned practices, but we have simply stated them in order to find out which of these practices is followed in Iraq.

In Iraq only the shareholder is taxed. Corporate income out of which dividend is to be distributed is taxed at a proportional rate of 15 per cent. The corporation is entitled to deduct from the amount of any dividend paid to any shareholder the amount of the tax due on that dividend. The amount of the tax deducted at the source from a dividend paid to a shareholder is set-off against the tax charged on the total chargeable income.

4. Persons exempted from the tax. In another place the problem of exemption is considered in detail, but it seems logical at this stage to enumerate those persons who are exempted from the income tax. They are the following:

- (a) Diplomatic representatives of Foreign Countries.
- (b) The members of the British Forces in Iraq and any other civilian member who is appointed by His Britannic Majesty's

(172) Cf. Edwin R. Seligman, Essays in Taxation, (The Macmillan Company, 1924), p.317.

Government for service in Iraq.

- (c) H.M. the King of Iraq, H.R.H. the Crown Prince, and the Regent of Iraq.⁽¹⁷³⁾

C. The Rates of the Tax.

Since the introduction of the income tax in Iraq a remarkable increase in its rates has been made. In order to have an idea about the trend of such increase it may be appropriate here to review the rates of the tax in the different stages from its early beginning till now. The first Income Tax Law (No.52 of 1927) used to tax all incomes above I.D.300 with a proportional rate of 3.645 per cent., and to exempt all incomes below that amount. In the year 1930, the severe fall in Government revenues accompanied by a great financial stress induced the Government to review and consider again the rates of income taxation.⁽¹⁷⁴⁾ The rate was raised to 6 per cent. on the first 150 dinars of taxable income and 9 per cent. on the remainder. The tax on income of corporation was raised to 9 per cent.⁽¹⁷⁵⁾

The new Income Tax Law (No.36 of 1939) imposes the following rates on the ^{chargeable} taxable income of each year of assessment:

Up to 150 Dinars	6 per cent.
Above 150 Dinars but less than 500 Dinars	9 per cent.
Above 500 Dinars but less than 1200 Dinars ...	12 per cent.

(173) See Infra, p. 153

(174) Report on Iraq by H.M.'s Government Submitted to the League of Nations, (H.M.S.O., 1930), p.78.

(175) Income Tax Amendment Law No.51 of 1930.

Above 1200 Dinars 15 per cent.
The chargeable income, whatever the amount,
if any person is not-resident in Iraq 15 per cent.
The chargeable income, whatever the amount,
of a body of persons 15 per cent.⁽¹⁷⁶⁾

At the present time the following sur-tax rates are also imposed in addition to the above rates in accordance with Law No.63 of 1943:-

(a) On persons resident in Iraq:

Up to 1000 Dinars 5 per cent.
More than 1000 Dinars but less
than 2001 Dinars 10 per cent.
More than 2000 Dinars but less
than 3001 Dinars 15 per cent.
More than 3000 Dinars but less
than 4001 Dinars 20 per cent.
More than 4000 Dinars but less
than 5001 Dinars 25 per cent.
More than 5000 Dinars but less
than 6001 Dinars 30 per cent.
More than 6000 Dinars but less
than 7001 Dinars 35 per cent.
More than 7000 Dinars but less
than 8001 Dinars 40 per cent.
More than 8000 Dinars 45 per cent.

(176) Income Tax Law No. 36 of 1939, Articles 12 and 13.

(b) The same rates are applicable to persons non-resident in Iraq.

(c) On body of persons:

Up to 1000 Dinars	10 per cent.
More than 1000 Dinars but less than 2001 Dinars	15 per cent.
More than 2000 Dinars but less than 3001 Dinars	20 per cent.
More than 3000 Dinars	25 per cent. ⁽¹⁷⁷⁾

One characteristic of the rates of income tax in Iraq (as it is the case in practically every country) is their graduation. Such progressive rates are usually justified on the ground that the existing social order is not perfect, that the great degree in the inequality of income ^{and} wealth is unjust, and that taxation should be one of the instruments of correcting it. Progressive taxation, is a sound and promising method for mitigating such an inequality. Progressive taxation is based on the principle of "ability to pay." It is ^{argued} ~~agreed~~ that an individual's "ability to pay" increased faster than the increase in his income. Consequently, very rich people should be called upon to pay taxes not only in proportion to their incomes but more than in proportion. If the amount collected by taxation is spent mainly for the benefit of the poor, a better and fairer distribution of the national income can be attained.⁽¹⁷⁸⁾

(177) Income Tax Sur-Tax Law No. 63 of 1943, Article 5.

(178) Cf. Encyclopaedian of the Social Sciences, Vol. XIV, p. 531.

In general, I think, we can say that the present income tax and sur tax rates are not very high, for a rate is very high only when it affects badly the tax-payers's ability and incentive to work and save, and consequently causes a reduction in the national wealth and income. It is almost impossible to conclude whether the present rates will or will not bring similar bad results. Yet one may be inclined to believe, especially now ~~a~~ days when business profits are high, that a maximum rate of 60 per cent. (15 per cent. the income tax rate and 45 per cent. the sur-tax rate) on a very high income of 8000 Dinars and above will not reduce the taxpayer's incentive to work and save. When conditions will come back to normal again in the post-war period there might be a strong case for a further consideration of this problem and perhaps a revision of rates will then be advisable. The present rates are low as compared with those in European and American countries. They are also lower than the rates in Palestine, where economic and social conditions are not much different from those in Iraq.

III. EXEMPTIONS

The most important form of exemption is that of the "minimum exemption", providing for a minimum limit which is exempted from taxation. In addition to the minimum exemption every person is entitled to an exemption equal to the full amount of the life insurance premium so paid by him. These personal exemptions are in

no event to be considered as part of anyone's taxable income.

The minimum exemption in the outset (in 1927) was I.D.300 for all resident persons alike. Family responsibilities were not taken into consideration. This exemption was granted to every person whatever he might be, a bachelor, or married man with no children, a married man with one child, or a married man with more than one child. Later on, in 1933, the minimum income exempted was reduced to I.D.150 instead of the previous limit. Here again no consideration was taken for the problem of family responsibility.

In order to establish the income tax on a fairer basis, Article 12 of the Income Tax Law was amended in the year 1939. Since that date the following exemptions have been granted: A bachelor or a widow benefits I.D.100 exemption; a married man who has no children or a widow who has one child or more I.D.125 exemption; and a married man who has one child or more I.D.150. Only I.D.100 exemption is granted to a married man who has lost his wife. A widow whose only son or (in case she has more than one) her youngest son reached his eighteenth is granted I.D.100 exemption only. Similarly the allowance of I.D.150 referred to above does not apply to a married man who has a child or more in the event of his child (or youngest child) completing 18 years of age. In such a case only an exemption of I.D.125 is granted.

Because of the present war conditions, the price level in Iraq has risen to a considerable degree. As a consequence of that the

Government officials, and some private officials, were allowed an increase in their monthly salaries, an increase proportional to their original salaries. The full amount of this war allowance is exempted from the income tax, thus making the amount of the minimum exemption mentioned above more by the amount of the war allowance to which a person is entitled.⁽¹⁷⁹⁾

Beside the "minimum exemption" discussed above, there are incomes which are exempted from income taxation. Article 8 of the Iraqi Income Tax Law enumerates the following list of incomes that are exempted from the tax.⁽¹⁸⁰⁾

- (a) "Agricultural income."⁽¹⁸¹⁾
- (b) Income on which tax is paid under the Building Tax Law.
- (c) The income of H.M. the King, H.R.H. the Crown Prince, and the Regent.
- (d) The income of the Department of Awqaf and any ecclesiastical, charitable, or educational institution for the benefit of the public and so far as such income is not derived from a trade or business carried on by the Department or by the institutions.
- (e) The official salaries and emoluments of Diplomatic representatives of Foreign countries.

(179) Increased Cost of Living Allowances Law No.52 of 1942.

(180) Income Tax Law No.36 of 1939, Article 8.

(181) "Agricultural income means income derived from agricultural produce in Iraq by the cultivator thereof, or by any person who, under the law or custom, is entitled to a share in such a produce."

- (f) Income derived from the possession of animals subject to the Istihlak tax on animals and animal produce.
- (g) Any income chargeable to tax under the Income Tax Law which has been exempted by any other law.
- (h) The salary and emoluments paid by His Britanic Majesty's Government to any service or civilian member of the British Forces in Iraq provided that such a member is a British subject.
- (i) The income of Municipalities and Undertakings for public services other than those undertaken for the purpose of ~~private~~ gain."

The exemption of the income of the Department of Awqaf, the income of municipalities, and the income of charitable and educational institutions is connected with public policy. These institutions are either government or private institutions whose purpose is not to make profits, but to render an essential social service.

The exemption of the income of Diplomatic Representatives of Foreign countries is a kind of mutual and reciprocal exemption. The exemption of the salaries and emoluments paid by the British Government to a British subject who is under its service in Iraq, is another additional privilege given only to the British Government in accordance with the Anglo-Iraqian Treaty.

The exemption of agricultural income, income from property, and income from the possession of animals is a peculiar aspect of

the income taxation in Iraq. The income tax is a tax on persons according to their respective incomes, and it logically follows that all incomes regardless of their source or nature must be subject to the tax. This is the practice in practically every developed country. However, in Iraq the case is not so. While there are incomes subject to the income tax, there are other incomes which are not.

The superiority of income tax over other taxes lies in the fact that it enables a more equitable distribution of the tax burden among different persons in society. With this aim in mind, there is no reason whatsoever to discriminate between different persons according to their sources of income. Why should two persons, where one depends on his income from business and the other from property, for example, be treated differently? Such a policy is incompatible with the aim which the income tax is supposed to serve.

To illustrate the effect of this policy on the distribution of the tax burden, let us consider two persons who make equal annual incomes of I.D.5000 each, of whom one "A", gets his income from rent, and the other "B" gets his income from business profit. A's income is exempted from the income tax, but subject to the Building Tax which imposes a proportional rate of 10%. "A" therefore has to pay a tax of I.D.500 only (neglecting for our purpose the exemption al-

lowed and considering the whole amount as the taxable income.). B's income is subject to the income tax, and according to the income tax and sur-tax rates, he has to pay a tax of I.D.1435.50 or I.D.935.50 more than "X". This is, of course, an obvious inequality in the system. What has been said in connection with income from property may similarly be said about the income from agriculture or the income from the possession of animals.

A system of a progressive income tax cannot be just unless all incomes are grouped together and treated similarly, otherwise, a great deal of inequalities similar to that illustrated above will arise.

The present practice followed by the Iraqi Government in exempting from the income tax, the incomes from agriculture, from property and from the possession of animals might have a justification from the practical point of view. It is a known fact that the determination and assessment of such incomes are matters which involve many practical difficulties. To include these incomes under the income tax means increasing the complexity of the tax system. Hence the tax cannot be administered properly but only by a very efficient staff which is lacking in Iraq. For this reason, I believe, that to follow this policy is the best that the Government can do at the present time. It is admitted that it is a bad policy, but it is, as one might say, a necessary evil.

IV. DEDUCTION OF INCOME AT THE SOURCE.

In Iraq there is a combination of taxation at the source, and taxation by means of direct assessment on the basis of taxpayers returns. In this section we are going to discuss the cases in which the method of collection at the source is employed, leaving the discussion of those cases in which the method of direct assessment is used to the next section.

Obviously, the application of the method of deduction (sometimes called stoppage) at the source is not always possible. In Iraq, deduction at the source is employed in the case of payments of interest to non-resident persons, and practically all payments of dividends, and salaries of officials of Public Departments.

The tax chargeable on the salary and emoluments of an employee in the service of an employer is deducted by the employer and paid by him to the Finance Authorities on behalf of the employee. The employee will then receive his salary less the income tax on that amount of income. The employers charged with deduction and collection of the tax from salaries are the following⁽¹⁸²⁾

1. Government Departments.
2. Each Municipality including the Amanat-el-Asimah.
3. Every Public Body.
4. Every Company.
5. Every other person (including any partnership) upon whom the obligation may be imposed by the Minister of Finance.

(182) Income Tax Law No.36 of 1939, Article 6.

Every employer who is responsible by the provisions of the law to make deduction at the source is required to prepare and deliver for each year of assessment a return containing the names, place of residence, and the amount of salary of all persons employed by him. Where the employer is a body of persons, the manager is deemed to be the employer, and any directors or person employed in the management of the company are considered his employees.

The employer is held responsible to the Finance Authorities for the full amount of the tax which he is supposed to deduct from the salaries and emoluments of his employees. The proper amount of the tax should be paid to the Finance Authorities irrespective of whether the employer himself has or has not collected that amount from his employees. To release himself from any risk and to get rid of any trouble that may result, the employer deducts in advance the amount of the tax from the salaries of his employees and keep it with him until the Finance Authorities will call for payment.

As in the case of income from salaries, income from dividends is also deducted at the source. Every company which is registered in Iraq is entitled to deduct from the amount of any dividend paid to any shareholder the tax payable on the income out of which dividends are paid. Every company, upon the payment of a dividend, must furnish each shareholder with a certificate setting forth the amount of the dividend paid to him and the amount of the tax which the company has deducted in respect of that dividend. The company is responsible for the payment of the amount of the tax on all the

dividends declared by it to the government, whether it has actually collected that by deduction or not.

The other occasion in which the tax is deducted at the source is in the case of payment of interest to non-resident persons. Any person resident in Iraq is liable to the Finance Authorities for the payment of the tax due upon any amount paid or credited by him to any other non-resident person in respect of interest on debentures, mortgages, loans, deposits, or advances. The same thing is applied in case of paying or crediting a sum falling due in respect of an annuity, pension or other annual payment.

The person who is entitled to make such deduction of the tax upon interest and other annual payments mentioned above must furnish the non-resident person, on whose behalf the tax is payable, a statement containing the rate and amount of the tax due on that income, and the proceeds which is actually transferred to him or credited to his account.

The tax is usually deducted at the source at the standard rates. Income from salaries is taxed at the source at the rate of 9%, income from dividends at the rate of 15%, and income from interest and other similar annual payments at the rate of 10%.⁽¹⁸³⁾

But for the purpose of applying graduated rates, it is essential to group all incomes together before such graduation can properly be applied. All incomes, therefore, whether taxed at the source or not are included in the chargeable income. The total

(183) Income Tax Regulations No.5 of 1939.

amount of the tax applicable to such income is calculated. Then any tax paid at the source in favour of the taxpayer is deducted from the total amount of income tax payable by that person.

The method of deduction at the source has some advantages and disadvantages. One of the disadvantages is that graduation of rates cannot be employed directly. The tax is deducted, as we have seen, at a uniform standard rate which is in many cases higher than the rate applicable to the individual from whose income the tax is deducted at the source. Consequently, such a person is put to the trouble of making a claim for remittance, and thus he will be deprived of money during the period in which deduction is made until remittance is declared--which is rather a long period.

However, there are three principal advantages of this method. First, it makes the collection of the tax a practical certainty, because it helps to a great extent to prevent fraud and evasion. Second, tax is collected at the time in which income is received which is the most convenient time; there is no possibility that the recipient of income may spend it and then be unable to pay the tax later on. Third, collection is simplified to a large extent so that much less expenses for the administration of the tax is needed. Collection of the tax at the source, therefore, makes the income tax more certain, convenient, and economical.⁽¹⁸⁴⁾

(184) Cf., H.B. Spalding, The Income Tax in Great Britain and the United States, (P.S. King and Sons Ltd., London, 1927), pp. 234-236.

V. ASSESSMENT AND ADMINISTRATION OF THE TAX.

In the last section we discussed the cases where income tax is deducted at the source; in this section we are going to discuss the other more complicated method of direct assessment.

A. Basis and Procedure of Assessment.

In Iraq direct assessment is employed in the case of interest in respect of mortgages, loans, deposits or advances when received by a resident person, and incomes from any trade, business and vocation.

In the case of interest, income tax is charged for each year of assessment on the income realized during the year of assessment. On the remaining incomes it is charged on the chargeable income of the year immediately preceding the year of assessment. The "year of assessment" is the period of twelve months commencing on the first day of April in each year. This date is considered as a matter of administrative convenience, for it is the period adopted by the Government for its own fiscal purposes rather than the period in which a taxpayer closes his books and prepares his accounts.

Taxpayers accounting year seldom coincides with the year of assessment. For this reason the Finance Authorities may permit the gains or profits of any person, who usually makes up his accounts on some day other than that of March 31st, to be computed upon the income of the year terminating on the day in the year on which the accounts are usually closed. When such permission is given, the tax is charged for each subsequent year upon the gains or profits arising in a period of twelve months terminating on the same date.

Usually the tax is charged upon the income of the year immediately preceding the year of assessment, but when such income arises for the first time during a year of assessment, the tax is charged on the income of the new source for that year of assessment. The usual practice is followed in subsequent years. And if the source of income ceases during any year of assessment, the tax is charged on the income arising from such source within the year of assessment instead of on the income of the year immediately preceding that year.

For the purpose of assessment every person chargeable with the tax must give notice to the Finance Authorities, within three months after the commencement of any year of assessment, that he is so chargeable. In receiving a notice of chargeability, the Authorities will send to every chargeable person a blank "income tax return" which is to be filled and furnished by him again.

The income tax return is a statement in which every chargeable person states in detail all the particulars needed by the Authorities for the purpose of ascertaining the chargeable income, and computing the amount of the tax payable. The return contains such particulars as to the sources of income, amount from each source, total amount of income received, the income of the wife if any, the income of the children if any, the names, age, profession of children if any, and any other information that from time to time may be needed by the Authorities.

When a person delivers a return to the Finance Authorities, the Authorities will make the necessary investigation to assure the validity of the information presented in the return. They may be satisfied that the return is valid and accept it. They will therefore, compute the tax accordingly; or, according to their knowledge, they will consider the return as invalid and consequently they will refuse it. Having refused the return, the Finance Authorities, according to their own information, will determine the amount of the chargeable income of such a person and tax him accordingly.

Any person chargeable with tax who fails to deliver a return, who in the opinion of the Authorities is liable to pay a tax, will be assessed according to the information of the Authorities and will be taxed accordingly.

When the return shows that a loss incurred in the year in respect of which tax is charged in any trade, business, profession, or vocation carried on by the person who delivers the return, the Finance Authorities after they are satisfied that such loss has really been incurred will set-off the amount of the loss against the income of such person from other sources chargeable with tax for the same year of assessment. If the income from the other sources chargeable with tax is not enough, any remainder of the loss incurred is allowed to be set-off from the chargeable income of the next five years of assessment. The annual amount to be set-off,

however, must not exceed one-half of the tax payable by such person in that year.

We have already mentioned that among the particulars which are to be supplied in the income tax returns are those concerning family and personal matters, such as whether the person is married or is a bachelor, whether he has children or not, and if he has any, their names, professions, and ages; the income of the wife, and similar other information. Such information is needed for the purpose of granting the exemptions and allowances stated before. The other reason is that because the incomes of the wife and children below 18 years of age are included with the chargeable income of the husband or father for reasons which have already been mentioned in another place.

The inclusion of the income of children below the age of 18, with the income of the father has been a very effective measure against evasion. It was concluded by experience that there were some persons who were accustomed to distribute their profits on their underage sons taking advantage of the exemptions allowed *and the application of graduated rates* ~~the income tax law~~. In view of this fact article 11 of the Law was amended in 1939 requiring the income of the sons under 18 years of age to be added to that of their father or, when the father is deceased, to that of their mother.⁽¹⁸⁵⁾ The following practice now is to require a joint return for the incomes of the father, mother, and sons together. This new provision put an end to the former

(185) Report of the Financial Committee in the House of Commons of the Year 1939.

practice and consequently evasion of this sort was completely eliminated.

Another important feature of assessment is that of the assessment of the income of a partnership. For the purpose of applying graduation and exemption, the tax is not levied on the income of the partnership as such, but on the income of each individual partner. The income of the partnership is first ascertained and the share of each partner is then taxed separately. This procedure is necessary, for otherwise, under a system of graduated personal income tax a lot of difference may result. For this purpose, the term "partnership" means "all kinds of companies, excepting limited liability companies, supported by legal documents or proved by certified registers or recognized by the Finance Authorities."⁽¹⁸⁶⁾

The responsible partner towards the Finance Authorities is the precedent partner who is required to deliver a return of the income of the partnership for each year of assessment.⁽¹⁸⁷⁾ He must also give such information as to the names and addresses of the other partners together with the share of the said income to which each partner is entitled for that year.

The income of a deceased or an incapacitated person is charged in the name of his trustee, receiver, heir or guardian. The income of a non-resident person that accrues and arises through or from any agency or branch is charged in the name of his agent.

(186) Income Tax Law no. 39 of 1939, Article 31.

(187) By the "precedent" partner is meant "the partner who is first named in the agreement of partnership, or, if there is not any agreement, that who is named simply with a precedence to all names of the other partners in the usual name of the firm."

The determination of the amount of the income made by a non-resident person trading in Iraq through an agent, is in most cases very difficult. Whenever the amount of such income can not be readily ascertained, the Authorities will make the assessment not on the basis of income, but on the basis of a fair and reasonable percentage of the turnover of the business done by the non-resident through or with his agent. Besides, the assessment may be made on the basis of profits which might be expected to be earned by similar local merchants who trade in the same articles but buy directly on their own account.⁽¹⁸⁸⁾

B. Returns and Information.

We have mentioned in another occasion that every person chargeable with tax for any year of assessment must furnish a return containing particulars about the source and amount of his income, irrespective of whether such a person has received a written statement from the Finance Authorities requiring him to do so or not. The return is to be delivered within a period of 20 days commencing on the 1st of April each year. Persons who obtain incomes on which the tax is deducted at the source are not required to make such returns.

We have also mentioned that the Authorities may accept the return as being valid or refuse to accept it as being a misrepresentation of the actual facts. To be able to make such judgment, the

(188) Income Tax Regulation No. 27 of 1959.

the Finance Authorities require information. Such information may be secured from banks, the Tapu Department, agents, or from any other person the Authorities may wish to secure. The most important source from which reliable information can be secured is the books and accounts of the business.

Merchants are usually required to produce their books and accounts for examination. To obtain full information and ~~to~~ be sure of the accuracy of the accounts, the Authorities may also require merchants to produce all evidences of debts, trade lists, stock lists, and all other documents which they may deem necessary.⁽¹⁸⁹⁾

C. Objection and Appeal Against Assessment.

Any person who is not satisfied with the assessment may apply to the Authorities by a written notice of objection, asking them for a revision of the assessment. In such an application the applicant must precisely state the grounds of his objection to the assessment. The notice of objection must be delivered to the Authorities within twenty days after receiving the notice of assessment, except in certain cases stipulated in the Law where this period may be extended.⁽¹⁹⁰⁾

On receipt of this notice of objection the Finance Authorities will prepare to make another assessment. It will require that person to furnish all particulars that the Authorities may deem necessary as evidence to support his claim. The Authorities will require him to produce all books or other documents in his custody.

⁽¹⁸⁹⁾ Income Tax Law No. 36 of 1939, Article 24.

⁽¹⁹⁰⁾ Ibid., Article 38.

In cases the said person does not deep accounts, the Authorities will hear the witness of any person who is able to give any evidence respecting the assessment (except the clerk, agent, servant or other person confidentially employed in the affairs of the person disputing the assessment.).

After all the necessary information has been secured, the Authorities may either be convinced that their first assessment was wrong and, consequently, will amend the assessment and compute the tax accordingly; or they may, according to their own information refuse to accept such objection and the original assessment will be maintained.

However, any person whose objection against assessment was refused by the Authorities and who ~~is~~ is still convinced of over-assessment can, if he wishes, appeal against the assessment.⁽¹⁹¹⁾ He can do that by sending a written notice to the Committee^{of} Appeal any time within twenty days from receiving the notice from the Authorities informing their refusal to amend the assessment. The appellant must pay on account to the Finance Authorities one half of the tax due on the basis of the disputed assessment before the date fixed for the hearing of the appeal. Otherwise, the appeal will not be proceeded with and the assessment appealed against becomes final.

When a case of appeal is heard by the Appeal Committee and the Committee is satisfied that the person appealing has been over-

(191) Ibid., Article 59.

assessed it will reduce that amount, by the amount of the over-assessment. If it concludes, however, that he has been under-assessed it will increase the assessment by the amount of the under-assessment.

The decision of the Appeal Committee is final. The only right to appeal to the Court of Cassation is when the appeal is of such a nature as it is a dispute on a point of law.⁽¹⁹²⁾

D. Accuracy of Assessment.

To make a correct assessment of the chargeable income of any person a lot of information and evidences are needed. In Iraq the difficulties of assessment have been considerable, owing to the fact that merchants generally do not keep accounts from which profits can be even approximately ascertained. Even when accounts are kept, they are not kept properly, and in most cases it is on the basis of single entries which records only real accounts of the business. Only foreign companies keep complete and accurate accounts, and in some cases they prepare audited statements.

The income Tax Law has not yet required merchants to keep books. Because of this fact, the assessment of incomes have always been made on the basis of the information given in the returns, whether those returns are furnished by the person chargeable with the tax, his agent, or otherwise. Since the assessment mainly depends on the information supplied in the returns, it becomes of absolute necessity to take severe measures against any person who

(192) Ibid., Article 41.

gives false information in the return signed and submitted by him. (193)

Severe penalties as those stipulated in the Income Tax Law, it ^{is} was thought, would lessen to a considerable extent the temptation for evasion, and consequently, valid returns would be delivered to the Authorities. However, this has never been the case. A large percentage of the returns submitted by merchants have been misrepresentative of the actual conditions of their affairs. The practice of evasion has been frequent among business men. This is due to two important reasons: (1) The inability of the Authorities to detect the amount evaded, (2) such evasion is in most cases fostered by the assessors themselves and is made with their consent. This last reason may sound very strange, but nevertheless, it is a fact.

The Assessors of income tax should be very able men of wide experience and knowledge. In Iraq, because many merchants do not keep accounts, income tax assessors must possess a special ability of solving the problem of assessment. On the contrary, income tax assessors in Iraq are very ignorant and inefficient.

There is another more important cause which results not from the ignorance but from the dishonesty of the assessors. Income Tax

(193) "Any person who in any return, account or particulars submitted to the Authorities, knowingly makes any false statement or false representations or conceals any particulars, and any person who aids, assists, or induces another person to deliver any false return are subject to a fine not less than 30 Dinars and not exceeding 250 Dinars or to imprisonment for a term not less than six months and not exceeding one year, or both" The tax on the income in respect of which a false return is submitted is increased to double or treble the original amount. Income Tax Law No. 36 of 1939, Articles 54 and 55.

assessors have always been bribed by merchants. Merchants have always been able to find an assessor who can easily be bought, so to speak, with a few Dinars. On the other hand, income tax assessors have always been encouraged to take bribery, because of the low standard of honesty among the majority of merchants.

Because of this confusion, great inequalities might, therefore, result. The tax falls more heavily on foreign companies trading in Iraq who usually keep proper accounts, and on employees and other persons whose incomes are deducted at the source. It also falls more heavily on honest merchant who do not give bribery than on dishonest merchants. The income tax as it is applied now in Iraq, we can safely say, is nothing but a penalty on honesty and a premium on dishonesty.

VI. COLLECTION.

When all problems relating to assessment have been solved, the exact amount of the chargeable income determined, and the amount of the tax payable computed, it remains for the Finance Authorities to collect the tax. The Authorities send a demand notice of payment to each person assessed. This demand note states the date upon which and the place in which the amount of the tax is to be paid.

Collection from the income tax amounted in the year 1940-41 to I.D.553122. This figure can be very favourably compared with

the previous figures. Table XXXVI gives the amount of revenue collections from the income tax for the years 1927-28 to 1940-41 and their relation to the total tax-revenue and the total public revenue for the same period.

Table XXXVI

Revenue from the Income Tax and its Relation to the Total Tax-Revenue and the Total Public Revenue for the Period 1927-28 to 1940-41 in I.D. ⁽¹⁹⁴⁾

Year	Revenue in I.D.	Index Number 1927-28=100	Percentage of Total Tax-Revenue.	Percentage of Total Public Revenue.
1927-28	13575	100	0.38	0.27
1928-29	43500	209.45	0.77	0.57
1929-30	43275	318.78	1.22	0.88
1930-31	44100	324.90	1.59	1.09
1931-32	104400	769.00	3.79	2.38
1932-33	112544	829.00	4.02	2.14
1933-34	123275	908.10	4.33	2.75
1934-35	114288	841.90	3.66	2.06
1935-36	248613	1831.40	6.55	4.39
1936-37	268734	19796.6	6.38	3.88
1937-38	287561	2118.30	6.15	3.20
1938-39	315977	2320.20	6.30	3.45
1939-40	370013	2725.70	7.76	3.72
1940-41	553122	4070.10	10.24	5.61
Total:	-----	22093.03	63.08	36.09
Average:	-----	1578.00	4.57	2.58

(194) The Accounts of the Iraqi Government of the Years 1927-28 to 1940-41.

The above table shows that revenue from the income tax has been continuously increasing. In 1940-41 it was 40 times as great as in 1927-28. Revenue from the income tax in 1940-41 constituted about 10 per cent. of the total tax-revenue and 5.4 per cent. of the total public revenue, while in 1927-28 it constituted only 0.38 per cent. and 0.27 per cent. respectively. On the average of the last fifteen years, however, it constituted about 4.5 of the total tax revenue and 2.5 per cent. of the total public revenue.

The great increase in the yield of the income tax in the 1st few years, was mainly due to the increase in the rates, and to a certain extent to the improvement of the tax administration. Without any further increase in the rates, the yield of the income tax may be greatly increased in the future if the tax administration is improved and assessment is properly made.

CHAPTER VII

(195)

RENT OF MIRI LAND AND WATER RIGHT (CALLED "LAND TAX")A. History of Taxation on Agricultural Produce in Iraq.

The Tithe, the oldest and most important of the Islamic taxes, was also the most important tax in Iraq under the Ottoman regime. The tithe or Ushur is a tax on the gross produce of the soil. The rate of the Ushur, as its name implies, was originally ten per cent., but in the course of time other rates were applied. When the Iraqi Government was established in 1921, the rates of the Ushur were fixed at 12.25 per cent. in the case of Tapu land (land the use of which is alienated but the title of which remains vested in the State) irrigated by pumps, 22.5 per cent. in the case of Tapu land irrigated without artificial means; 37.5 or 42.5 per cent. in the case of Miri land irrigated without artificial means; and 27.5 per cent. or 52.5 per cent. in the case of Miri land irrigated by lifting machines.⁽¹⁹⁶⁾ The rates, although were considered the Usher rates, included in fact the land tax, and the sakkiya (ownership) and water rights.⁽¹⁹⁷⁾

However the rates of the Ushur were very high, its burden on the tax-payer was very heavy and its collection by the Government was very difficult. The prevalent method of collection was that

(195) Miri land is private domain of the State.

(196) The Iraq Directorate, (Danqour Press, Baghdad, 1936), p.227.

(197) Report on the Progress of Iraq Submitted by His Majesty's Government to the League of Nations, (H.M.S.O., London, 1930), p.108

of Iltizaim. Thanks to this method, "the better the rich landowner knew how to evade the Ushur, the greater was the extortion practiced upon the poor rural population by the Multazims."⁽¹⁹⁸⁾ To eliminate these harmful effects of the Ushur the new National Government had to effect an immediate and important change in the system. But such immediate reform, although desirable, was not then possible.

The Iraqi Government realized from the beginning that the abolishment of the Ushur and the introduction of new forms of taxation, is something more than a mere financial task.⁽¹⁹⁹⁾ It is a matter which enters closely into the whole social structure of the country. The attitude of the people to any new form of taxation may be that of unrest and opposition, while the Ushur, in spite of its oppressive effects, was invariably accepted simply because it is the form of taxation mentioned in the Qur'an. Furthermore, any change in the form of agricultural taxation necessarily affects tribal organization and the position of the Shaikhs, and a financial policy aiming at such a change should give this fact its due consideration and should not be separated from broad questions of policy in internal affairs.

These and other administrative difficulties made it rather impossible to introduce immediate reform. The Iraqi Government was convinced that a long time should elapse before a sound system of taxation based on the net yield of land can be successfully administered. It was seen that the reform should be introduced gradually

(198) The Iraq Directorate, op.cit., p.229.

(199) Report of the Financial Mission, op.cit., p.15.

from time to time. The following policy was put in 1926 to serve as the basis for any desired reform in agricultural taxation:

1. "To preserve, in law and in expression, the theory that the Government is entitled to a share of agricultural and natural produce.
2. To define clearly that share in terms of a percentage of gross produce affected, providing in law the variations applicable to each type of land according to its means of irrigation; and to differentiate between the constituent parts of that share, as (a) the Uskur, (b) the rent in case of unalienated land (i.e. Miri land), and (c) the water right.
3. While preserving the share theory, and graduating the amounts demanded according to the share theoretically payable, to dispense, as far as possible, with the necessity underlying the difficult, costly, vexatious task of actual direct assessment of the produce liable.
4. To extend such methods as are immediately possible, to minimize the amount of direct produce-assessment necessary and to base demand increasingly upon potential or assumed quantities of produce rather than upon actual (but in practice, almost unascertainable) quantities.⁽²⁰⁰⁾

Since that time the Government has started reform on the light of the above stated general policy. In the year 1927 the Iraqi

(200) Report of the Revenue Department, (Government Press, Baghdad, 1928), p.23.

Government issued a law for the collection of the Government's share from agricultural produce with the aim of removing the difficulties and confusions that had accompanied the assessment of and collection of the Uskur. The new law differentiated between the constituent parts of the Government share from agricultural produce, namely the Uskur, the land rent, and the water right, by fixing different rates for different categories of land as regard its ownership and means of irrigation. To establish the tax on a fairer basis the location of land and its fertility were also taken into consideration.⁽²⁰¹⁾

The Uskur system was completely abolished in 1929. Taxes on agricultural and natural produce had to be assessed and collected in accordance with the law for the Assessment of Land Tax and Rent No.40 of 1929. This new law imposed a rate of 20 per cent. on the net yield of Tapu flow land and 10 per cent. in the case of Tapu lift land and Tapu rain land. Miri land was subject to a rate between 30 and 32.5 per cent; Miri lift land and Miri rain land to a rate between 11 and 15 per cent.. Tapu and Miri land planted with trees were subject to a rate ranging from 10 to 12.5 per cent.. The law prescribed ten methods of assessment, the most important of which is that of the fixation of a cash magtu per unit of area for a period of three or five years. The law aimed at the application of this method throughout the whole country. The other nine methods had to be applied only temporarily until the cadastral survey of the whole country is completed.⁽²⁰²⁾ The introduction of these ten methods of assessment especially that of the cash magtu per unit of area was for the purpose of experimentation. However, their application during the last world depression was greatly responsible to their failure.

(201) Ibid., p.41.

(202) Assessment of the Land Tax and Rent Law No.40 of 1929.

The results obtained were not satisfactory and other methods had to be tried. (203)

In the year 1931 the law of 1929 was repealed and instead two other laws were issued. The first is the Istihlak Tax Law No.83 of 1931 prescribing the collection of a consumption tax on agricultural and natural produce brought to the place of consumption. The second is the Law for the Collection of Land Tax and Rent No.85 of 1931 necessitating the collection of the land rent and water right from the Miri flow land, land rent from the Miri land which is irrigated by lifts, and water right from the Tapu flow land.

In this respect the Iraqi Government followed the example of Turkey which had solved the problem of agricultural taxation by imposing two separate taxes on agricultural produce, a land tax based on the net yield of the land, and a consumption tax based on the value of the produce in the place of consumption. (204) The Istihlak Tax Law No.83 of 1931 was then amended by Amending Laws No.59 of 1933 and No.49 of 1936. The Collection of Land Tax and Rent Law No.85 of 1931 was also amended by Amending Law No.73 of 1936 and supplemented by the Extinguishing Land Tax Law No.20 of 1939. The purpose of these amendments was mainly to introduce more certain and efficient methods of assessment.

In this chapter we shall only discuss the so-called "Land Tax"

(203) Report of the Revenue Department, p.20, also pp.65-67. See also Himadeh, Economic Organization of Iraq, op.cit. p.501

(204) "In 1927 Turkey introduced a system of consumption tax on agricultural produce to take the place of the old Ushur. The Iraq Directorate, p.225.

or, as we should see later, the rent of Miri land and the water right. The discussion of the Istihlak Tax is postponed to the next chapter.

B. Basis and Rates of the Tax.

The so called land tax is a tax imposed on Tapu and Mulk regular and irregular free flow lands, and on all types of Miri lands which include regular free flow land, irregular free flow land, rain land and lift land.

These different categories of land are therefore distinguished from each other from the points of view of ownership and means of irrigation. As regard ownership, lands are classified as Tapu land (the use of which is alienated, but the title remaining vested in the State), Miri land (private domain of the State or wholly unalienated lands), and Mulk land (the legal ownership of which is vested with a private person.).

Regarding their means of irrigation, lands are classified into four categories: (1) regular free flow land, (2) irregular free flow land, (3) rain land, and (4) lift land. Regular free flow lands are lands irrigated from the main canals which are under the supervision and control of the Irrigation Department, in all the seasons of the year i.e. shitwi and saifi lands. Irregular free flow lands are lands irrigated from elevated channels which draw water in season only. Rain lands are lands irrigated mainly

by rain-water. Finally, lift lands are lands irrigated by the use of lifting machines of various types or by means of water springs or water falls, directly or through the tide. They also include lands irrigated by privately owned channels.

This tax is levied on the average net yield of land (as assessed in one of the methods mentioned in the next section) at the following rates:

(a) On Tapu and Mulk lands

- (1) Regular free flow land 10 per cent.
- (2) Irregular free flow land 5 per cent.

(b) On Miri lands

- (1) Regular free flow land 15 per cent.
- (2) Irregular free flow land 10 per cent.
- (3) Rain land 5 per cent.
- (4) Lift land 1 per cent.

- (c) Lands cultivated with tobacco, tumbak, liquorice root, fresh or dry vegetables and fruits, irrespective of the category of land on which they are grown and the method of irrigation used 2.5 per cent.

Accordingly, the land tax in Iraq is not a land tax proper. It is, in fact, a payment of land rent and water right. Tapu and Mulk lands are only subject to the water right. Miri lands are subject to both the land rent and water right. These two payments do

not imply the proper nature of a tax. A tax is a contribution for common purposes i.e. in the payment of the tax special benefit is not contemplated. While the land tax in Iraq is a payment ~~for~~ for special benefit, the use of Government property and Government irrigation facilities.

The application of ~~an~~ a uniform and low rate of 2.5 per cent. on all lands cultivated with tobacco, tumbak and liquorice root is a part of the government policy for encouraging the cultivation of the same crops. Furthermore, the application of a uniform rate for all categories of lands cultivated with vegetables and fruits is due to the following three reasons: (205)

1. The nature of government ownership in lands cultivated with vegetables and trees is completely different from its ownership in lands cultivated with crops, because trees and vegetables represent ownership wherever they are planted.
2. The plantation of trees require much more expenses and care than the cultivation of other crops.
3. The effect of irrigation is not so apparent in the case of trees and vegetables as it is in the case of other crops. The yield of trees irrigated by rain for example, does not differ much than if it were irrigated by other artificial means, while the difference is very great in the case of other crops.

C. Exemptions.

In the last section we have seen that the land tax is in reality a payment of rent for the use of Miri land and a price for the use of government irrigation canals. It follows, therefore, that Tapu and Mulk lands which are not irrigated from government channels and canals are exempted from the tax.

Besides this important exemption, the following lands are also exempted:

1. Madhubuta Waqf lands which are under the administration of the Awqaf Directorate.
2. Lands directly cultivated by the government.
3. Lands in whose sanads it is recorded that they are so exempted.
4. Lands cultivated with crops the cultivation of which it is decided to encourage.
5. Lands that had been vacant and were latter brought into cultivation after expending a sum of not less than 1000 Dinars for the said purpose.
6. Lands utilized to settle as cultivators nomadic tribesmen.
7. Lands situated on the frontier or in an area which for administration or political reasons need special treatment.

The most important of these ^{seven} eight exemptions are the fourth,

fifth, and sixth. The exemption of lands cultivated with American cotton of Akala type, for example, has greatly encouraged cultivators to cultivate this type of crop for the purpose of escaping the payment of the tax. The increase in the quantity of cotton produced in the last few years may be partly attributed to this exemption. The same thing can also be said of the exemption of lands cultivated with tobacco. The exemption of vacant lands brought under cultivation after the expenditure of 1000 Dinars and lands used for the settlement of tribes are granted with the aim of encouraging investment in agriculture and settlement of nomadic tribes.

D. Methods of Assessment.

The Land Tax Law No.73 of 1956 enumerates six alternative methods of assessment. They are the following:

1. Fixed cash Maqtu per unit of area.
 2. Fixed cash Maqtu per unit of irrigation machines or ploughing implements.
 3. Contract with the tax-payer for a fixed badal (payment).
 4. Estimation of the crop.
 5. Public auction.
 6. Assessment and collection in a government office or in a licenced Istihlak premise.
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1. Fixed cash Maqtu' per unit of area. Assessment of the land tax on the basis of a unit of area is employed in the case of lands which have been cadastrally surveyed and whose registration has been completed. This method is also employed whenever it is possible to ascertain the area of land by an accepted technical method. (206)

The method involves two operations. The first is the determination of the number of the standard units of area and their category. The second is the determination of the yield per each standard unit and the ascertainment of the tax payable on the land according to the rates stipulated in the law. We shall speak of the first operation as that of "classification", and of the second as "the ascertainment of the fixed share."

Classification is a very simple operation when a proper cadastral survey exists. The maps on which land settlement was carried out and in which the decision of the Land Settlement Committees are recorded are taken as the basis for fixing the area of the land of each taxpayer. The mishara is taken as the standard unit of area. (207) After fixing the number of misharas of the land of a taxpayer, the Assessment Committee proceeds to classify them into classes according to the varieties of the main crops with which they are cultivated, the characteristics of the soil, the method of irrigation used, and the nature of the location.

(206) The Land Tax Law No. 73 of 1936, Article 16.

(207) The mishara equals 2,500 square meters.

As regard productivity and the crop with which lands are cultivated, the following categories of land are distinguished:

- 1st. category- abundantly fertile lands capable of producing Shitwi and Saifi crop (excluding rice).
- 2nd. category- abundantly fertile rice land.
- 3rd. category- moderately fertile rice land.
- 4th. category- land capable of producing either Shitwi or Saifi crop (excluding rice). (208)

Classification is carried out by special committees consisting of a president and two members. The president must be a senior official of the Civil Service and must be either an agricultural specialist or an expert in agricultural matters. One of the members must be an official who has had some experience in the classification of lands, the other member must be a cultivator of the locality who is known for his reputation and honesty.

The Classification Committees notify the result of assessments to both the taxpayer and the Finance Authorities. Both parties have the right to appeal against the classification within a period of 15 days from the date of receiving the notice of classification. When an appeal is made the Matassarif or Qaminagam appoints a committee called a ^{scrutiny} Security Committee consisting of persons possessing the necessary qualifications for the purpose of classification. The decision of the ^{scrutiny} Security Committee concerning the classification of lands is final.

(208) The Land Tax Law No.73 of 1936, Article 12.

The classification of lands is made once in every three years. During this period ~~re~~-classification is only made under very special circumstances. A land may be reclassified when an important change takes place in the system of its cultivation.

The ascertainment of the fixed share corresponding to each standard unit of area i.e. net yield per mishara, is the second operation which is much more complicated and difficult than the first operation. For the purpose of ascertaining the average net produce per mishara, the whole country is divided into districts on the basis of the heights of lands above water, its fertility, its distance from the markets, and its customary system of crop rotation. The average net produce of the mishara for each class of land in each district is then ascertained. Knowing the number of misharas in each class, it becomes easy to ascertain the net total yield in kind of any piece of land simply by multiplying the average net yield per mishara in each class by the number of misharas in that class. The tax due can be calculated in kind by simply applying the rates stipulated in the law to the net yield. The final process is that of translating the tax in kind into a fixed sum of money.

For the purpose of ascertaining the fixed cash Maqtu, the Qadhas and Liwas Administrative Councils fix prices for the main crops. Prices are fixed by local experts appointed by the Administrative Councils. In fixing the prices according to which the tax

is converted into cash, regard is taken to prices which have prevailed in the three years preceeding the date of the ascertainment of the fixed share.

Once the assessment is completed in this manner and the fixed cash magtu is determined, the taxpayer will continue to pay the annual cash magtu for a period of three years. After the expiration of the third year a new assessment is made. The fixed cash magtu must be paid by the Mukallaf (taxpayer) whether the produce of his land has increased or decreased since the time of assessment. Remission of the whole amount or part of the cash magtu is only possible when the Mukallaf sustains losses as a result of a natural or accidental condition or through any case of force majeure resulting in the non-cultivation of the land.

The accuracy of the assessment reached at by this method depends on two elements: (1) that the number of the standard units of area as well as the average net produce per unit of each parcel of land is properly ascertained; (2) that the prices according to which the tax in kind is converted into cash are representatives of the prices prevailing in the season. Mistakes are very likely to take place whether in the estimation of the net yield in kind or in cash. It is natural, of course, that decisions like these must contain some degree of arbitrariness.

Nevertheless, this method remains the best in contrast with the other five alternative methods. Its use is always recommended when-

ever that is possible.⁽²⁰⁹⁾ Each of the other five alternative methods is only employed in the last resort when every attempt to make use of this method has failed either because of lack of proper cadastral survey, the impossibility of using a technical method for measuring the area, or because settlement of title has not been completed. The lack of a proper cadastral survey of many parts of the country has yet prevented any wide application of this method.⁽²¹⁰⁾

One of the chief advantages of this method is that it provides a relatively higher degree of equality in the distribution of the tax burden among different cultivators. According to this method the tax is calculated on the basis of the net yield of land, which is in turn assessed directly. Although the estimated yield may not conform to the actual, yet the result obtained by this method remains to be the most accurate.

Another important advantage of this method is that it makes the tax certain and convenient. This is beneficial for both the Government and the taxpayer. First the cultivator is released from the arbitrariness of the assessors. Furthermore, the cultivator by knowing that he should pay a fixed annual sum of money for a period of three years regardless of the quantity of his produce, will exert himself more and may introduce some improvements in the method of cultivation with the aim of increasing his production, and hence the quantity of the produce free of the tax. Besides, the imposition

(209) Ibid., Article 10.

(210) Report of the Revenue Department, (Baghdad, 1940), p.28.

of a fixed share in cash makes the collection of the tax more certain, convenient and economical to the government.

2. Fixed cash magtu per unit of irrigation machines or ploughing implements. The ascertainment of the net yield of land by the method of area is a direct method in contrast with this method. This method is an indirect method for ascertaining the net yield of land by depending on some indices such as irrigation machines and ploughing implements used in the cultivation of the land. It is employed whenever it is not possible to measure the area of land and whenever such irrigation machines or ploughing implements exist. (211)

Similar to the first method, this method also involves two distinct operations: the determination of the number of the standard units of the irrigation machines or ploughing implements, and the determination of the average net yield per each standard unit and the ascertainment of the fixed cash magtu. The standard unit is the H.P. in respect of lifting machines and tractors, the baccara in respect of naour, and the feddan (pair of oxen) in respect of ploughing implements drawn by animals.

In determining the number of the standard units, irrigation machines and ploughing implements are counted and classified according to their type. The average net yield per standard unit is then ascertained by finding out the area that can be irrigated or ploughed by each standard unit, and the kinds of crops grown. After determining the number of the standard units and the average yield per

(211) The Land Tax Law No.73 of 1956, Article 13.

unit it remains only to determine the tax in kind and then convert it into cash to determine the cash magtu. This is accomplished in the same manner stated above in connection with the first method.

When assessment is completed the result is notified to both the taxpayers and the Finance Authorities. Both parties have the right to appeal against the assessment within a period of 15 days from receiving the notice of assessment. The assessment is made once in every three years. Re-assessment is only carried out when there is an addition or a removal of such irrigation machines or ploughing implements. To prevent evasion of the tax, the irrigation machines and ploughing implements used on a certain land are registered and on them numbers are placed (whenever that is possible). Officials are also appointed to supervise the use of such machines and implements.

There is one important difference between this method and the previous one. This method is more arbitrary than the first and, therefore, the results obtained by this method are necessarily less accurate than those reached upon by the first method.

3. Contract with the taxpayers on a fixed badal. This method is employed in respect of lands, on which the tax paid by their owners in the past, is considered by the Finance Authorities as an adequate amount to decide the amount of the tax due under the present Land Tax Law.⁽²¹²⁾ This method, of course, is arbitrary, and so it is only employed when it is difficult to employ any other me-

(212) Ibid., Article 19.

thod, and whenever it is believed that its adoption greatly facilitates the collection of the tax and encourages production.

In contrast with the other methods this method is a voluntary one. The agreement of the taxpayer is a condition essential to its employment. After the consent of the taxpayer is taken and the amount of the badal is agreed upon, a contract is prepared and signed by the taxpayer and the Liwa or Qadha Muhasib. The contract covers the fixed amount of the tax due in respect of all kinds of shitwi and saifi crops grown on the land. The contract is usually made for a period of three years.

4. Estimation of the crops. This method is employed when none of the three above mentioned methods can be adopted, and when its adoption is in accordance with local customs.⁽²¹³⁾ Under this method the kinds and quantities of crop grown on the land are ascertained by special committees at the time the produce is fully ripe. The produce is estimated at the time of the harvest, before its removal from the land to the market or to the place of storage.

The Assessment Committees are composed of men who have got special ability to estimate the quantities of each kind of crop grown on a certain piece of land by looking at the produce through their bare eyes. These persons are known as the Kharoures. The Kharoures estimate the gross produce of land. The net produce is taken to be one third of the estimated gross produce.⁽²¹⁴⁾ After the

(213) Ibid., Article 20.

(214) Ibid.

net yield is estimated in kind, the tax due will be first determined in kind, and then translated into cash according to the prices fixed by the Finance Authorities for the different types of crops. The result of assessment is notified to both the taxpayer and the Finance Authorities. The assessment is subject to appeal.

This method is more arbitrary than the first two methods. It may be compared favourably with the third. The following disadvantages may be mentioned:

1. The Aharouse whatever innate abilities he may possess can hardly estimate properly the actual produce of land. Furthermore, the net yield is also arbitrarily determined.
 2. This method is more costly than the other methods since it is seasonal, and assessment has to be renewed season by season.
 3. The tax payable by the Mukallaf is less certain since assessment is made every season. Hence this method does away with the advantages of a fixed cash magtu which have already been mentioned.
 4. This method leaves the farmer at the mercy of the autocratic decisions of government officials. In spite of the fact that the cultivator has the right to appeal against the assessment, he will prefer not to do so because of the probable loss which he might suffer by exposing his crops to the air during the time he makes the assessment until a Scrutiny Committee is appointed to re-estimate
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the produce--which usually takes a long time.

5. This method gives more temptation to bribery and opens more ground for evasion.

5. The method of public auction. The method of public auction is applied in the assessment of the tax payable on vacant Miri land suitable for cultivation to which it is desired to secure a Mukallaf. The Iraqi Government owns large areas of Miri land to which there are no Mukallafin and thus they remain vacant and uncultivated.⁽²¹⁵⁾ In recent years, however, the Government has been making every attempt to secure Mukallafin who will guarantee to cultivate the Miri land entrusted to them according to agreement. One of the methods adopted is to secure Mukallafin through a public auction. According to this method, the highest bidder in a public auction after paying the sum of money reached upon as a result of the auction, is given the right to exploit a certain piece of Miri land directly or indirectly.⁽²¹⁶⁾ The payment is regarded as equivalent to the tax on the land. In fact it is equivalent to the land rent.

It is always preferred to secure a Mukallaf from amongst the inhabitants of the district or the neighbouring district in which the land is situated. Whenever it is found that such a person exists, the holding of the auction is suspended, and instead a direct con-

(215) The area of Miri land surveyed until the end of 1940 is 11923721 square kilometers which amounts to more than 45 per cent. of the area of all categories of land surveyed until the same period. Report of the Survey Department, (Government Press, Baghdad, 1941), p.82.

(216) The Land Tax Law No.73 of 1936, Article 21.

tract is signed between the two parties. The mukallaf should not possess a Mulk land or land granted in Lazma (leasehold land) and should be capable of cultivating and developing the vacant land.

Whenever such a person does not exist the Finance Authorities order the holding of a public auction. Lists containing the following information concerning the land put for auction are prepared: (1) the boundaries of the land, (2) the area, (3) method and means of irrigation, (4) the period during which it is to be exploited by the Mukallaf, (5) the conditions under which the land is to be cultivated, (6) the number of yearly instalments and the dates on which they fall due, (7) the special local conditions, and (8) the beginning and ending of the period for accepting bids.

The period ~~is~~ of the auction is usually twenty days. At the end of the 20th day the land is given to the highest bidder. A contract, usually for a period of three years, is then prepared and signed by the two parties. The contract may include the possibility of signing other successive contracts for an aggregate period not exceeding twelve years.

This method has two important advantages. In the first place the competition among bidders will make the amount of the tax offered by the highest bidder almost equal to the value of the right to use Miri land and the right to use government irrigation facilities where they exist. In the second place, by securing Mukallafin for

vacant wiri lands suitable for cultivation, the Government besides promoting agricultural expansion is developing a new and promising source of revenue.

6. Assessment and collection in a government office or in a place of Istihlak licenced premises. The application of this last method is limited to the ascertainment and collection of the land tax due on lands cultivated with tobacco, tubak, liquorice root, and fresh and dried vegetables and fruits. The tax is ascertained and collected when the crops are transferred to the markets for local consumption or export, in the same manner as the Istihlak tax is ascertained and collected. We shall discuss that fully when we come to the discussion of the Istihlak tax in the next chapter.⁽²¹⁷⁾

E. Extinguishing the "Land Tax".

In the year 1939 a law^{was} passed known as the Extinguishing Land Tax Law No.20 of 1939, which was later on amended, by Law No.27 of 1940. According to this law and its amendment, the land tax payable by a Mukallaf may be extinguished for a period of ten years if such a Mukallaf agrees to pay a fixed cash badal to the Finance Authorities.

The fixed cash badal for the purpose of extinguishing the land tax is equivalent to twelve times the average cash magtu paid by the Mukallaf in the five or three years preceeding the date of extinguishment. If the cash magtu is not recorded in Government registers,

(217) See Infra., p. 200

the amount of the tax payable in that year will be ascertained by one of the above six methods of assessment, and the result will be taken as the basis for the calculation of the fixed cash badal for extinguishing the land tax.⁽²¹⁸⁾

The extinguishment of the land tax apply to all sorts of Miri, Tapu, and Mulk land, except land planted with trees, and to vacant Miri land (wholly unalienated land) to which a Mukallaf is secured through a public auction.

The period of extinguishment is ten years. The fixed cash badal is paid in ten equal annual instalments. Each yearly instalment is paid in ~~two~~ instalments at a time most convenient to the Mukallaf (usually the time of harvest). Persons who pay the badal in full during the first year are allowed a remittance of 30 per cent. of the badal; 20 per cent. of the badal is remitted to those who fully pay it in a period of two years, and 10 per cent. is remitted when it is fully paid during the first four years.⁽²¹⁹⁾ Lands in respect of which the land tax is extinguished is so recorded in the Tapu Department to be distinguished from lands which are still subject to the land tax.

An amount of interest at the rate of 6 per cent. is added to the annual instalment in case of the default of the Mukallaf to make the payment. However, no interest is charged whenever it can be proved that the delay of payment is due to a confusion in his finan-

(218) Extinguishing Land Tax Law No.20 of 1939, Article 3.

(219) Ibid., Article 16.

cial situation because of damage sustained by him as a result of a natural or accidental calamity. In such a case the muallaf is given time and is not forced to pay the badal until the financial condition comes back to normal again.

The extinguishment of the land tax has the following two advantages:

1. The extinguishment of the land tax helps to promote durable capital investment on land, and thus helps to increase agricultural production. Since the extinguishment badal is already fixed, the muallaf will try to increase his production ^{because} since the additional produce will be free from the tax.

In its effect on increasing agricultural production the extinguishment of the land tax should be distinguished from the method of fixing a cash magtu. The fixation of a cash magtu helps to increase agricultural production by encouraging temporary improvements on land, since the cash magtu is fixed for a short period i.e. three years. On the other hand the extinguishment of the land tax helps to increase agricultural production by encouraging durable capital investment thereon, since the period of extinguishment is relatively long, i.e. ten years. The extinguishment of the land tax, therefore, is much more effective than the method of fixing a cash magtu in increasing agricultural production.

2. The extinguishment of land tax reduces the cost of its administration, since under extinguishment assessment is
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(196)

made once in every ten years. Collection becomes easy and certain.

F. Fiscal Adequacy of the "Land Tax".

Revenue from the rent of Miri lands and water right has been continuously increasing. In 1940-41 it was about 68 per cent. greater than what it was in 1932-33. This increase is due to the increase of the area of rented Miri land, to the new irrigation canals recently built and, to a lesser extent, to some improvements in the administration of the tax.

Receipts from the rent of Miri land and water right constituted on the average of the nine years (1932-33 to 1940-41) about 11 per cent. of the total tax revenue and 6 per cent. of the total public revenue.

Table XXXVII gives the amounts of collection from the rent of Miri land and water right and their relation to total tax-revenue for the period 1932-33 to 1940-41.

(197)

Table XXXVII

Rent of Miri land and Water Right for the Period
1931-32 to 1940-41 in I.D. (220)

Year	Amount	Index Number	Percentage to Total Tax-Revenue	Percentage to Total Public Revenue.
1932-33	325588	100	11.40	6.5
1933-34	339497	104.2	11.63	7.0
1934-35	386457	119.6	11.80	6.6
1935-36	357558	109.6	9.70	6.2
1936-37	523169	160.1	12.50	7.2
1937-38	517914	157.2	11.80	5.5
1938-39	479344	144.3	10.50	5.4
1939-40	497169	150.2	10.20	5.0
1940-41	550228	167.3	10.13	5.16
Total:	-----	1216.0	99.46	54.60
Average:	-----	135.2	11.00	6.00

(220) The Accounts of the Iraqi Government of the Years 1931-32 to 1940-41.

CHAPTER VIIIISTIHLAK TAXES ON AGRICULTURAL AND NATURAL PRODUCE AND ON ANIMALS AND ANIMAL PRODUCE.I. THE ISTIHLAK TAX ON AGRICULTURAL AND NATURAL PRODUCE.A. Basis and Rate of the Tax.

The agricultural and natural produce Istihlak (consumption) tax is levied on the value of land produce whether that be agricultural or natural at the rate of 10 per cent.. The tax is imposed practically on all types of agricultural produce brought into the market for sale, including all kinds of cereals, legumes, vegetables, and fruits, and on all kinds of natural produce such as wood, timber, coal, and liquorice root.⁽²²¹⁾

The Istihlak tax is another tax on agriculture imposed in addition to the "land tax". The "land tax", as we have already seen, is imposed on Miri lands, and on Tagu and Mulk lands only when they are irrigated by the newly constructed government canals. This tax, on the other hand, is imposed on all agricultural produce brought for sale into the market, regardless of the category of land or means of irrigation used.

At the present time the Istihlak tax on agricultural and natural produce is levied at the rate of 11.5 per cent. This extra tax of

(221) The Istihlak Tax Law No.59 of 1933, Article 2.

1.5 per cent. was imposed by the Istihlak Tax Law No.64 of 1943. It is only a war measure for insuring more revenue to the government, and which has to be deleted after one year from concluding the peace treaty.⁽²²²⁾

B. Exemptions.

Article 3 of the Istihlak Tax Law No.59 of 1935 exempts the following products:

- (a) Produce that retains its freshness for a short period only, e.g. mallow, grass, flowers, Syrian Mulberry, radish, leek, etc.
- (b) Natural produce which is not normally sold and bought, e.g. oak, gum, manna, mushroom, etc.
- (c) Natural produce used to satisfy essential requisites of villagers such as firewood and timber, when used for construction of houses, stores, stables, or any other similar purpose. Agricultural produce consumed by cultivators or intended for sale in the market of the villare is also exempted.
- (d) Manufactured articles made from raw materials on which a tax has been paid.
- (e) Produce exempted by a special law, e.g. the exemption of American cotton of Akala type by Law No.35 of 1937.

(222) The Istihlak Tax Law No.64 of 1943, Article 6.

- (f) Produce imported from abroad on which an import duty has been paid.

C. Assessment and Collection.

For the purpose of assessment and collection of the Istihlak tax on agricultural and natural produce the country is divided into a number of authorized areas. An authorized area is, "the area whose limits are fixed by the Minister of Finance for the purpose of opening licenced premises therein."⁽²²³⁾ In brief, authorized areas mean authorized centers of consumption. The city of Baghdad for example, is divided into ten authorized areas or Istihlak centers.⁽²²⁴⁾

Within each authorized area there exist a number of licenced Istihlak premises or places of Istihlak. Licenced Istihlak premises mean, "the places allowed by the Finance Authorities within the authorized areas for storage, sale, and purchase of produce, such as shops, Alwas, granaries, firewood and timber stalls; also places used for the naturalisation of the same by industrial methods such as pressing, grinding, distilling, etc."⁽²²⁵⁾

All agricultural and natural produce subject to the Istihlak tax ~~must be~~ bought, sold, or stored in a place other than licenced

(223) The Istihlak Tax Law No.59 of 1933, Article 1.

(224) The city of Baghdad is divided into the following Istihlak centers: (1) Bab Al-Shaikh, (2) Al-Uwaina, (3) Al-Shorja, (4) Al-Sammal, (5) Abu-Saifer, (6) Al-Midan, (7) Al-Fadil, (8) Al-Koradeh first division, (9) Al-Koradeh second division, and (10) Al-Koraden third division.

(225) The Istihlak Tax Law No.59 of 1933, Article 1.

premises is deemed to be smuggled. Since all produce liable to the tax is brought to the licenced premises, the tax is therefore, assessed and collected in the licenced premises.

There are two alternative methods by which the Istihlak tax on agricultural and natural produce may be assessed: (1) ascertain^{ing}~~ing~~ the amount of the tax by determining the quantity and price per unit of the produce, and (2) ascertaining the amount of the tax by selling the produce in a public auction.

The first method involves two operations, namely, the determination of the units of quantity and the price per unit of the produce. When the units of quantity and the price per unit are known, the value of the produce and thus the amount of the tax can be very easily ascertained. As far as the determination of quantity is concerned the operation is very simple. The produce can be weighed, counted, or measured by any measurement of quantity when it is brought for sale or storage to the licenced premises. The second operation is not an easy one.

For the purpose of fixing prices, agricultural and natural produce are divided into two main categories: (1) produce ^{not}~~nto~~ subject to price fluctuations at short intervals, and (2) produce subject to price fluctuations at short intervals.

In the case of produce which is not subject to price fluctuations at short intervals, the prices are fixed at the beginning of each year financial year. Such prices are fixed by the Qadha or

Liwa Administrative Council for each authorized area. They are then submitted to the Minister of Finance for approval. In fixing the prices, regard is taken to the average prices which prevailed in the preceeding year. Experts and well-informed persons are also consulted. Special prices are not only fixed for different kinds of produce, but also for different grades of the same kind.

In the case of produce subject to price fluctuations at short intervals, monthly prices instead of annual prices are fixed. Such prices are fixed in the same manner discussed above.

The fixing of annual or monthly prices is a very difficult task. Whatever care is taken in fixing such prices, the prices fixed will only by chance equal to the actual prices prevailing in the market. This is especially true of produce subject to great price fluctuations from time to time. For this reason the Qadha or Liwa Administrative Council supervises the fluctuations in prices of different kinds of produce, and whenever an important change takes place, the schedule of original prices is revised, and all or some of the original prices are altered in accordance with the change.

The second method of assessment, namely, the ascertainment of the tax by selling the produce in a public auction, is employed in case the produce is subject to very great fluctuations in short intervals. It is employed in the assessment of the Istihlak tax due on vegetables and fruits. Accordingly to this method the produce brought to the licenced premises is sold in public auction, and

the Istihlak tax due on same is calculated on the basis of the sales proceeds realized. The tax is collected at the licenced premises by the owners of these premises on behalf of the Finance Authorities or on Iltzan basis (tax farming). The Tax payable on any produce brought to a licenced premises is assessed by one of the above mentioned two methods, and it is accordingly collected by the proprietor of the premises before the owner of the produce is permitted to sell his produce in the market.

The relation between the proprietors of licenced premises and the Finance Authorities takes two forms. The tax is collected by Iltzan when the assessment is made through the auction method. In such a case the Minister of Finance farms the tax to a Multizim (contractor), who is also a proprietor of licenced premises after the latter agrees to pay a fixed sum of money during the specified period of the Iltzan. Under this method whatever the proprietor collects in form of a tax on the said produce brought to his premises is his own. He is responsible to the Finance Authorities only for the payment of the fixed sum agreed upon in the Iltzan contract.

The collection of the tax by the proprietors of licenced premises on behalf of the Government is used in case the tax is assessed by the method of fixing prices. Under this method the proprietors of licenced premises are required to keep registers (according to forms specified by instructions), showing the types and quantities of produce brought to, and issued from their premises. The amount

of the tax due to the Government from each proprietor can be determined from the information furnished by his registers. To avoid evasion, the Finance Authorities inspect ^{the premises and examine these} these registers from time to time.

The most important place of collection of the Istihlak tax is the licenced premises. Other places of tax collection are the customs offices when the articles subject to it are to be exported, and the railway or cars stations at the time the produce is transported from one place to another. When the tax in respect of a certain produce is paid in one of these places, the owner of the produce is supplied by supporting documents in order that he will not be asked to pay again in another place of collection.

The Istihlak tax on agricultural and natural produce is first paid by the cultivator to the proprietor of the licenced premises who will in turn pay to the Government. A question will arise to whether the cultivator is the one who ultimately assumes the burden of the tax or not. There is reason to believe that the burden of the Istihlak tax on agricultural and natural produce will not rest on the cultivator but it will be shifted to the consumer. For if it is not shifted, the marginal land will not be cultivated, the supply of agricultural produce will decrease, and thus the price of such produce will ultimately rise because of the tax. Nevertheless, it is not unlikely that the farmer, being so ignorant and not so calculative, may continue to cultivate the marginal land even at

a loss. In such a case the tax will not be shifted, or shifted partly, and the whole or part of its burden will ultimately rest on the cultivator. As a general rule, therefore, we may say that there is a strong tendency for the tax to be shifted from the cultivator to the consumer. In this respect, the Istihlak tax on agricultural and natural produce is an indirect tax similar in its effects to any other tax on consumption.

D. Fiscal Adequacy of the Istihlak tax on Agricultural and Natural Produce.

Since 1932-33 revenue from the Istihlak tax on agricultural and natural produce has been increasing. In 1940-41 it was about three times greater than in 1932-33. On the average of the nine years (1932-33 to 1940-41) revenue from the Istihlak tax on agricultural and natural produce constituted about 4.84 per cent. of the total tax revenue and 3.42 per cent. of the total public revenue. Table XXXVIII gives the amount of revenue from the Istihlak tax on agricultural and natural produce and its relation of tax revenue and to public revenue.

Table XXXVIII

Revenue from the Istihlak Tax on Agricultural and Natural Produce for the Period 1931-32 to 1940-41 in I.D.⁽²²⁶⁾

Year	Amount	Index Number	Percentage of Total Tax-Revenue	Percentage of Total Public Revenue.
1932-33	70850	100	8.42	5.06
1933-34	71670	101.2	6.63	4.07
1934-35	70685	99.4	6.47	3.17
1935-36	35005	125.7	5.63	3.84
1936-37	108204	114.4	5.61	3.32
1937-38	126101	210.1	5.55	2.63
1938-39	121201	200.4	5.54	2.67
1939-40	140367	238.2	3.83	1.92
1940-41	172633	303.2	5.71	2.91
Average:	-----	172.6	4.84	3.42

II. THE ISTIHLAK TAX ON ANIMALS AND ANIMAL PRODUCE.

Under the Ottoman regime animals were subject to the Koda tax. The Koda tax was a fixed tax per head on certain kinds of animals, namely, sheep, goats, buffaloes and camels. This tax was not subject to any special law until 1930, but was assessed and collected according to regulations issued from time to time by the Director General of Revenue.⁽²²⁷⁾ In 1930 the first Koda Tax Law, No.15 of 1930, was enacted.

(226) The Accounts of the Iraqi Government of the Years 1932-33 to 1940-41.

(227) Report of the Financial Mission, Op.cit., p.32.

ted . This law imposed a tax of 56 fils per head on sheep and goats, and 100 fils per head on camels and buffaloes.⁽²²⁸⁾ In 1932 the above rates were changed in accordance with the Koda Tax Amendment Law No.71 of 1932 as follows: on sheep 32 fils per head, on goats 23 fils per head, on camels 56 fils per head, and on buffaloes 75 fils per head.⁽²²⁹⁾ In 1939 the Koda Tax Law of 1930 and its amendment law of 1932 were repealed and instead the Law for the Collection of Istihlak Tax on Animals and Animal Produce No.63 of 1939 came into force. The new law imposes a proportional rate on the value of animals and animal produce as it is assessed in the places of consumption. Hence, the new law substituted the Istihlak tax on animals and animal produce for the Koda tax. The Istihlak tax on animals and animal produce is similar to the Istihlak tax on agricultural and natural produce.

The Istihlak tax on animals and animal produce is levied at the rate of 10 per cent. on the value of:

1. Animals slaughtered in slaughtering houses.
2. Animals slaughtered in places situated within the boundaries of authorized areas.
3. Animals exported outside Iraq.
4. Animal produce consumed in Iraq or exported outside Iraq.⁽²³⁰⁾

The animals subject to this tax are sheep, goats, camels, buf-

(228) The Koda Tax Law No.15 of 1930.

(229) Koda Tax Amendment Law No.71 of 1932.

(230) The Istihlak Tax on Animals and Animal Produce No.63 of 1939, Article 2.

falices, cows and fish. The produce subject to the tax are wool, fur, hair, mohair, skin, refined and unrefined oils and casings. Only sacrificed animals (Lehum al-Dhahaya), animals slaughtered for charitable purposes, and imported animals and animal produce in respect of which import duties have been paid are exempted.

The tax is assessed in the same manner as the Istinlak tax on agricultural and natural produce is assessed. The number of animals or the number of the standard units of the produce are first ascertained. Then the value of such animals or produce is then determined by multiplying the value of the units by the price per unit so fixed by the Administrative Council for each authorized area.

In connection with counting animals for the purpose of assessment a problem arises in case Iraqi animals leave Iraq or foreign animals enter Iraq in search for pasture i.e. Iraqi animals seeking pastures in Syria and Najid or Syrian and Arabian animals seeking pastures in Iraq. In such a case the animals are counted before and after leaving or entering the country as the case may be; Iraqi animals leaving the country in search for pasture are counted once before they leave the country, and counted again when they come back. If the number of animals is less than the original, the tax is collected on the original number, considering the difference as the number of animals exported from Iraq. On the other hand, animals entering the country are counted once before they enter and again when they leave. If their number when they leave is greater than

the original number, the tax is collected on the excess, on the ground that it has originated from the addition of Iraqi animals to the original number.⁽²³¹⁾ This problem is not a simple one. It opens a wide door for evasion which requires a very efficient machinery to control it.

The Istihlak tax on animals and animal produce is collected in the licenced premises by the proprietors of ~~such~~ such premises on behalf of the Government. It is also collected in customs offices or railway or car stations at the time the animals or animal produce are exported or transported.

The present Istihlak tax on animals and animal produce differs from the old Koda tax in the following respects: (1) it is a tax on animals consumed locally or exported, while the old Koda tax was imposed on the possession of animals whether they were used for consumption, transport, or any other purpose; (2) it is also a tax on animal produce. The Koda tax was only a tax on animals; and (3) it is a proportional tax on the value of animals. The Koda tax imposed fixed rates per head for each kind of animals.

Table XXXIX gives the amount of revenue derived from the Koda tax during the years 1927-28 to 1938-39, and the revenue from the Istihlak tax on animals and animal produce for the years 1939-40 and 1940-41. In 1938-39 the revenue derived from the Koda tax amounted to I.D. 251484 and constituted about 5.54 per cent. of the total tax revenue and 2.67 per cent. of the total public revenue.

(231) Ibid., Article 18.

With the introduction of the Istihlak tax on animals and animal produce in 1939-40 the revenue dropped from I.D.251484 to I.D.190292. However, in 1940-41 the revenue from the new tax was greatly increased, amounting to I.D.308635 and constituting 5.71 per cent. of the total tax revenue and 2.91 per cent. of the total public revenue. This result was not only much better than that obtained in the previous year, but also better than the results obtained under the Koda tax.

Table XXXIX

Revenue from the Koda Tax for the Years 1927-28 to 1938-39, and from the Istihlak Tax on Animals and Animal Produce for the Years 1939-40 and 1940-41 in I.D.⁽²³²⁾

Year	Amount of the Tax in I.D.			Total	Percentage to Total Tax-Revenue	Percentage to Total Public Revenue.
	Sheep and Goats	Camels and Buffaloes	Fish			
1927-28	245100	13425	13375	272400	7.59	5.48
1928-29	281475	15600	14400	311475	8.45	6.24
1929-30	271320	13000	12455	296775	8.23	6.04
1930-31	275720	12725	11330	299775	10.81	7.40
1931-32	213165	8600	7510	229275	9.23	5.78
1932-33	194960	7550	8440	210950	8.42	5.06
1933-34	174470	8480	9090	191990	6.63	4.07
1934-35	185466	9301	10442	205209	6.47	3.17
1935-36	196558	8133	11287	215978	5.63	3.84
1936-37	207467	8326	11939	227732	5.61	3.32
1937-38	229699		12212	241911	5.55	2.63
1938-39	242634		18850	251484	5.54	2.67
1939-40	292731	6695	8658	190292	3.89	1.92
1940-41	292731	1302	14602	308635	5.71	2.91

(232) The Accounts of the Iraqi Government of the Years 1927-28 to 1940-41.

The large fall in revenue in 1939-40 was due to the relatively small number of animals on which the new tax was imposed, and to the great confusion that accompanied its administration at the beginning. In 1938-39 the Koda tax was collected on 4976398 sneeps, 2093693 goats, 71050 camels and 58845 buffaloes, as compared with 1175578 ~~sheep~~ sheep, 430535 goats, 2061 camels and 12869 buffaloes on which the new Istinlak tax was collected in 1939-40.⁽²³³⁾ Furthermore, the introduction of ~~an~~ a new form of a tax based on the value of animals and animal produce was not at all an easy task and required for its proper administration officials much above the level of those who had administered the old Koda tax.⁽²³⁴⁾ The great rise in revenue in 1940-41 was due to the improvement of ^{the} tax administration, and to a certain extent, to the rise of the prices of animals and animal produce.⁽²³⁵⁾ The index of wholesale prices of animals and animal produce fluctuated between 175 and 135 in 1940-41 as compared with 100 and 121 in 1939-40.⁽²³⁶⁾ The number of animals on which the tax was collected during this year was slightly greater than that on which the tax was collected in the previous year. The tax was collected on 1413871 sheep, 422898 goats, 2350 camels, and 9455 buffaloes.⁽²³⁷⁾

(233) The Statistical Abstract of the Iraqi Government of the Years 1938-39 and 1939-40.

(234) Report of the Revenue Department, (Government Press, Baghdad, 1941), p.36.

(235) Ibid.

(236) The Statistical Abstract of the Iraqi Government of the Years 1941, p.183.

(237) ibid.: p:167.

CHAPTER IXOTHER TAXES.

In this chapter we shall consider two other taxes, namely the stamp tax and the radio tax.

Under the Ottoman regime stamp duties were collected in accordance with the Tanga (stamp) Law dated February 6, 1883. During the British Occupation stamp duties were collected by the Ottoman Public Debt Administration in accordance with the Tanga Law and the British High Commissioner's Declaration of August 12, 1917. In 1919 both the Tanga Law and the Commissioner's Declaration were repealed and replaced by the first Iraq Stamp Law of 1919. This same law was again repealed in 1933 and the Stamp Tax Law of 1922 was enacted.⁽²³⁸⁾ Since 1922 the law of 1922 has been amended several times; once in 1923; twice in 1924, and once for each of the following years, 1925, 1931, and 1941. The amendments provided for changes in the scale of rates and changes in the items mentioned in the schedules annexed to the law.

The radio tax, on the other hand, is a new tax in Iraq, enforced for the first time in April 1st, 1938 in accordance with the Radio Tax Law No.59 of 1938. This law was later amended by the Radio Tax Amending Law No.33 of 1940.

(238) The Iraq Directorate, (Danqour Press, 1933), p.232.

I. THE STAMP TAX.A. Basis and Rate of the Tax.

The stamp duty is a tax imposed on certain types of instruments specifically mentioned in two schedules annexed to the Stamp Tax Law. By an instrument is meant "every document by which any right or liability is or purport to be created, transferred, limited, extended, extinguished or recorded."⁽²³⁹⁾ This includes different sorts of commercial and legal documents such as bills of exchange, receipts, promissory notes, contracts, debentures and share capital of limited liability companies, wills insurance policies, birth certificates, petitions, passports, etc.

Stamp duties in Iraq are of two kinds: (1) fixed stamp duties, and (2) proportional stamp duties. Fixed stamp duties are duties imposed at fixed rates on certain instruments mentioned in Schedule "A" of the Stamp Tax Law. These include cheques, wills, passports, birth certificates, petitions, contracts stipulating no fixed sum of money, etc. The amount of the duty varies with the importance of the instrument. It ranges from a minimum of 3 fils on an instrument, such as a cheque, to a maximum of 600 fils on an instrument such as a will or a contract stipulating no specific sum of money.⁽²⁴⁰⁾ Proportional stamp duties, on the other hand, are those imposed on certain instruments stipulating sums of money or values of pro-

(239) The Stamp Tax Law No.42 of 1941, Article 1.

(240) See Schedule "A" annexed to Stamp Tax Law No.42 of 1941.

erty. Instruments subject to the proportional duty are enumerated in Schedule "B" annexed to the law. They include promissory notes, debendures and share capital of limited liability companies, insurance policies, and wills and contracts stipulating a specific sum of money or value of property. Proportional duties vary with the amount of money or value of property stipulated in the instrument as follows:⁽²⁴¹⁾

From 1 Dinar to 10 Dinars the duty is	10 fils.
From 10 Dinars to 20 Dinars the duty is	20 fils.
From 20 Dinars to 30 Dinars the duty is	30 fils.
From 30 Dinars to 40 Dinars the duty is	40 fils.
From 40 Dinars to 50 Dinars the duty is	50 fils.
From 50 Dinars to 75 Dinars the duty is	75 fils.
From 75 Dinars to 100 Dinars the duty is	100 fils.
Above 100 Dinars the duty is 100 fils on each hundred Dinars.	

The above scale is not applicable, however, to debentures and share capital of limited liability companies incorporated in Iraq. The nominal share capital of a limited liability company is charged with the stamp duty at the rate of one-half per cent., while debentures are chargeable at the rate of one-quarter per cent.⁽²⁴²⁾

B. Exemptions.

Schedule "C" annexed to the Stamp Tax Law sets forth the kinds

(241) The Stamp Tax Law No.42 of 1941, Article 7.

(242) Ibid.

of instruments exempted from the stamp duty. Besides the exemptions cited in this schedule there are other exemptions specifically stated in other laws and regulations. We may sum up all exemptions under the followings:

1. All bills, bonds, coupons and other documents connected with a government loan.
2. All instruments, in which the Iraq Government, the British Government, the Baghdad Electricity Company, the Baghdad Water Supply Company, the Basra Electricity and Water Supply Company Company, and the Iraq Levies are the parties responsible for the payment of the duty.
3. All petitions, certificates and documents and all papers required under the Extinguishing Land Tax Law No.20 of 1939, the Land Tax Law No.73 of 1936, the Industrial Encouragement Law No.16 of 1936, and the Establishment of Agricultural Bank Law No.13 of 1940.

C. Administration and Collection of Stamp Duties.

The administration and collection of the stamp tax involves no important problems for consideration and discussion. The whole process is very simple. It mainly consists of the printing and selling of the stamps, and the taking of the necessary measures to check evasion.

The Minister of Finance is entrusted with the printing and sel-

ling of the stamps. Stamps are usually printed in England (sometimes in India) under his strict supervision. The selling of the stamps, is carried on on commission basis by certain individuals who act on behalf of the Minister and under his strict control. Licenced sellers pay weekly the proceeds of their sales to the Finance Authorities after deducting a commission at the rate of 2.5 per cent.

The party liable to the duty is specifically mentioned in two schedules annexed to the Law. Schedule "A" mentions the parties liable to the proportional duties. Schedule "B" mentions the parties liable to the fixed duties. But although the party liable to the duty is specifically mentioned in the Law, it often happens that such provisions are disregarded and the parties to an instrument among themselves proceed to conclude an agreement concerning the payment of the duty.⁽²⁴³⁾ In most cases, one might expect, that the weakest of the parties involved in the instrument, is the party that actually pays the duty.

Various measures are adopted to check evasion. Not only the Finance Authorities are responsible for the enforcement of the Stamp Tax Law, but also it has been made the duty of all government officials to take all the necessary steps for insuring the proper collection of the duty. They have to see that the necessary stamps are affixed to all instruments presented to them, and to refuse and return unstamped instruments.

Severe penalties are inflicted in the case of an intentional

(243) Report of the Revenue Department, (Government Press, Baghdad, 1940), p.35.

evasion. Both the party responsible to the duty, and the official connected with it are subject to such penalties. Government officials who, whether due to negligence or fraud, accept, indorse, or file instruments not having the necessary stamps, are considered to be taking part in the evasion of the duty.

The stamp tax is not so important from the fiscal point of view. The yield from this tax amounted in 1940-41 to I.D.143484 which is only about 2.7 per cent. of the total tax-revenue and 1.5 per cent. of the total public revenue. On the average of the last nine years, (1932-33 to 1940-41) however, revenue from the stamp tax constituted about 3.6 per cent. of the total tax revenue and 1.7 per cent. of the total public revenue. The following table shows that although the yield of the stamp tax has increased in recent years, yet its proportion to the total tax revenue and the total public revenue has declined.

Table XXXX

Revenue from the Stamp Duties for the Years 1932-33 to 1940-41
in I.D.⁽²⁴⁴⁾

Year	Amount	Index Number	Percentage to Tax-Revenues	Percentage to Total Public Revenues.
1932-33	104354	100	3.7	1.9
1933-34	103272	98.9	3.6	2.2
1934-35	106313	101.8	3.4	1.6
1935-36	116634	111.7	3.1	1.9
1936-37	132941	127.4	3.3	1.8

(244) The Accounts of the Iraqi Government of the Years 1932-33 to 1940-41.

Table XXXX Continued.

Year	Amount	Index Number	Percentage to Tax-Revenues.	Percentage to Total Public Revenues.
1937-38	146735	140.6	3.3	1.3
1938-39	149832	143.5	3.4	1.3
1939-40	145970	139.8	2.9	1.4
1940-41	143484	137.4	2.7	1.5
Total:	-----	1101.1	29.4	14.9
Average:	-----	122.3	3.6	1.7

II. THE RADIO TAX.

The radio tax is an annual fixed tax of half a dinar imposed on all radio receiving sets used in homes, motor-cars and private or public places. Radio sets presented for sale in commercial houses, or owned by the Diplomatic or Consular Agents in Iraq are exempted.⁽²⁴⁵⁾

The administration and collection of the radio tax does not present much difficulty. The only important task is the determination of the persons liable to the tax. Information of this sort is supplied from commercial houses selling radio sets, who are required to keep a register in which is registered the number of radios received and sold by them during a certain period of time, and the names and addresses of the buyers.

(245) The Radio Tax Law No. 59 of 1938, Articles 1, and 4.

The radio tax is not so important from the fiscal point of view. Collections in 1938-39 and 1939-40 amounted to I.D. 3292 and I.D. 3231 respectively. In 1940-41 it amounted to I.D. 3862.⁽²⁴⁶⁾ This last figure suggests that the number of radios in Iraq is only 7724. It is a figure which is very hard to believe. The writer was told that at least 20000 radios were sold in the country before that time.⁽²⁴⁷⁾ If this is true, the comparatively small yield in the past few years in which the tax was imposed is due to evasion on a wide scale. Undoubtedly, the yield of ~~the~~ this tax will increase in the future as more radios will be used by the public, and as effective measures against evasion are undertaken.

(246) The Accounts of the Iraqi Government of the Years 1938-39 to 1940-41.

(247) Interview with the sale agent of radio Phillips in Iraq.

CHAPTER X

THE FINANCIAL POSITION OF THE IRAQI GOVERNMENT.

A proper financial policy must lead to a balanced budget. By a balanced budget is meant the coincidence of the total actual expenditure with the total actual revenue of the State during a financial year.

A study of the financial position of the Iraqi Government is met with some difficulty owing to the lack of unity or comprehensiveness of the Iraqi Budget. The reader may still remember that in Iraq there are six separate autonomous budgets each with its special expenditures and resources. Since funds of some of these budgets are non-transferable, i.e. no surplus in one budget is utilized to meet a deficit in another, the position of each budget will be discussed separately.

A. The Ordinary Budget.

The Iraqi Government assumed the financial responsibility on the 1st of April, 1921. All outstanding accounts before that date were closed and the balances were carried forward to the accounts of the Iraqi Government.⁽²⁴⁸⁾

The result of the first two years operations were unsatisfactory. In the financial year 1921-22 the balance showed a deficit of

(248) The Accounts of the Iraqi Government of the Years 1921-22, p.1.

I.D.329100. Another deficit amounting to I.D.83625 appeared in the financial year 1922-23. The financial position began to improve as a result of the extraordinary measures taken by the government for cutting down its expenditures.⁽²⁴⁹⁾ So by the end of 1924-25 an accumulated positive balance of I.D.694500 was obtained.

But this result did not create much optimism. The Government had still to incur two huge expenditures, one for the settlement of Iraq's share of the Ottoman Public Debt, the second for the maintenance of a strong army and police force in fulfillment of the Aglo-Iraqian treaty of March 25, 1924.⁽²⁵⁰⁾

In 1925 a Financial Mission was appointed by the British Government to enquire into the financial position ^{of the Iraqi Government} and its prospects. The Mission had to study the existing financial position at the time and "to report to His Majesty's Government and to the Iraqi Government what steps should be taken to ensure a balanced Budget/ during the treaty period and afterwards."⁽²⁵¹⁾ The Mission recommended the imposition of new taxes and the improvement of the administration of the old taxes.⁽²⁵²⁾ It was realized that the correction

(249) Special Report on the Progress of Iraq, (H.M.S.O., London, 1923), p.105.

(250) Report of the Financial Mission, p.4. According to the Aglo-Iraqian Treaty of March 25, 1924 the Iraqi Government had to assume within a period of four years, the responsibility of maintaining internal peace and order and defending herself against any foreign aggression.

(251) Report of the Financial Mission, p.1.

(252) Ibid., pp.15-25.

can no more come from the side of expenditure but must come from the side of revenue. However, the internal policy at the time prevented the introduction of any important change in the prevailing system of taxation. Some measures were adopted from time to time to effect some rise in revenue.⁽²⁵³⁾

The balance continued to show a surplus until the year 1929-30 as a result of the policy of depressing expenditure and increasing revenue whenever that was compatible with internal policy. By the end of 1927-28 a positive balance of I.D.1912025 was accumulated. It may be mentioned here that until that time nothing was allotted for the settlement of Iraq's share of the Ottoman Public Debt.⁽²⁵⁴⁾ In the same year a sum of I.D.388500 was separated from the accumulated surplus and set aside for expenditure on capital development works, and the Capital Development Works Budget was created. The remaining balance was I.D.1323525 which in 1928-29 became I.D.1385550 by the addition of I.D.62025 representing the surplus realised in that year.⁽²⁵⁵⁾

In 1929-30 there was a deficit of I.D.1358475, which was due to the payment of I.D.1437150 in settlement of a large part of Iraq's share of the Ottoman Public Debt. On the other hand the deficit of I.D.352575 and I.D.162825 in the financial years 1930-31 and 1931-32

(253) Special Report on the Progress of Iraq, p.97.

(254) Special Report on the Progress of Iraq of the Year 1930, p.61.

(255) The Accounts of the Iraqi Government of the Year 1929-30.

respectively were due to the extraordinary conditions created by the last world depression.⁽²⁵⁶⁾

From 1932-33 to 1940-41, the financial position was improving. The only deficits during the period were those in 1933-34, 1939-40, and 1940-41. The deficit of 1933-34 was due to another payment of I.D.124642 in settlement of Iraq's share of the Ottoman Public Debt,⁽²⁵⁷⁾ while the deficits of 1939-40 and 1940-41 were due to the large increase in expenditure necessitated by the present war conditions.

In 1940-41 the ordinary budget showed an accumulated surplus of I.D.372179. This sum is utilised for granting loans to municipalities.

Table XXXXI gives the total actual expenditure and revenue under the ordinary budget and the corresponding surplus or deficit balances for the period 1921-22 to 1940-41.

Table XXXXI

Total Ordinary Revenues and Expenditures for the Years 1921-22 to 1940-41, in I.D.⁽²⁵⁸⁾

Year	Expenditure	Revenue	Deficit	Surplus	Accumulated Balance.
1921-22	4290975	3961875	329100	-----	-329100
1922-23	3643650	3560025	83625	-----	-412725
1923-24	3181950	3820575	-----	638625	+225900
1924-25	3486375	3954975	-----	468600	+694500

(256) Capital Development Works Law No.79 of 1931.

(257) The Accounts of the Iraqi Government of the Year 1933-34.

(258) The Accounts of the Iraqi Government of the Years 1921-22 to 1940-41.

Table XXXI Continued.

Year	Expenditure	Revenue	Deficit	Surplus	Accumulated Balance
1925-26	3850350	4357650	-----	507300	+1201800
1926-27	4025400	4252500	-----	227100	+1423900
1927-28	4149150	4452275	-----	283125	+1323525 ⁽²⁵⁹⁾
1928-29	4336275	4458300	-----	62025	+1335550
1929-30	5668050	4309575	1358475	-----	+ 27075
1930-31	3336350	3484275	352575	-----	-325500
1931-32	3612975	3450150	162825	-----	-438325
1932-33	3586160	3521289	64871	-----	-553196
1933-34	3736445	3578134	158311	-----	-711507
1934-35	3794260	3977704	-----	183424	-523083
1935-36	4413016	4526776	-----	113760	-414323
1936-37	4756167	5013550	-----	257383	-156940
1937-38	5174302	6342786	-----	1668484	+1511544
1938-39	5670738	5831805	-----	161067	+1672611
1939-40	6369148	6123739	245409	-----	+1427202
1940-41	7144911	6589888	555023	-----	+ 372179

B. The Capital Development Works Budget.

This budget was created in 1927 when a sum of I.D.388500 was separated from the accumulated surplus of the ordinary budget to be

(259) In the Year 1927-28 a sum of I.D.388500 was transferred from the accumulated surplus of the Ordinary Budget to the Capital Development Works Budget.

spent on capital development works during the period 1927-1930. In 1931 this budget was completely separated from the ordinary budget. It has become a sort of five years plan, which plans the expenditure on capital development works and the necessary revenue to finance it during subsequent periods of five years.

During the period 1931-1940 three such budgets were prepared. The first appeared in 1931 for the expenditure of I.D. 2103750 during the period 1931-1935.⁽²⁶⁰⁾ The second appeared in 1934 for the expenditure of I.D. 3237000 during the period 1934-38.⁽²⁶¹⁾ And the third appeared in 1936 for the expenditure of I.D. 4120000 during the period 1936-1940.⁽²⁶²⁾ These expenditures were met by the receipts from the Oil Companies and by loans.⁽²⁶³⁾ The present war conditions have rendered it difficult to plan expenditure on capital development works for a long period of time. Hence, this budget has since 1940 been prepared annually.

The following table gives the annual actual expenditure and revenue under the capital development works budget and the corresponding surplus or deficit balances for the period 1927-28 to 1940-1941.

(260) Capital Development Works Law No.79 of 1931.

(261) Capital Development Works Law No.39 of 1934.

(262) Capital Development Works Law No.26 of 1936.

(263) For nature of these laws and their amounts see p.228.

Table XXXII

Total Revenues and Expenditures Under the Capital Development Works Budget for the Years, 1927-28 to 1940-41, in I.D.⁽²⁶⁴⁾

Year	Expenditure	Revenue	Deficit	Surplus	Accumulated Balance
1927-28	125325		-----		
1928-29	96300	338500	-----	72825	
1929-30	94050				+72825
1930-31	-----	-----	-----		+12825
1931-32	131575	869250	-----	687675	+760500
1932-33	332605	694172	-----	361567	+1122067
1933-34	428505	574787	-----	146282	+1268349
1934-35	428222	1036972	-----	608750	+1877099
1935-36	1235576	890783	344793	-----	+1532306
1936-37	2402738	932327	1470461	-----	+ 61345
1937-38	2372740	1063583	1309147	-----	-1247302
1938-39	2463505	2060864	402701	-----	-1650003
1939-40	2232916	2087627	145289	-----	-1795292
1940-41	2709423	1651386	1058042	-----	-2853334

Table XXXII shows that during the period 1927-28 to 1934-35 actual expenditures were less than actual revenues, so that at the end of 1934-35 a positive balance of I.D.1546289 was accumulated. This period of surplus was followed by a period of deficit. The lar-

(264) The Accounts of the Iraqi Government of the Years 1927-28 to 1940-41.

ge deficits in the period 1935-36 to 1940-41 were due to the very great rise in expenditures without a corresponding rise in revenues.

In 1940-41 this budget showed an accumulated deficit of I.D. 2853334. The deficit of this budget is covered by loans secured either from the Oil Companies or from the British Government. During the period 1937-1941 the government borrowed I.D.4,000,000 of which I.D.3,000,000 was secured from the British Government and I.D.1,000,000 from the Oil Companies.

In 1937 the Iraqi Government borrowed I.D.3,000,000 from the British Government at 4.5 per cent. interest and payable in 1952. However, the Iraqi Government was left free to pay the whole or part of the loan at any time it chose after 1942.⁽²⁶⁵⁾ Last year (1943) the Iraqi Government was able to pay one third of this loan out of its receipts from the Oil Companies which were not used for expenditure on capital works because of the present war conditions. Negotiations were also made for the payment of another million Dinars in August, 1944. In 1939 a non-interest bearing loan amounting to I.D.1,000,000 and for a period of ten years was also secured from the Oil Companies.⁽²⁶⁶⁾

C. The Budget of the Iraqi State Railways.

This budget was created in the financial year 1936-37, when

(265) The Accounts of the Iraqi Government of the Year 1938-39, p.10.

(266) Ibid.

the railway administration was transferred to the Iraqi Government. In the financial years 1936-37 and 1937-38 actual expenditures were less than actual revenues so that by the end of 1937-38 a positive balance of I.D.162443 was accumulated. The deficits of I.D.142474 in 1938-39 and of I.D.42652 in 1939-40 were due to the large expenditures incurred for the extension of the Mosul-Tel-Kutcheh line.⁽²⁶⁷⁾ In 1940-41 the balance showed a surplus. In 1940-41 this budget showed an accumulated surplus of I.D.23465. Table XXXXIII gives the actual revenue and expenditure under this budget and the corresponding surplus and deficit balances for the period 1936-37 to 1940-41.

Table XXXXIII

Total Expenditures and Revenues of the Iraqi State Railways for the Period 1936-37 to 1940-41, in I.D.⁽²⁶⁸⁾

Year	Expenditure	Revenue	Deficit	Surplus	Accumulated Balance
1936-37	514652	606626	-----	91974	+ 91974
1937-38	607748	678217	-----	70469	+162443
1938-39	839780	697306	142474	-----	+ 19969
1939-40	754008	711356	42652	-----	-22683
1940-41	839028	884176	-----	45148	+ 23465

D. The Currency Board Budget.

This budget was created in the financial year 1934-35 when the

(267) Reports of the Railway Administration of the Years 1938-39 and 1939-40.

(268) Report of the Railway Administration of the Years 1936-37 to 1940-41.

national currency was substituted for the Indian Currency. During the period 1934-35 to 1938-39 the expenditure always exceeded the revenue. This was due to the great expenditure ~~at~~ needed at the beginning for putting the new currency into circulation. The surplus balances in 1939-40 and 1940-41 were the result of the decline in expenditure and the increase in revenue. In 1940-41 this budget showed an outstanding deficit of I.D.190344. Table XXXIV gives the expenditure and revenue under this budget and the corresponding surplus or deficit balances for the period 1934-35 to 1940-41.

Table XXXIV

Total expenditures and revenues of the Currency Board for the Period 1934-35 to 1940-41, in I.D. ⁽²⁶⁹⁾

Year	Expenditure	Revenue	Deficit	Surplus	Accumulated Balance.
1934-35	LL2567	14981	97536	-----	-97536
1935-36	108008	39950	53058	-----	-165644
1936-37	138000	42450	95550	-----	-261194
1937-38	94374	48625	46249	-----	-307443
1938-39	72666	60000	12666	-----	-320109
1939-40	84224	130000	-----	45776	-274333
1940-41	86061	170000	-----	83139	-190394

(269) The Accounts of the Iraqi Government of the Years 1934-35 to 1940-41.

E. The Fao Dredging Scheme Budget.

Table XXXIV gives the actual expenditure and revenue under this budget and the corresponding surplus or deficit balances for the period 1926-27 to 1940-41. With the exception of the deficits in 1926-27, 1931-32, and in 1932-33 this budget always showed a surplus. In 1940-41 this budget showed an accumulated positive balance of I.D.433336.

Table XXXV

Total Expenditures and Revenues of the Fao Dredging Scheme Budget for the Years 1926-27 to 1940-41 in Iraq Dinars. ⁽²⁷⁰⁾

Year	Expenditure	Revenue	Deficit	Surplus	Accumulated Balance
1926-27	103854	50444	53410	-----	-53410
1927-28	101787	137364	-----	55577	-17933
1928-29	132294	168397	-----	36603	+13670
1929-30	176136	137613	-----	11482	+30152
1930-31	166933	221262	-----	54329	+34481
1931-32	237677	279539	8138	-----	+76343
1932-33	298974	267327	31647	-----	+44696
1933-34	218834	303921	-----	85087	+129783
1934-35	200955	240138	-----	39183	+168966
1935-36	190494	199016	-----	8522	+177488
1936-37	140377	230034	-----	89657	+267145
1937-38	167317	236541	-----	119224	+386369
1938-39	211713	249949	-----	38236	+424605
1939-40	213321	241324	-----	28003	+452608
1940-41	262523	243251	19272	-----	+433336

(270) The Accounts of the Iraqi Government of the Years 1926-27 to 1940-41.

F. The Port of Basra Budget.

Table XXXVI gives the actual expenditure and revenue under this budget and the corresponding surplus and deficit balances for the period 1926-27 to 1940-41. This budget has always showed a surplus. In 1940-41 it showed an accumulated positive balance of I.D.1133336.

Table XXXVI

Total Expenditures and Revenues of the Port of Basra, for the Period 1925-26 to 1940-41 in I.D.⁽²⁷¹⁾

Year	Expenditure	Revenue	Deficit	Surplus	Accumulated Balance.
1925-26	180917	260852	-----	79935	+79935
1926-27	179520	244429	-----	64909	+144344
1927-28	202075	279344	-----	77769	+222613
1928-29	196398	250147	-----	53749	+276362
1929-30	193534	262665	-----	69081	+355443
1930-31	197965	259212	-----	61247	+426690
1931-32	170322	228976	-----	58654	+485344
1932-33	163569	243956	-----	80387	+565731
1933-34	173042	275400	-----	102358	+668089
1934-35	211434	297744	-----	86310	+754399
1935-36	219571	293+25	-----	73854	+828253
1936-37	327734	380863	-----	53129	+381332
1937-38	336342	413996	-----	82654	+464036
1938-39	365517	444142	-----	78625	+1042661
1939-40	362234	418060	-----	55826	+1098487
1940-41	391458	426357	-----	34899	+1133336

(271) Report of the Directorate General of the Port of Basra of the Years 1925-26 to 1940-41.

SUMMARY AND CONCLUSION

The budgetary system in Iraq is similar to that of any parliamentary democratic government. The annual budget is prepared and executed by the Executive; sanctioned and controlled by the Legislative. Through budget legislation and control the general interest of the public is safeguarded and protected. However, the lack of political parties and the ignorance of the majority of the deputies minimize the significance of budget legislation in Iraq. Much power is left to the executive in the determination of financial policy.

Public expenditure has been continuously growing. During the period 1925-26 to 1940-41 public expenditure increased by 183 per cent. During the same period the per capita public expenditure rose from one Dinar to three Dinars. This increase resulted from the growing field of government activity whether due to the assumption of new functions or to the extension of old ones. The growth of public expenditure has been both vertical and horizontal.

With the exception of a relatively large expenditure on defence and a relatively small expenditure on social services, public expenditure in Iraq is fairly well distributed among the various government functions. Expenditure on defence constituted, on the average (1936-37 to 1940-41) about 31 per cent. of the total public expenditure, while expenditure on social services amounted ~~to~~ on the average of the same period to 14 per cent.. Expenditure on economic development works and government enterprises constituted about 33 per cent.

of the total public expenditure; expenditure on general administration about 18 per cent., and on public debt about 4 per cent.

Public revenue during the period, 1925-26 to 1940-41, increased by 205 per cent.. Tax-revenue as well as non-tax revenue were increased, but the increase of the former lagged behind that of the latter. Tax-revenue during the period, 1932-33 to 1940-41, increased by 78 per cent., while non-tax revenue during the same period increased by 165 per cent.. The increase of non-tax revenue was mainly due to the increase of the share of the government from the Oil Companies in the form of oil royalties. The increase of tax-revenue was due to the imposition of new taxes, higher rates, and to the improvement of the financial administration.

A very large proportion of public revenue comes from non-tax revenue, the remaining part comes from taxation. On the average (1932-33 to 1940-41) non-tax revenue constituted about 45 per cent. of the total public revenue. Non-tax revenue includes revenue from public domain, revenue from government enterprises, from fees, licences and fines, and from miscellaneous sources. Tax-revenue comes from the following taxes: the building tax, the building sites tax, customs and excise duties, the income tax, rent of Miri land and water right (called "land tax"), the Istihlak tax on agricultural and natural produce, the Istihlak tax on animals and animal produce, the stamp tax and the radio tax.

From the fiscal point of view the above mentioned taxes may

be arranged in order of their importance as follows: on the average (1932-33 to 1940-41) customs duties constituted 54 per cent. of the total tax-revenue, excise duties 13 per cent., the Istinalak tax on agricultural and natural produce 11 per cent., the income tax 6 per cent., stamp duties 5 per cent., the Istinalak tax on animals and animal produce 4 per cent., rent of Miri land and water right 4 per cent., and the building tax 3 per cent. Revenue from the building sites tax and the radio tax were negligible.

Since the coming of the National Government in 1921 special emphasis has been put on the practical side of the problem of taxation. Great efforts have been exerted to improve the financial administration whether by the selection of more honest and efficient officials, the adoption of more accurate and certain methods of assessment, or by the undertaking of more effective measures against evasion. But in spite of these attempts, the problem of administrative inefficiency still remains a major handicap towards increasing both the fiscal adequacy and the degree of equity of the tax system. The lack of honest and efficient officials, to a very large extent, is responsible to many inequalities and great loss of revenue through inaccurate assessment and evasion.

Besides the inequalities that arise from the administration of the various taxes, there are inequalities in the distribution of the tax burden arising from the taxation system itself. Indirect taxation plays a very important part in the fiscal system of the coun-

try. Collections from indirect taxation in the form of customs and excise duties, Istihlak taxes, and stamp duties, on the average (1932-33 to 1940-41) constituted about 37 per cent. of the total tax revenue. The incidence of these indirect taxes is very hard to determine. But since these indirect taxes are mainly imposed on commodities which are in the nature of necessities and conventional necessities, we may deduce that their burden falls more heavily on the poor than on the rich.

On the average (1932-33 to 1940-41) about 4 per cent. of the tax revenue came from the rent of airi land and water right. The remaining 9 per cent. came from direct taxation in the form of income tax (6 per cent.) and building tax (3 per cent.). The rent of airi land and water right is not a tax proper but a payment for the use of State owned land and Government irrigation facilities. The building tax is a ten per cent. tax on the annual gross value of property. The income tax is a progressive tax on the net income from any trade, business, profession, or vocation, and on all fixed incomes in the form of interest, dividend, premium charge or annuity.

The Iraqi income tax is not an income tax proper. It discriminates between different individuals according to their sources of income. While business men, professionals and those who depend on fixed incomes are subject to the income tax, property owners are subject to the building tax and agriculturists to the rent of airi land and Istihlak taxes. The building tax is a proportional tax. The

same income derived from property, is, therefore, subject to a much lower tax than if it were derived from business, profession, vocation, dividend, etc. where it would have been subject to the high progressive income tax, and sur-tax rates. The rent of Miri and land and water right is not a tax proper, while the Istihlak tax is an indirect tax which tends to be shifted to the consumers.

The burden of taxation is therefore, very inequitably distributed among different social groups. It falls more heavily on businessmen, professionals, and those who depend on fixed incomes such as interest, dividend, etc., who are subject to the income tax, especially on those the tax on whose incomes is deducted at the source. It falls less heavily on property owners, and still less heavily on agriculturists. The existing tax system, in spite of the presence of the income tax, is not appreciably effective in decreasing the inequalities of income and wealth.

As its effect on production, the existing system has some good and some bad aspects. The tariff, by way of exemptions and protection, has helped to encourage the production of certain agricultural products and manufactured articles. Tariffs have to a certain extent facilitated the production of cotton, tobacco, and wool. It has also helped to develop the textile industry and the cigarettes-industry.

The arbitrary nature of the assessment of the amount payable by a cultivator in respect of land rent and water right, ^{right} result in the

taking of a large part of his annual produce. Consequently, his incentive to cultivate his land in the next season might greatly be reduced. On the other hand, the assessment of the land rent and water right under the method of a fixed cash Maqtu and the extinguishment of the "land tax", help to encourage temporary improvements and to promote durable capital investment on land.

The income tax, with the existing rates at the present time when business profits are high, do not seem to diminish the individual's incentive and ability to work and save and therefore, to decrease national production. The building sites tax is expected to encourage building industry in the future.

The Iraqi Government assumed the financial responsibility in 1921. Since that time its financial position was greatly improved. In 1940-41 all of the six autonomous budgets (the Ordinary Budget, the Capital Development Works Budget, the Railway Budget, the Currency Board Budget, the Budget of the Port of Basra, and the Fao Dredging Scheme Budget), showed accumulated surpluses, with the exception of the Currency Board Budget and the Capital Development Works Budget which showed deficits. The position of the Currency Board Budget began to improve in 1939-40 so that in 1939-40 and 1940-41 it showed a surplus. The deficit of the Capital Works Budget is met by loans secured from the Oil Companies and the British Government. During the period 1937-1941 the Iraqi Government borrowed three million pounds at 5.5% interest from the British Government, and one million pounds from the Oil Companies free from interest. In 1943 one million pounds out of the three million pounds loan was paid. Another million pounds is expected to be paid in August, 1944. The outstanding debt at the end of the year 1943 amounted to three million pounds.

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