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Proposed Mechanisms for Developing the Tax System and Their Impact on Encouraging Investment (A Practical Study in the Iraqi General Commission for Taxes)

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Abstract

The significance of this research stems from the increasing interest in studying the mechanisms for developing the tax system, which play a role in encouraging investment, as well as the effective role that taxes play in economic activities. The tax system encompasses every individual in society according to their capacity and ability, whereby each person contributes to bearing public expenses and burdens based on their income and revenue. This is essential for the state to meet public expenditures and obligations; the wealthy pay more than the poor, and everyone contributes to bearing the burdens resulting from achieving social and economic goals.The tax system works to attract funds, encourage investment, and direct it toward economic and social activities. For instance, exempting agricultural income from taxes has led to directing investment into agriculture, industry, and other sectors. As a result, this creates new job opportunities for citizens, increases local production, and halts or reduces similar goods, thereby providing financial resources for the nation and creating new export opportunities. It also attracts Arab and foreign capital and facilitates the transfer of skills, expertise, and technology in its latest forms.

Keywords: *Tax, Tax System, Investment.*

Introduction

Taxes are the most significant source of public revenues and are at the forefront of the tools upon which the state's fiscal policy relies. They directly contribute to financing public expenditures and serve as an effective instrument for the state to influence its economy (Al-Haj, 2003: 95). Tax revenues in developed countries account for a high percentage of total public revenues (OECD, 2018). In developing countries, taxes represent an important source of funding for establishing and developing the infrastructure of the national economy. However, what characterizes taxes in developing countries is the weak tax collection due primarily to low income levels among individuals (Al-Muhaini, 2003: 260). Given the significant imbalances present in most economic sectors of developing countries, including ethnic disparities and low production capacities due to limited capital, these countries tend to rely on taxes to secure the necessary funds for financing (Qataf, 2008). Iraq is considered one of the developing countries where the state intervenes in the economy, suffering from limited resources and increasing expenditure pressures, which is reflected in its fiscal policy. Therefore, it was essential to use taxes as a tool for resource collection, a mechanism for wealth redistribution, and a means to ensure the stability of its fiscal policy. Consequently, reforming the tax system has become one of its main focuses, enabling the achievement of several objectives primarily aimed at improving the performance of tax policy by simplifying the tax system and enhancing its financial yield, achieving fiscal stability, and combating tax evasion and fraud.

The study's issue lies in the fact that the circumstances Iraq has experienced over the past years have led to instability in the Iraqi economy and the dangers associated with this phenomenon, resulting in poor income distribution and an expansion of income disparity, along with a scarcity of resources for financing the public budget. This situation places additional responsibilities on tax policy to enhance its contribution in addressing the political, economic, and social changes occurring in Iraq, as well as to correct imbalances and reduce economic disparities. Taxes hold significant weight in the Iraqi economy, which relies on oil revenues for approximately 95%. Therefore, it is essential to make taxation an effective tool for creating an

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investment-friendly environment by providing prudent exemptions, while also considering that tax rates in Iraq are low compared to other countries. The central research question is: What is the impact of the tax system on investment? From this main question, the following sub-questions can be derived:

What is meant by the tax system, and what methods and mechanisms can be adopted to develop it and enhance its efficiency to align with economic, social, and political changes?

What is the reality of foreign investment in Iraq?

What is the impact of the tax system on the investment climate?

What measures and procedures have been taken to stimulate and attract investment in Iraq?

Accordingly, the study aims to evaluate the tax system in Iraq and seeks to present equitable proposals to make it more inclusive and effective, considering that taxes are one of the sources that, despite differing objectives for their collection based on circumstances, serve as a source of budget financing that has clear effects on the economic, social, and political situation. Thus, the main objective of the study is to determine the capacity and efficiency of the tax system in Iraq in attracting and drawing foreign investment. Additionally, there are sub-objectives under this main goal, the most prominent of which are:

Identifying the reasons for the shortfall in tax revenues in covering the state's budget deficit.

Understanding the new concepts of the tax system in countries that have developed their tax systems.

Examining how the work proceeds by studying the basis through which the tax base can be determined.

Highlighting the importance and necessity of foreign investment in economic development.

Exploring the proposed mechanisms that could help in developing the tax system and thereby assist in attracting investment.

The Importance of Theoretical and Applied Research

This topic is significant due to the vital role that taxes play in achieving economic development and encouraging investment. The importance of research is also reflected in understanding the tax system in Iraq and its role in addressing the issues of the public budget, especially given that Iraq has experienced tragic economic and financial conditions due to the rise of ISIS and the fall of more than three provinces. This has led to a significant decline in budget revenues and an increase in expenditures, along with a deterioration of economic conditions due to falling oil prices, particularly during the COVID-19 pandemic. This situation has resulted in imbalances that have caused a decline in GDP, employment, state revenues, and so forth. Consequently, there has been a need to mobilize local funding sources to finance development and to study how to manage the post-oil phase. Tax reform is deemed essential to keep pace with the transformations experienced by the Iraqi economy, emphasizing the importance of taxes as a tool for regulation and direction to align with global and local changes, and to address economic imbalances in line with the current conditions facing the Iraqi economy. This can be achieved through tax measures and decisions designed to achieve a balance in the national economy. In order for the tax system to achieve social stability, reduce income distribution disparities, stimulate and direct investment, and ensure equity, thus achieving internal balances, the importance of research can be summarized as follows:

It addresses an important issue that is fundamentally related to the financial crisis.

It examines the effective role that taxation has come to play in regulating economic activity.

It identifies the role of taxation in supporting investment by attracting it and reaping its benefits.

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To address the issue at hand, two frameworks have been established: a spatial framework and a temporal framework as follows:

Spatial boundaries: The spatial framework for the research pertains to Iraq, as it discusses the tax system, highlighting the role that this system plays in attracting investment through the implemented tax policy, and the extent of its contribution to providing a suitable investment climate.

Temporal boundaries: The study period extends from 2004 to 2020.

While the researcher relied on a research methodology to achieve the research objective, and in light of its nature and significance, in order to answer the research questions and cover all its aspects, this study will focus on:

Descriptive Method: The researcher adopted this method by addressing the tax system through an examination of the most important aspects related to the tax system and its impact on foreign investment.

Historical Method: The historical method was also utilized by tracing the trajectory and reality of taxation in Iraq.

Analytical Deductive Method: This method was employed by analyzing the data available regarding the research problem in the context of Iraq, relying on official numerical data issued by the Ministry of Finance and the General Authority for Taxes. This analysis aims to determine the effects of the tax system on investment and the role of recent global developments in influencing the tax system.

Among the reasons that prompted the researcher to choose this topic are several factors, including:

The necessity to understand the main resources that the Iraqi state relies on for revenue financing, and what incentives encourage investment.

The necessity and importance of investment in the national economy to achieve comprehensive economic development.

A personal desire to research this specific topic due to scientific and professional specialization in the future, as well as the relative novelty of the subject.

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Theoretical Terms

The Conceptual Framework of the Tax System

There are two fundamental concepts of the modern tax system: the first is the comprehensive (broad) concept, and the second is the limited (narrow) concept. The comprehensive concept refers to a set of ideological, economic, and technical elements whose interaction leads to a specific tax entity or existence (Al-Batrouk, 2001: 19). This definition applies to all tax systems worldwide, as every tax system must contain political principles as well as economic and technical methods that align with the political and economic system of the state. In contrast, the narrow concept consists of the legal and technical rules that enable tax deduction, from the stages of legislation to assessment and collection (Othman, 1985: 15).

The definitions of the tax system have varied from one country to another and from one economic thinker to another, depending on the applied tax policy and the objectives set by the states. Accordingly, we can present the following definitions of the tax system. It has been defined as a set of tax measures that the state is obligated to collect, contributed by individuals in society as a necessity for the state to exercise its authority and powers (Nabti, 2014: 5). Some define it as the total taxes imposed by the state on taxpayers at a specific time, including direct and indirect taxes, general and specific taxes, and consider it an effective tool for the state to achieve its desired objectives (Younes, 2008: 135.

It has also been defined as an amount of money that the taxpayer is compelled to pay at the request of the state, to contribute to supporting public expenditures. Thus, based on the previous definitions, the characteristics of tax can be determined as follows: (Musgrave, 2012: 115).

The taxpayer acts as a joint member of the community.

Coverage of public expenses to achieve the benefit of the public interest.

A general tax on all individuals.

The tax is a financial deduction from others' income in cash.

The tax is paid mandatorily, meaning it is an obligatory payment.

A tool to achieve economic, social, and political objectives.

Characteristics of Tax Systems in Developing Countries

To understand the nature of tax systems in developing countries, it is essential to briefly identify the key characteristics of these nations, which can be outlined as follows:

Low per capita share of national income, coupled with poor distribution.

High marginal propensity to consume and low marginal propensity to save, resulting in decreased investments.

Weak banking and financial institutions, along with underdeveloped financial and monetary markets.

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Predominance of an agricultural character, with the majority of the population engaged in agriculture and related activities.

The economies of developing countries are characterized as dependent economies, relying on the export of raw materials and commodities while importing consumer goods and machinery.

Theoretical Framework of Investment

Many authors have attempted to define investment, and each definition highlights a specific area of expertise. Some define it economically in terms of the transfer and attraction of funds from one place to another, while others approach it from the perspective of profit and loss, each examining it from a different viewpoint. We will present some of these definitions and then provide a perspective on this matter as much as possible. Investment is defined as the employment of capital with the aim of achieving returns, income, or profit (Al-Tahan, 2006).

As for financial investment, it refers to the trading of credit instruments, primarily stocks and bonds, which do not add tangible new value to the total tangible investment. The purchase of stocks and bonds can contribute to financing various tangible investment activities. The sources of investment spending at the national economic level include individuals, enterprises, and the government.

The economic definition of investment refers to the sacrifice of a certain financial expenditure now in exchange for an expected return in the future. Thus, this expected return becomes a representation of the price of sacrifice, deprivation, and waiting throughout the investment period (Mansouri, 2006: 20.

There are those who define foreign investment as the establishment of new projects that did not previously exist to absorb the unemployed workforce or to replace old machines with new, more efficient ones (Al-Gharbi, 2014: 19). Others define investment as the establishment of new projects in the host country, or the addition to the inventory of machinery and equipment by foreign investors, or the purchase of local companies by foreign investors, often amounting to 10% or more of the company's assets (Hess & Ross, 1997). Dr. Tarek Al-Haj views investment as that portion of income allocated for use in The production process for capital formation (Hajj, 1998: 123). Investment is defined as the allocation of funds to purchase productive goods with the aim of producing goods or services. This can be explained from a financial perspective as the relinquishment of liquid financial revenues in exchange for obtaining other revenues over successive time periods (Al-Zanati, 2016: 6).

Importance of Investment

Increased production and productivity, leading to an increase in national income and a rise in the per capita share, thereby improving the standard of living for citizens (Jawida, 2016: 23).

Providing services to citizens and investors.

Creating job opportunities and reducing the unemployment rate.

Increasing the rates of capital formation for the state.

Providing various specializations of technicians, administrators, and skilled labor.

Producing goods and services that meet the needs of citizens and exporting the surplus abroad, which provides the foreign currency necessary for purchasing machinery and equipment and increasing capital formation (Moussa et al., 2012: 18).

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Previous Studies, Theoretical Framework, and Hypothesis Development

Previous Studies

The studies addressing the topic of the tax system have varied and multiplied, both locally and regionally, as well as globally, in recent years, underscoring the importance of this subject. These studies can be classified into descriptive studies that clarify the tax system and its role in supporting investment. Below are the most significant studies related to the current research topic:

Study by Hambali A. C. & Sapuan, S. M (2002) titled: "The Incentives for Tax Planning"

This research aims to enhance tax revenues by developing mechanisms for collection processes. Some countries prefer to rely on direct taxes; these are advanced capitalist countries with a developed industrial base, which implement a general uniform tax on taxpayers' incomes characterized by progressive rates across brackets. In these countries, the proportion of indirect taxes constitutes (5%) of the total tax revenue. There are also countries that strike a balance between direct and indirect taxes; these are capitalist countries as well, but they have a lower economic level than those that rely solely on direct taxes, such as Germany, Italy, and France, which are characterized by a high general level of consumption.

Study by Gheorghe, C (2013) titled :"Tax Evasion and Avoidance Typologies"

This research aims to highlight the environment of the tax system and the procedures and tax laws applicable to taxpayers, as well as how to reduce opportunities for tax evasion by consolidating direct tax laws into a unified law in order to improve and increase tax revenues. There are a number of alternatives available for selecting tax structures, where the choice is made between adopting a unified income tax system encompassing all its branches and a system of multiple specific taxes, as well as the choice between a system dominated by direct taxes and a system relying on indirect taxes, and determining a tax ratio between the two types of taxes.

Study B Auras, E (2014) titled: "Effective Tax Planning within the Property and Casualty Insurance Industry"

The study aims to demonstrate the effectiveness of tax planning in enhancing the tax system as a whole in order to increase tax revenues. Additionally, the research seeks to identify suitable methods through which the tax system can be developed in accordance with various environmental changes and developments. Furthermore, it highlights the role of the tax system in improving tax revenues and, consequently, encouraging investment and financing the state's general budget.

Study by Jaeger, Z. & Biafra, A. (2014) titled: "Gauging IFRS Effect on Tax Planning"

This research aims to clarify the relationship between International Financial Reporting Standards (IFRS) and tax planning, as well as its connection to the overall tax system. It is noted that some countries prefer the use of indirect taxes, particularly socialist nations that possess public ownership of production elements. Consequently, these countries have no alternative but to rely on indirect taxes for revenue collection. The increasing relative importance of indirect taxes aligns with the circumstances of these nations, where income levels fall below the threshold that would allow for reliance on direct tax revenues. This is further exacerbated by the underdevelopment of tax administration efficiency.

The study by Raouf and Al-Shafei (2021) titled: "The Reality of the Tax System in Iraq and the Possibility of Development" 2021 highlights that the Iraqi tax system suffers from several issues, which manifest in the imbalance of tax compliance criteria, the multiplicity of assessment methods, and the abundance of exemptions, allowances, and deductions. There is also a significant reliance on indirect taxes, numerous instances of tax evasion, a decline in tax revenue, inefficiency in tax administration, and a weak tax awareness among individuals regarding the role of taxes. These factors have negatively impacted the Iraqi tax system. After identifying the obstacles facing the tax system in Iraq, the researchers presented a future vision that includes several proposals for the development of the Iraqi tax system.

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The study by Al-Badrani (2022) titled: "Tools for Analyzing Sustainable Development in the Tax System: A Comparative Legal Study"

The tax system is one of the main frameworks through which the Sustainable Development Goals operate. It is an applied field that produces its effects positively or negatively depending on the plans and their implementation. The mechanisms of this implementation, including tax legislation and the administration enforcing this legislation, are the focus of the study, which examines both the Bahraini and Iraqi tax systems.

Theoretical Framework of the Study

Scientific research relies on theoretical foundations that are rooted in fundamental theories related to a specific inquiry. Within this framework, it is essential to identify the key theories that will be employed in this research.

Analysis of the Relationship Between the Tax System, Investment, and the Public Budget, and Deriving Hypotheses.

Taxation is one of the tools of fiscal policy, and there are numerous legislative factors that influence the amount of tax revenue, including the tax rate and tax exemptions. It is important to consider that the tax system in any country selects the technical method for the rate in a manner that aligns with the philosophy of the political system and the economic reality of the state, in light of the type of tax imposed, the types of taxable bases, and the objectives that the tax legislator aims to achieve. This ensures that the tax system is suitable for society and aligns with the tax policies adopted in capital-exporting countries on one hand, and competing countries in attracting capital on the other. This has been highlighted in numerous studies and academic research conducted through descriptive approaches or by professional and scientific organizations that emphasize the role of the tax system in achieving objectives across various economic, social, and environmental fields.

Scientific Importance

The significance of this scientific study arises from its discussion of the tax system, which has become one of the important topics in recent times. An effective tax system enhances the confidence of taxpayers and the tax administration, as it meets the community's needs in decision-making.

However, the practical significance: This study contributes to highlighting the important and relevant role of encouraging the development of the tax system, especially since taxes are considered a significant marker for the development and revitalization of the Iraqi economy. This necessitates the availability of trust and transparency when imposing them on individuals obligated to pay. Some theories have attempted to explain the motivations of the tax system in the public budget and investment, among the most important of which are:

Social Solidarity Theory

This theory is represented by its proponents as a manifestation of the solidarity of a society that is subject to a single political authority. This indicates that this idea is derived from the historical evolution of taxation, where tax represented a "solidarity concept" among various clans and tribes. Subsequently, it became a financial assistance provided by individuals to the ruler to cover public expenditures, and then transformed, due to economic and social circumstances, into a mandatory obligation for individuals within a social and solidarity framework (Al-Mahaini and Al-Khatib, 2006: 189).

Thus, we can say that the theory of social solidarity is the most objective and realistic, as it is not based on an implicit contract between the state and individuals, but rather on social solidarity and the desire of both the state and individuals to coexist and share social burdens together.

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The state in imposing taxes, noting that there is a combination of theories explaining tax imposition, can be outlined as follows:

Utility Theor

The ideas of this theory prevailed during the 18th and 19th centuries. Traditional jurisprudence attempted to establish the state's right to impose taxes based on the idea of utility that individuals receive in return for paying taxes, which is manifested in benefiting from various public services. Consequently, if individuals did not benefit from these services, there would be no legal basis for imposing taxes and individuals' obligations. Proponents of this theory base the concept of utility on the individual's connection to an implicit contract with the state known as the social contract (Nashid, 2000: 121).

The first to advocate this was the French philosopher "Jean-Jacques Rousseau." This contract is characterized by individuals relinquishing part of their freedoms to protect the rest of the community. Additionally, under a financial contract, they commit to paying taxes in exchange for the benefits they receive from state activities.

Supporters of this theory have differed in their interpretation of the nature of this contract. Some, like Adam Smith, considered it a service sale contract, where the state sells its services to individuals in exchange for their commitment, as buyers, to pay for these services in the form of taxes. Others, such as "Tiers," depicted it as a partnership contract, where the state acts as a major production company made up of partners, each responsible for specific tasks and incurring particular expenses. However, alongside these individual expenses, there are public expenses incurred by the board of directors of this company, i.e., the executive authority, which benefit all partners. Therefore, they should contribute to its financing, represented by the taxes imposed by the state on them. Finally, others, like "Emile de Guard," envisioned the existence of an insurance contract whereby the state "insures citizens against various risks they face in exchange for their payment of taxes as insurance premiums" (Hashish, 1992: 156).

These views, based on the idea of a contract between the state and its citizens, have faced numerous criticisms. Critics argue that it is impossible to evaluate the transactions that these views assume occur between the state and its citizens, while also excluding the notion of matching the price of tax sacrifices with the value of the services provided by the state. Additionally, they deny the state's intervention in economic and social life, restricting the state's role to merely ensuring internal and external security (Hussein, 2001: 44). This aligns with the concept of a guardian state and does not correspond with the idea of an intervening and productive state. Despite these criticisms, the theory of utility and contract is not without merit, as it highlights the necessity for the state to spend tax revenues on providing various services that benefit citizens; otherwise, it would be failing in its duty towards them.

Theory of Social Solidarity

The legal foundation upon which the state relies for the imposition and collection of taxes in the present time is based on the idea of social solidarity. This theory is founded on a fundamental notion that individuals acknowledge the necessity of the state as a political and social imperative that serves their interests and fulfills their needs. Consequently, a social solidarity arises among individuals, whereby each person is obligated to pay the taxes imposed on them, according to their financial capacity, so that the state can perform its various functions and provide public services to all citizens without exception, regardless of the extent of their contribution to bearing public burdens. Moreover, it is possible for some individuals to benefit from public services even without paying taxes or by paying minimal amounts, such as those with limited incomes, while others may not benefit from these services despite paying taxes, like citizens residing abroad (Hashish, 1992: 122).

In addition to the above, the theory of social solidarity is associated with the concept of sovereignty exercised by the state over its subjects, thereby obliging and compelling them to pay taxes. This explains the requirement for foreign residents in the state, whether residing temporarily or continuously, to contribute to public burdens and costs and to pay the taxes imposed upon them.

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From the above, it is clear to the researcher that the reason for adopting these theories lies in their strength and ability to explain the relationship of influence; there is no unified theory that can fully explain the motivations behind the imposition of income tax in a manner that encompasses all liable individuals.

Development of Study Hypotheses

The research hypotheses are considered the most crucial part of any research endeavor, as the hypothesis serves as a preliminary answer to the study's problem. Therefore, the researcher must adhere to a methodological and scientific approach that relies on evidence and argumentation in formulating them according to the established scientific and methodological protocol for this purpose. The theory also acts as the explanatory framework for the research; there exists a relationship between the two, as the theory guides the research, which in turn creates and contributes to its development. This necessitates that any social researcher delve deeper and excel in presenting appropriate theoretical frameworks, which incorporate a reasonable degree of logic, realism, and logical interpretation based on some findings from previous studies and in harmony with the objectives of this study. The researcher will mention some of these studies:

A study by Hong (1997) conducted in Korea highlighted the role of foreign direct investment and commercial loans on the productivity of production factors during the period from 1970 to 1990, indicating a positive and significant impact of foreign direct investment on the productivity of production factors compared to commercial loans.

On the other hand, the study by Aitken, Gordon & Harrison (1997) illustrated that multinational corporations have a positive and significant effect on the export performance of local companies, as the latter benefit from the information and distribution services provided by multinational corporations.

(1997, Zejen, 1996, and Kokko Tansini) also studied FDI in Uruguay, where it was found that foreign presence (the presence of multinational companies) contributed to an increase in the exports of Uruguayan domestic companies only, with no change or significant increase in Uruguay's exports to neighboring countries such as Argentina and Brazil, as exports to these countries were not affected by the foreign presence.

Richardson's (1997) study also showed that FDI had a significant role in stimulating economic growth in Southeast Asian countries, through its role in increasing the total productivity of the elements of production due to the modern technology accompanying it and its role in increasing the exports of these countries.

The study (Kanfush, 2005) that the topic of investment is one of the topics that occupy an important and essential place in economic institutions that are interested in modern developments and these developments are accompanied by a similar development in the study of investment and its various fields, so the study of this topic is especially interested in the institutions of developing countries that have to pay great attention scientifically and practically to the topics of the most appropriate and useful investment areas and tools for them by improving the efficiency of these investments in order to maximize the various returns and this by following methods that ensure the expansion of the field of activity of the institution, which contributes to creating real added value for it (the economic institution).

(Al-Qaisi, 2011), this study aimed to analyze the impact of tax exemption on attracting direct foreign investment and encouraging local investment in order to enhance economic development opportunities and the most important findings of the study are a set of conclusions that the expansion of tax exemptions will affect the state treasury as a result of not receiving those tax materials that can contribute to financing important aspects of government spending and the most important findings of the study give special importance to foreign investments that rely on knowledge and high technology in order to activate and raise the efficiency of the performance of Iraqi cadres to keep pace with the technological development in advanced countries and the most important findings of the study.

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The study (Nabil, 2008) also showed that focusing on the most important motives and reasons that precipitated the tax reform carried out by Algeria in 1991, and the resulting establishment of new taxes and changing the structure of the tax structure, where taxes and fees belonging to local communities and those belonging to the state were separated and the characteristics and features of all taxes and fees that benefit municipalities were studied.

In the same context, the study (Jammam, 2010). It has shown that the tax system represents the most important tool and means of intervention, to direct national and foreign investments towards achieving economic and social goals, in addition to its effective intervention through various taxes in addressing the phenomena of recession and inflation, and addressing some social crises such as housing and income distribution among members of society, as we noticed the great impact that the tax system had on economic variables, so that the unemployment rate decreased significantly, and the economic growth rate increased, while the minimum wage required for living increased.

Especially since the study of (Krumm and Makhloufi, 2022). The study showed that taxes and public loans contribute to financing public expenditures, and sought to compare them and find out the extent to which each of them contributes to financing the state's public expenditures, as the descriptive and analytical method was relied upon in the study. This study found that the percentage of tax revenues is greater than the extraordinary revenues of public loans in terms of the percentage of contribution to the financing of the state's public expenditures, and the study found that there is a relationship between public loans, taxation and public expenditures.

(Burke et al: 2008), (Greenaway et al: 2004), (Chung et al: 2003), where they emphasized through evidence on the effects of displaced competition, i.e. the impact of foreign companies on local companies, which increases their efficiency and productivity and thus affects economic growth positively.

(Brambilla et al., 2009); (Portal, et.al., 2002); (Wen 2007) found that there is evidence of imitation effects as local firms imitate foreign firms coming through FDI in terms of efficiency and effectiveness, leading to increased production and thus economic growth.

Gachino (2005, 2006) found evidence of productivity spillover effects of FDI on the manufacturing sector and hence on growth.

(Karim and Ahmed, 2009) investigated the importance of FDI in reducing poverty rates and increasing growth rates across Malaysian states and found that the coefficient of FDI is statistically significant negative with respect to poverty rates and positive with respect to growth rates, which means that poverty rates can be reduced by increasing FDI and growth rates can be increased by increasing it as well.

As a result of the controversy related to the importance of the tax system, the importance of this research may stem from the study of whether the state may commit to the necessary items to develop the tax system in accordance with the instructions of governance of international institutions and standards, and study and test whether this development in the system will improve the level of revenue and increase the quality of investment, so the researcher expects the existence of an acceptable commitment by the state in reforming the tax system. Through the above, we can conclude the following main hypotheses:

Hypothesis 1: "There is a statistically significant relationship between tax development and increased investment in Iraq."

Methodology

In order to obtain information and primary data for this study, the questionnaire was designed to examine proposed mechanisms to develop the tax system and show its impact on encouraging investment in the General Tax Authority and to collect field data.

Selecting the sample of the applied study and the source of its data.

Volume: 3, No: 8, pp. 10095 – 10115
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v3i8.5620

To study the proposed mechanisms to develop the tax system and show its impact on encouraging investment in the General Tax Authority, the study population was identified, which is represented by the parties involved in the preparation of these reports, who are mainly accountants and financial managers, and a sample of 215 individuals was selected, who were interviewed during the year 2023.

The research model and measurement of its variables.

The model of the study:

The Autoregressive Distributed Lag (ARDL) Bounds Testing Approach was used, as this method is a relatively recent econometric method that has been used by (Pesaran et al., 2001) in the field of econometrics. The general form of the study model is expected to take the following form:

$IN\ t = f(\ Tt\ )$ ....(1)

Where the variables are taken in logarithmic form, in which case the model becomes the following form:

$Ln\ IN\ t = \beta 0 + \beta 1 ln\ TAX\ t + \varepsilon t$ ....(2)

where:

IN: Investment

TAX: A variable representing taxes.

Measurement of variables:

Measurement of the independent variable: "Tax System".

Measuring the dependent variable: "Investment".

Results of the standard analysis: The results are presented as follows:

Unit root tests for stationary time series (ADF) and (PP) :

In order to investigate the stationarity of the study variables, the expanded Dickey-Fuller unit root test was used, and the results were as shown in the following Table No. (1):

Table (1). Results of the unit root test (Extended Dickey-Fuller (1)

Variable	Level	Calculated value	Table value at 5% level	Table value at 10% level
Taxes (lnT)	At the level	-1.503522	-3.081002	2.68133-
	First difference	-3.810509	-3.14492*	2.713751-
investment (ln VT)	At level	-1.975907	-2.91765	2.596689-
	First difference	-3.938726	-2.922449	2.599224-

*Static at the 5% or 10% significance level.

To ensure the reliability of the results, the Phelps-Perron test was used as another unit root test, and the results were as shown in Table 2 below:

Journal of Ecohumanism
2024
Volume: 3, No: 8, pp. 10095 – 10115
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v3i8.5620

Table (2). Results of the Unit Root Test (Phillips-Perron)

Variable	Level	Calculated value	Table value at 5% level	Table value at 10% level
Taxes (ln T)	At level	-1.45235	2.91086 -	2.59309 -
	first difference	-2.87386	2.91173 -	2.59355 -
Investment (ln VT)	At level	-1.459973	-2.91086	-2.59309
	second difference	-3.030392	-2.912631	-2.594027

* Static at the 5% or 10% significance level.

The above results indicate that the time series of all study variables were not stationary at their levels, as the Augmented Dickey Fuller test (ADF) indicated that the calculated Dickey Fuller values for each variable in absolute value are less than the tabular values in absolute value, at a statistical significance level of 5% or 10%, and therefore the null hypothesis stating that the variables are not stationary at their levels is accepted. When taking the first difference of these variables, all variables became stationary, as the Dickey-Fuller values calculated in absolute value for all variables were greater than the tabular values at the 5% or 10% significance level, i.e. they are integrated of degree I(1).

The results of the Phillips-Perron test in Table 2 also indicated that the variables were not stationary at the level, and when the test was repeated after taking the first difference, these variables became stationary, and these results are identical to the extended Dickey Fuller test (ADF).

Testing The Relationship Between Taxes and Investment According to the (ARDL) Model

After characterizing the variables and subjecting the values of the series of variables of the research to the static test, it turned out that they are stable at the first difference and the second difference, so according to the conditions of the aforementioned distributed autoregressive methodology, they are suitable for conducting a functional relationship analysis between taxes and investment and testing the results of the ARDL model.) For the relationship between the independent variable and the dependent variables at this stage and using the statistical program E-views and to indicate the effect of the independent variable on the dependent variables, the data was entered and the analysis was performed, then determining the lag periods (3), the results of the following test were reached:

Table 3. The Results of the ARDL Model for the Relationship Between Taxes and the Investment Variable in Iraq

Variabl	Coefficient	Std. Error	t-Statistic	Prob.*
IN(-1)	3.484992	0.084657	41.16591	0.0000
IN(-2)	-4.853056	0.239687	-20.24746	0.0000
IN(-3)	3.214408	0.245069	13.11636	0.0000
IN(-4)	-0.856532	0.090608	-9.453124	0.0000
T	-1.69E-05	7.62E-06	-2.223441	0.0306
R-squared	0.999607	Adjusted R-squared		**0.999532**
F-statistic	**13287.82**	**Durbin-Watson stat**		**1.637871**
Prob(F-statistic)	**0.000**			

Source: Prepared by the researcher based on the outputs of the Eviews10 program.

From the outputs of the program and according to the results in table (3), the high explanatory power of the independent variable and its impact on investment is evident, the value of (0.999607 R2=), meaning that the independent variable represented by taxes t in the estimated model explains 99% of the changes in investment in Iraq, while the predictive power of the Adjusted R-squared value test) (0.99), and considering

Journal of Ecohumanism
2024
Volume: 3, No: 8, pp. 10095 – 10115
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
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the significance of the estimated model as a whole through the calculated F-statistic value test, it amounted to (13287.82), which is significant due to the Prob(F-statistic) value of 0.000, which is less than 0.05, thus judging the significance of the model, and therefore we accept the alternative hypothesis and reject the null hypothesis. As for testing the existence of the co-integration relationship, it indicated the existence of a long-term equilibrium relationship through the Bounds Test, which is shown in the table below:

Table 4. Bounds Test for the Investment Function

Test Statistic	**Value**	**K**
F-statistic	4.472262	1
Significance	**I0 Bound**	**I1 Bound**
10%	4.04	4.78
5%	4.94	5.73
2.5%	5.77	6.68
1%	6.84	7.84

Source: Prepared by the researcher based on the outputs of the Eviews program. 10.

From the results of table (4), we note that the calculated F-Stat value amounted to (4.472262), which is greater than the minimum value of (4.04) at a significant level (1%), so we reject the null hypothesis and accept the alternative hypothesis that there is a cointegration relationship in the long run between the independent variable (taxes) and the dependent variable (investment). To detect the absence of the estimated model from the issue of autocorrelation, we resort to the Breusch-Godfrey Serial Correlation LM Test, so after performing the test, the following results were obtained:

Table 5. Serial Correlation Test and Heterogeneity of Variance for Investment

Breusch-Godfrey Serial Correlation LM Test			
F- statistic	1.229690	Prop . F	0.3012
Obs*R-squared	2.724180	Prob. Chi-Square	0.2561
Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	1.545904	Prob. F(6,5)	0.1923
Obs*R-squared	7.501894	Prob. Chi-Square(6)	0.1859
Scaled explained SS	8.659965	Prob. Chi-Square(6)	0.1234

Source: Prepared by the researcher based on the outputs of the Eviews program. 10.

It is clear from the data of table (5) that the value of (Prop. F) amounted to (1.229690) and the value of (Prob. Chi-Square) amounted to (0. This indicates that the model is devoid of serial correlation, so we reject the alternative hypothesis and accept the null hypothesis that there is no serial correlation between the variables. As for detecting the issue of heterogeneity instability, through Table (5), it is clear that the model is free from the issue of variance heterogeneity instability because the statistical variables are insignificant, so we accept the null hypothesis and reject the alternative hypothesis. To test the structural stability of the parameters of the estimated model, the CUSUM test (CUSUM,[CUSUM Squares) shown in the following figure can be used:

Journal of Ecohumanism
2024
Volume: 3, No: 8, pp. 10095 – 10115
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
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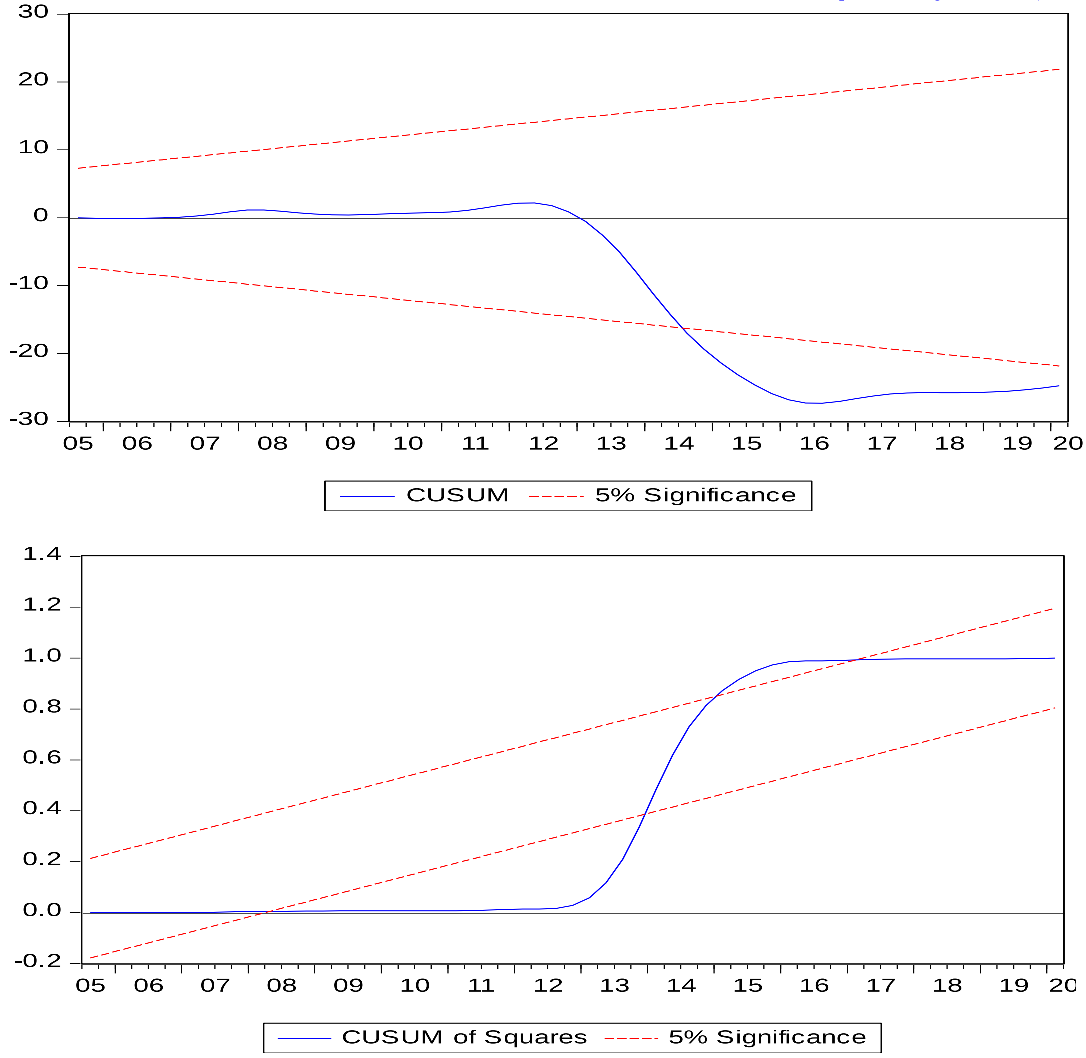

Figure 1. Stability of the Estimated Model for the Variables

Source: Prepared by the researcher based on the output of the statistical program E-Views 10.

Figure (1) indicates that the cumulative sum of the residuals is within the limits of critical values at the 5% significance level, which indicates the stability of the estimated parameters.

Regarding the error correction model test, which is one of the most important tests to detect the correction of deviations from the short term to the long term, as it depends on the error correction parameter CointEq(-1), which in turn must be negative and significant, and in light of the analysis and reaching the following results:

Table 6. The Results of the Error Correction Model for the Short-Term and Long-Term Relationship Between the Variables

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(IN(-1))	2.495179	0.084712	29.454715	0.0000
D(IN(-2))	-2.357876	0.156474	-15.068762	0.0000
D(IN(-3))	0.856532	0.090608	9.453124	0.0000
D(T)	-0.000017	0.000008	-2.223441	0.0306
CointEq(-1)	-0.010187	0.003210	-3.173103	0.0026

Journal of Ecohumanism
2024
Volume: 3, No: 8, pp. 10095 – 10115
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v3i8.5620

Source: Prepared by the researcher based on the output of the Eviews 10 program.

From the results of table (6), it is clear that all the parameters of the independent variables have a positive effect on the dependent variable, as they were significant according to the probability (Prob), while the error correction parameters amounted to (-0.010187) CointEq(-1) at 5% significance level, which indicates that the deviations in the short term are corrected towards the long-term equilibrium value in the same year, but the speed of adjustment is relatively high, so we accept the alternative hypothesis indicating the existence of a long-term relationship between the variables and reject the null hypothesis.

Thus, there is an inverse relationship between taxes and investment, which requires amendments to the tax laws to attract investment in Iraq.

Confirmatory factor analysis of the investment variable under the development of taxation in Iraq:

The variable of investment under the development of taxes in Iraq was measured through (7) paragraphs, so it is clear from Figure (2) that all indicators of the quality of conformity of the variable of investment under the development of taxes in Iraq and by comparing the indicators of quality of conformity shown in Figure (2) the validity of the assumption that (10) statements measure the structure of the variable (investment under the development of taxes in Iraq) and in light of the regression weights can judge the veracity of the statement because its value is greater than (0. 40) shown on the arrows that link the latent variables with each of the paragraphs of the scale, which showed that all indicators were acceptable, as all the standardized bifurcations of the variables of investment under the development of taxes in Iraq have exceeded the threshold (40 0.).

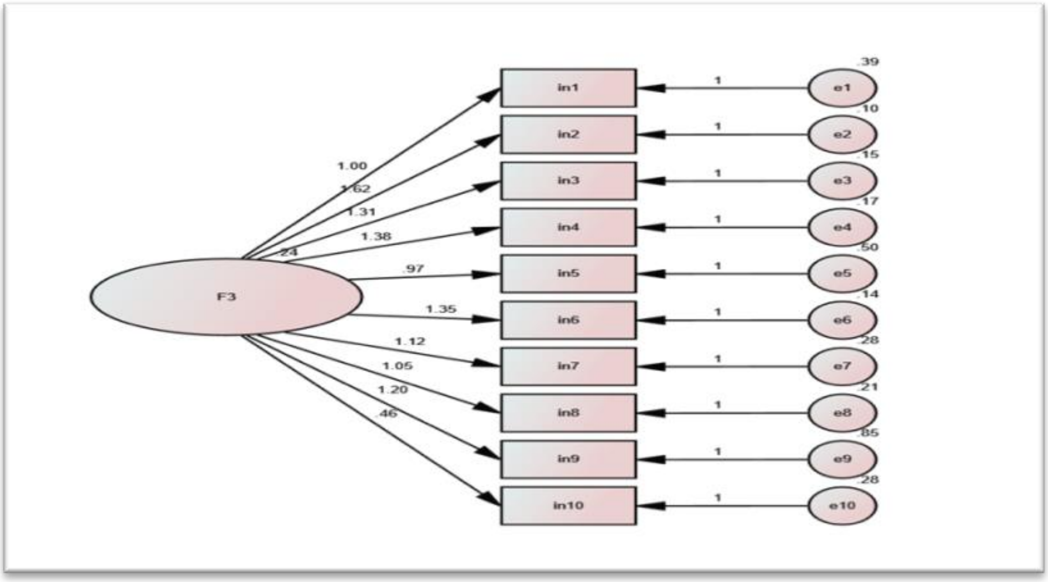

Figure (2). Structural Equation Model (Factor Analysis) for the Investment Variable Under the Development of Taxation in Iraq

Source: Prepared by the researcher based on the outputs of the AMOS v.24 program.)

Table (7). The Results of the Factor Analysis of the Variable Investment Under the Development of Taxation in Iraq

Axis paragraphs	Direction	Arithmetic mean of the axis	Estimate	S.E.	C.R.	P
in1	<---	F3	1.000			
in2	<---	F3	1.617	.176	9.208	***
in3	<---	F3	1.312	.150	8.734	***

Journal of Ecohumanism
2024
Volume: 3, No: 8, pp. 10095 – 10115
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v3i8.5620

Axis paragraphs	Direction	Arithmetic mean of the axis	Estimate	S.E.	C.R.	P
in4	<---	F3	1.380	.158	8.714	***
in5	<---	F3	.972	.154	6.300	***
in6	<---	F3	1.351	.153	8.847	***
in7	<---	F3	1.119	.145	7.707	***
in8	<---	F3	1.051	.133	7.914	***
in9	<---	F3	1.204	.197	6.123	***
in10	<---	F3	.464	.099	4.687	***

Source: Prepared by the researcher based on the outputs of the AMOS v.24 program.)

Descriptive Analysis of The Field of Investment Realization in Iraq

Table No. (8) represents a statistical description represented by the arithmetic means, standard deviations, response level and importance of the third area of investment realization in Iraq, which consists of (10) indicators, as the total arithmetic mean for this indicator (3.6106) with a standard deviation (0.86247), this indicates that the study sample members' agreement on the importance of this axis.

Paragraph (1), which refers to (achieving tax justice through the development of taxation and the tax accounting process will be an incentive for investors to invest in Iraq). (4.8938) and a standard deviation of (0.36509), which shows the harmony of the research sample's answers towards this paragraph and within the level of response “very high”.

Paragraph (8), which refers to (working to raise the efficiency of workers in the tax administration will contribute to raising the quality of the tax accounting process and thus achieve taxpayer satisfaction and investment), obtained the lowest arithmetic mean of (3.2125) and a standard deviation of (1.30016) This indicates the consistency of the answers of the study sample, and although this paragraph obtained the lowest arithmetic mean, it still has a moderate level of answers according to the answers of the sample members.

Table 8. Descriptive Analysis of Investment Realization in Iraq

S	Paragraphs	Arithmetic mean	Standard deviation	Answer level	relative importance
1	Achieving tax justice through developing taxes and the tax accounting process will provide an incentive for investors to invest in Iraq.	4.8938	0.36509	high	**1**
2	The interest of the tax legislator in environmental taxes for the purpose of protecting the environment and achieving sustainable development will contribute to attracting investors interested in the environment and sustainable development.	3.275	1.28831	high	**9**
3	Developing the administrative work in the General Tax Authority and its branches will contribute to achieving taxpayer satisfaction, which will result in providing a tax system that is attractive to investment.	3.6	1.19853	high	**3**
4	Tax accounting based on adopting an electronic tax accounting system will contribute to attracting investment and encouraging citizens to invest.	3.4375	1.30643	high	**6**

Journal of Ecohumanism
2024
Volume: 3, No: 8, pp. 10095 – 10115
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v3i8.5620

5	The adoption of unified taxes will contribute to reducing the monotony in tax work and thus will constitute an incentive to attract investment.	3.4688	1.19181	high	**5**
6	Imposing progressive tax rates under the unified tax reduces the tax burden and thus has a positive impact on achieving investment.	3.3375	1.25837	high	**7**
7	Signing more agreements to prevent double taxation will effectively contribute to achieving investment.	3.5813	1.25127	high	**4**
8	Working to raise the efficiency of tax administration employees will contribute to raising the quality of the tax accounting process and thus achieving taxpayer satisfaction and investment.	3.2125	1.30016	too high	**10**
9	Working to unify the exemptions and allowances related to investment in one law will contribute to increasing investment.	3.2875	1.23567	high	**8**
10	The adoption of the tax administration on international standards for preparing financial reports and tax standards will contribute to achieving investment.	4.0125	0.53773	high	**2**
	For every dimension	**3.6106**	**0.86247**	**high**	

Source: Prepared by the researcher based on the results of SPSS v.26

Hypothesis Testing and Discussion of Results

Hypothesis testing is the core of the research work, so this research includes testing the main and sub-hypotheses of the study and analyzing and interpreting its results through the nature and level of direct influence relationships between the variables, in light of the responses of the sample members at the level of public sector banks in the study sample.

Testing the study hypotheses

The simplified linear test was used to identify the results shown below.

Testing the main hypothesis:

Table 9. Testing The Main Hypothesis

Reducing fraudulent accounting practices	B	(t)	Significance	R	R2	F value	Significance
Fixed	2.653	4.727	0	0.615	0.468	2.954	0.008
Investment	0.248	1.719	0.008				

Source: Prepared by the researcher based on the results of SPSS v.26.

The above table indicates that the probability value for testing the significance of model F is less than the significance level of 0.05, where sig=0.000. It is also noted that the Pearson correlation coefficient is 0.615, which means that there is a direct relationship, meaning that the development of taxes in Iraq will lead to increased investment in Iraq, as this relationship is characterized by strength. The coefficient of determination is 0.468, meaning that the independent variable representing tax developments in Iraq can explain 46% of the variance in investment. It also shows that there is a statistically significant effect of tax development in improving investment in Iraq, and that this effect is direct, as every one degree increase in

Journal of Ecohumanism
2024
Volume: 3, No: 8, pp. 10095 – 10115
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v3i8.5620

tax development leads to a 0.248 degree increase in improving investment in Iraq. From the above, the null hypothesis is rejected and the alternative hypothesis is accepted:

There is a statistically significant effect of tax development on investment improvement in Iraq. From the above, the relationship between the variables can be represented as follows:

IN = 2.653+0 .2480*t + e

where:

IN: IN

t: Iraq's tax development requirements.

e: Other factors controlling the dependent variable.

It can be said that any change of (1) in tax development will affect the realization of investment in Iraq.

Secondly: Discussion of hypothesis testing results

The results of the correlation test between internal audit and bank loan default reduction procedures and the variables of technology and financial inclusion can be shown through the table below

Table (10). Summary of the Results of the Main Hypotheses Test

Main	Hypothesis No	Type of Association	Significance Level	Result
1	There is a statistically significant relationship between tax development and increased investment in Iraq.	**positive**	Moral at 5% level	**acceptance**

The results of the study are consistent with the study of (Al-Baaj, 2005) which indicated that the tax policy in Iraq was characterized by a large number of exemptions, as well as the dependence of customs taxes on the import tax very heavily, as it is often considered the backbone of the customs tax compared to the export tax and transit trade tax (transit). The weak tax awareness of the citizen towards understanding the role of the tax, which led to its weak effectiveness in achieving the objectives of the tax policy and the lack of materialization of the national dimension of the tax and the perception of it as a mere money collection process, despite the fact that the basis on which it is imposed is based on the concept of social solidarity. As the study agrees with the study of (Alwan, 2006), which indicated that the tax policy in Iraq is characterized by a low level of its performance in economic and tax reform, and found poor coordination with the country's financial and economic policies and the inflexibility of the tax law in interacting with new developments and developments, as its role was mainly limited to achieving the maximum possible tax revenue due to several factors, including external factors related to the nature of the previous political regime and the nature of the general situation and political, security and economic instability at the present time, and internal factors related to imbalances related to the development of human resources. This study agrees with the study of (Al-Douri, 2009) and (Zeidan, 2012), which indicated that the relative importance of The Iraqi public budget relies heavily on oil revenues to finance both direct and indirect taxes, and the Iraqi public budget relies heavily on oil revenues to finance public expenditures. The tax reality in Iraq is low, inflexible, and does not meet the specifications of a good tax system. The existence of untapped tax potential, i.e. the possibility of imposing new taxes in Iraq, as well as the low tax burden. The study also agrees with the study of (Abu Abdullah, 2017) and (Nirman and Abdul Razzaq, 2020), which indicated that there is a direct relationship between the general budget balance and regular tax revenues, as the balance responds with a two-year delay in the collection of tax revenues in the short term after making developments in the tax system.

Journal of Ecohumanism
2024
Volume: 3, No: 8, pp. 10095 – 10115
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v3i8.5620

The study agrees with the study of (Abbas, 2018), which indicated a direct relationship between taxes and revenues, as it showed that an increase in tax revenues by one unit leads to an increase in public revenues by 0.55. The study also agrees with the study (2018) (Shahzadet all: which indicated that indirect taxes have a negative impact on economic growth in the long run while their short-run coefficients were insignificant. Due to the increase in indirect taxes as well as the study's agreement with. Yanikkaya et all (2018): The results of the study support the idea that the overall tax rate or changes in the tax structure have a significant impact on the growth rate. The shift from consumption and property taxes to income taxes has a positive effect on the growth rate in low-income countries.

Conclusion

This thesis dealt with the impact of the tax system on investment promotion, and given the development in this topic, whether by academic theoretical research or applied research and professional experiences of tax departments, we have tried to address the most important and latest literature in this field, namely the development of the tax system and what are the basic proposals for it, but the effective application of the tax system requires that the institutions that intend to adopt it provide many requirements and conditions necessary to ensure efficiency in its application, in other words, there is a set of basic requirements that tax institutions are obligated to provide and the most important theoretical concepts and related terms.

In the theoretical aspect, the researcher tried to highlight the most important theoretical concepts and related terms, taking into account the most important schools and theories that dealt with these concepts in different descriptions. The researcher also addressed in this work the previous studies that were more in line with the objectives of this topic, and we followed a methodology based on the methodology between the thesis and the antithesis of the thesis. For this purpose, the researcher followed an authorial style in order to realize the importance of these studies to the research topic.

On the other hand, the researcher was able to conduct a theoretical analysis, which ended with the identification of the prerequisites and conditions necessary for the effective application of the tax system, and we were able to derive and develop research hypotheses related to the impact of the development of the tax system on investment promotion. For this purpose, we were able to derive (2) main hypotheses, through which we crystallized the achievement of the theoretical aspect. On the other hand, the scientific research methodology that we adopted, which is based on the deductive methodology, requires us, after completing and concluding the theoretical research, to conduct practical field research to verify the research hypotheses with the actual reality of tax institutions in Iraq by relying on the annual reports issued by the Ministry of Finance and the General Authority for Taxation, the subject of the research. This aspect is also considered very important, through which we can obtain results that are of scientific and moral benefit to the beneficiaries of the study.

The researcher has tried to follow a scientific methodology based on the need to respect the methodological and protocol requirements for any scientific achievement.

researcher devoted a paragraph to the practical aspect of this study, where it dealt with the methodological aspects of the research, by explaining the methodological approach in everything related to the methods of determining the nature of the scientific path of the research, and for this purpose, the researcher analyzed the reality of foreign direct investment in Iraq and then measured the impact of taxes on investment, and in order to be able to obtain reliable and honest results that reflect the reality and the studied society, the researcher used panel data to extract the results of the data obtained from the records and financial reports published by the Central Bank, The researcher discussed the proposed model for tax development in Iraq and its impact on encouraging investment, and the researcher highlighted how these variables were measured. The researcher also emphasized the source of the data collected through the questionnaire, as well as conducting tests of validity, reliability, and normal distribution of the measurement tool, At the end of the chapter, the hypotheses are tested, the results are discussed, and finally the conclusions and recommendations are reached. In this study, the researcher followed the descriptive analytical method necessary to achieve the goal of the study, this method is considered one of the forms of scientific analysis

Journal of Ecohumanism
2024
Volume: 3, No: 8, pp. 10095 – 10115
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v3i8.5620

and interpretation organized to describe and quantitatively portray the studied phenomenon or issue by collecting data and information related to that phenomenon and then analyzing it, classifying it and subjecting it to accurate study, this method starts with the issue and then sets hypotheses for it and then collects information about it, as for in-depth statistics, the linear and multiple regression equation was used to test the correlation and influence relationship between independent and dependent variables of the research.

The results achieved after applying the multiple linear regression model were in favor of the hypotheses developed for this research and therefore it can be said that these hypotheses have achieved success in obtaining the necessary and sufficient support to prove them in the study population. Based on the results of the previous analyses and the testing of the research hypotheses, the following findings were reached. As this study extracted the relationship between the development of taxation in Iraq and investment, the sample data provided convincing evidence to reject the null hypothesis and accept the alternative hypothesis that there is a statistically significant effect: There is a statistically significant effect of tax development in improving investment in Iraq. That is, there is a direct relationship, meaning that the development of taxes in Iraq will lead to an increase in investment, as this relationship is characterized by strength. In other words, the independent variable representing tax developments in Iraq can explain 46% of the variation in investment. It is also clear that there is a statistically significant effect of tax development in improving investment in Iraq, and that this effect is direct, as every one-degree increase in tax development leads to a 0.248 degree increase in investment in Iraq. These results were also discussed and compared with the findings of previous studies in terms of agreement or disagreement in the results. Through the findings, there are a number of recommendations that the researcher focused on, namely the need to address the deficiencies in the laws and legislations that relate to the development of the tax system The researcher also recommended that the bodies that develop laws, regulations, rules and instructions should form local committees through which they follow up on the work of the tax departments, in line with the laws, rules and instructions, and work to encourage these departments and bodies to adhere to the application of laws and legislation. It should also be noted that imposing and collecting taxes requires an effective and efficient system that helps in achieving the desired goals related to improving revenues and encouraging investment as well as financing the state's general budget, noting that there is a close relationship between the development of the tax system, tax revenues and financing the state's general budget as a result of the ability of this system to achieve the required goals. The researcher also recommended the need to work on the development of well-drafted tax legislation that ensures the avoidance of loopholes that taxpayers implement in order to increase tax revenues. The researcher also recommended the necessity of spreading tax awareness through various media outlets and holding seminars for citizens to familiarize them with the objectives of taxation and its role in supporting the state budget and encouraging investment. Finally, the researcher recommended that the tax system should be taught in the accounting curricula of all higher educational levels to increase awareness and full realization of the importance of this approach in order to promote the principle of full transparency, which seeks to obtain maximum credibility and reliability in state budgets. In conclusion, the researcher indicates the possibility of conducting future studies related to studying the behavior of tax departments and what is the impact of taxation on social responsibility and sustainability, in order to raise the challenges in the era of globalization and digitization. On the other hand, an analytical study can be conducted in which the intermediate variables approach is adopted in the relationship between the tax system and the public budget by adopting the application of international financial reporting standards, and what is its reflection on the value of tax institutions in the Iraqi environment.

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