

Impact of IFRS 15 Adoption on Corporate Income Taxes: Evidence from Iraqi Contracting Companies

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Abstract: This study investigates the impact of IFRS 15 adoption on corporate income tax in Iraqi contracting companies. It examines how changes in revenue recognition influence taxable income compared to the Iraqi unified accounting system. The analysis is based on financial data from a sample of private contracting firms over the period 2019–2022. A comparative approach is employed to evaluate differences in tax amounts under traditional accounting and IFRS 15, while a paired t-test is used to assess statistical significance. The findings indicate that the adoption of IFRS 15 leads to significant changes in revenue measurement and, consequently, corporate income tax liabilities. The results show an overall increase in total tax amounts under IFRS 15 amounting to 242,633,765, driven by differences in the timing and measurement of revenue recognition under the performance obligations model. The t-test confirms that these differences are statistically significant at the 5% level ($p = 0.041$). The study provides empirical evidence on the tax implications of IFRS 15 in an emerging economy and highlights the importance of aligning accounting standards with tax regulations to ensure consistency, transparency, and improved financial reporting quality.

1 INTRODUCTION

Revenue is a fundamental element in financial reporting and has received significant attention from accounting standard-setting bodies. One of the most important developments in this area is IFRS 15 Revenue from Contracts with Customers, which was issued in 2014 and became effective in 2018. This standard provides a comprehensive framework for revenue recognition, measurement, and disclosure based on the transfer of control and the fulfillment of performance obligations [3].

The adoption of IFRS 15 represents a substantial shift from traditional accounting practices, particularly in contracting activities, where revenue recognition plays a critical role in determining financial performance. Since taxable income is derived from accounting income, any changes in revenue recognition rules may lead to significant differences in corporate income tax [4]. This is especially relevant in the Iraqi context, where local accounting standards, such as Iraqi Accounting Rule No. (1), may differ from international requirements [6].

Accordingly, the research problem is defined as whether the adoption of IFRS 15 leads to changes in corporate income tax compared to traditional Iraqi accounting standards. Differences in recognition timing and measurement bases may result in variations in taxable income and, consequently, tax liabilities. Therefore, it is essential to evaluate the implications of IFRS 15 adoption for income tax calculations and compliance with applicable tax regulations.

The study aims to analyze the theoretical and practical aspects of revenue recognition under both IFRS 15 and Iraqi accounting standards, with a focus on contracting companies. It further seeks to assess the impact of these differences on income tax amounts and to determine whether statistically significant variations exist between the two approaches.

This research contributes to the existing literature by providing empirical evidence on the tax implications of IFRS 15 adoption in an emerging economy. It also offers practical insights for policymakers and practitioners regarding the alignment between accounting standards and tax systems, which is essential for enhancing

transparency, consistency, and the quality of financial reporting. Ultimately, improving this alignment supports more accurate tax assessment and contributes to economic stability and sustainable development.

2 CONCEPTUAL FRAMEWORK

2.1 The Concept of Revenue

The interest of accounting councils in the revenue element arises as it constitutes one of the essential components in the accounts of economic units. Revenue represents an economic unit's total money from selling goods and providing services. Revenue is "the economic benefits recognized during the accounting cycle through an increase in assets or a decrease in liabilities within the financial period, typically one year." As delineated by IAS 18, revenue is "the gross inflow of economic benefits resulting from the routine activities of an enterprise, leading to an augmentation of equity, excluding increases derived from contributions by equity participants during the financial year." This standard stipulates that revenue encompasses only the cash inflows from economic benefits received or receivable by the economic entity for its accounting purposes. Nonetheless, if the gathered sums are for a third party, they do not signify economic gains pertinent to the economic unit, and no enhancement in equity is achieved from them [1]. Sources of revenue: The economic unit generates revenue from multiple sources [2]:

- 1) Revenue from the sale of goods. This source arises from the economic unit selling finished goods or goods and assets purchased for trading purposes.
- 2) Revenue from services. This is obtained from providing services to other entities over one or more periods.
- 3) Revenue from leasing assets to others. This refers to the amounts collected from leasing the assets owned by the economic unit to others, such as fixed assets and intangible assets, or owning shares in other economic units, which generates profits.
- 4) Tax revenues. This refers to the amounts imposed by law by the state and must be paid obligatorily by the entities liable for payment, representing a source of public revenue for the state. Examples include taxes, customs duties, fees, tariffs, and financial stamps.

Despite their existence, these publications are no longer compliant with the revenue recognition requirements due to certain deficiencies. To be suitable for applicability, they must be amended. FASB and the IASB have commenced the process of submitting a collaborative draft that will rectify the deficiencies. This aims to guarantee that accounting information is equipped to satisfy consumers' needs in various markets. The standard IFRS 15, which was formally known as "Revenue from Contracts with Customers," is scheduled for implementation in early 2018 [3]. IFRS 15 defines revenue as "income arising in the normal course of activities of an economic unit." [4]. Define the rise in economic advantages within the fiscal period of a financial entity due to an increase in assets or a decrease in liabilities, thereby causing a growth in property rights [5].

2.2 Revenue Recognition

According to the accounting principles and standards in Iraq, revenue disclosure is when an entity has clear and measurable evidence of future economic benefits based on either an increase in assets or a decrease in liabilities [6]. Disclosing the increase in assets or the settlement of liabilities is a condition that must be met to complete the revenue recognition process in its actual records. International financial reporting standards, including IFRS 15, generally adopt a detailed framework based on specific tasks. Although Iraqi accounting standards are based on the same global principles and concepts, they include additional details regarding local activities. For example, long-term construction contracts require entities to use the "work in progress" principle to measure current costs and revenues at the end of each period. Additionally, work in progress is evaluated at its cost or expected net value, with the option to use the completion percentage or completed contracts method, depending on the degree of certainty of project outcomes [7].

2.2.1 Iraqi Accounting Principles

Revenue recognition under Iraqi accounting standards, particularly Accounting Rule No. (1), is based on the realization principle and the matching of revenues with costs over the project lifecycle. In contracting activities, revenue is recognized through formal documentation, such as initial receipt reports, which confirm the completion of specific stages of work.

In addition, the work-in-progress method is used to measure ongoing contract activities. Uncompleted work is treated as inventory and measured at cost, ensuring consistency and reliability in financial

reporting. Revenues are typically recognized using either the percentage-of-completion method or the completed-contract method, depending on the degree of certainty regarding project outcomes [7].

This approach aims to ensure transparency and consistency between revenues and expenses while reflecting the actual performance of projects during the accounting period.

2.2.2 Revenue Recognition According to IFRS 15

According to IFRS 15, revenue recognition is based on a structured five-step model [8]. The first step involves identifying the contract with the customer, ensuring that all contractual criteria are satisfied. The second step requires the identification of performance obligations, which represent distinct goods or services promised to the customer. A performance obligation is considered distinct if the customer can benefit from it individually and if it is separately identifiable within the contract [8].

The third step is the determination of the transaction price, defined as the amount of consideration an entity expects to receive in exchange for transferring goods or services. This estimation should account for variable consideration, financing components, non-cash consideration, and any payments made to the customer [8].

The fourth step involves allocating the transaction price to each performance obligation based on their relative standalone selling prices. This ensures that revenue reflects the value of each obligation fulfilled [8].

Finally, revenue is recognized when (or as) the entity satisfies a performance obligation by transferring control of the promised goods or services to the customer, either over time or at a specific point in time [8].

2.3 Income Tax

The government of any country bears enormous responsibilities that are greatly affected by the income it generates from various sources to finance its operations. One of these sources is taxes, which are essential for achieving and increasing national income. The primary goal of the tax system is to produce sufficient income to cover the government's basic expenses, represented by providing essential goods and providing. Services and infrastructure development are considered the most effective tools for improving the capabilities of the public sector and paying public expenses and debts. From this standpoint, it is possible to define many definitions of taxes according to the concepts related to them, the

entities responsible for paying them, and the entities responsible for collecting them. We present their specific definitions as follows: Taxes are "a mechanism or process in which society or a group of individuals contributes to paying an agreed-upon amount to develop, resolve and manage funds and distribute them to members of society." [9].

Defined it as "a specific cash amount paid by members of society in a particular country by legal foundations and legislation to the government to support economic, social, political and financial development in the country to feed public revenues to cover the state's public expenditures." [10]. Taxes achieve a set of goals that serve the public good of the state, which are:

- 1) Financial objectives. - The primary aim of the tax is to finance the state's public treasury with amounts to cover the public expenses.
- 2) Economic objectives. This means the state's ability to achieve economic stability, which is achieved by addressing the phenomena of inflation and deflation that a country's economy may be exposed [11].
- 3) Social goals. This means resorting to taxes to redistribute income and wealth in society, reducing the consumption of harmful and unwanted goods to achieve balance and stability in society [12].
- 4) Political objectives. To reduce disparities between incomes, the state uses taxes as a treatment tool by either imposing them on taxpayers in a progressive manner, setting the maximum income limit, and transferring amounts from taxpayers to the state, as well as additional duties and taxes on import operations coming from countries that are politically inconsistent with it, and conducting the opposite is true with friendly countries.

2.4 Tax Accounting Programs

Tax accounting is the specialized tool through which tax legislation procedures are applied in a country issued by the tax administration by its tax law. It represents the economic and tax policy requirements used in this country. It is the essential stage for examining accounts by reviewing records and documents to determine the amount to be paid. Tax accounting is the process of examining accounts, reviewing records and documents, and determining the taxable amount based on the nature of the taxpayer's activity and the applicable taxable material, in accordance with the provisions of the tax legislation in force [13].

2.5 Tax Accounting on Sources of Income According to Iraqi Law

Iraqi law has established, by the Tax Law, the tax base for the incomes that are taxed according to the following:

- 1) Profits resulting from the commercial activities of companies, factories, and professions.
- 2) Interest and commissions for trading in stocks and bonds.
- 3) Rental allowance resulting from agricultural lands.
- 4) Incomes of employees, retirees, workers' wages, and incomes covered by exemptions and allowances.
- 5) Other sources of income that have not been exempted or are not subject to any tax legislation in Iraq.

3 DATA AND HYPOTHESIS

3.1 Hypothesis

The research is based on the tax implications that are altered when implementing the revenue recognition criteria outlined in the IFRS 15 standard instead of adhering to the guidelines outlined in the Iraqi unified accounting system. The analysis conducted on the corporate income tax of the research sample before and after the implementation of IFRS 15 reveals noteworthy statistical variances.

3.2 Sample and Data

The study population was delineated as all privately operated enterprises in the services sector participating in contractual activities in the Iraqi market. The sample of these firms was limited to the assessment of their financial statements and reports for the years 2019, 2020, 2021, and 2022:

- 1) F Company. G. General Contracting Limited Liability.
- 2) Company D. D. General Contracting Limited.
- 3) E Company. G. General Contracting Limited.
- 4) T Company. M General Contracting Limited.
- 5) T Company. S. General Contracting Limited.
- 6) E Company. D. General Contracting and Public Transport Ltd.
- 7) H Company. H. General Contracting Limited Liability.
- 8) V Company. S. General Contracting Limited.

- 9) H Company. U. General Contracting Limited Liability.
- 10) E Company. O. General Contracting Limited.

Thus, the number of observations became (40 observations), and for each company, four observations were extracted from the lists and financial reports for the four selected years. The model that applies the measurement of the differences between the averages for income tax, which are the traditional measurements and the IFRS 15 measurements, will be followed by using the (T) test according to (1):

$$t = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}}} \quad (1)$$

3.3 Comparison of Corporate Income Tax between Traditional Measurements and IFRS 15

Table 1 presents a comparison of corporate income taxes calculated under traditional Iraqi accounting measurements and IFRS 15 measurements for the ten selected contracting companies over the period 2019–2022. The results clearly indicate that tax amounts differ between the two approaches. These differences arise primarily from changes in the timing and amounts of recognized revenues. In some cases, companies reported higher revenues under IFRS 15; however, their tax liabilities decreased due to the recognition of a larger portion of current expenses - specifically, amounts paid to complete contracted work - in the same period. This adjustment affects net taxable income accordingly. Overall, the aggregate tax amounts calculated under IFRS 15 exceed those under traditional measurements by IQD 242,633,765, confirming that the adoption of IFRS 15 results in a higher total tax burden for the companies in the research sample.

Figure 1 illustrates the comparison between income taxes calculated under traditional measurements and IFRS 15 for the research sample companies during the study period. Based on the findings presented in Table 1, Hypothesis H1 - which states that tax amounts change when revenue is recognized in accordance with IFRS 15 compared to the Iraqi unified accounting system - is accepted. The difference between the two approaches (Traditional – IFRS 15) amounts to IQD –242,633,765, reflecting an aggregate increase of IQD 242,633,765 in tax

liabilities under IFRS 15 compared to traditional measurements.

This outcome results from differences in the timing and amounts of revenues recognized under the IFRS 15 five-step model compared to those recognized under Iraqi Accounting Rule No. (1).

3.4 Paired t-Test Analysis of Surplus Before and After the Adoption of IFRS 15

Table 2 presents the results of the paired t-test applied to examine the statistical significance of differences

in corporate income tax between traditional and IFRS 15 measurements. The calculated t-value (1.950) exceeds the tabulated t-value (1.833) at a significance level of 0.05. Accordingly, the null hypothesis H0 - which states that there are no statistically significant differences in corporate income tax before and after the adoption of IFRS 15 - is rejected. The alternative hypothesis H1 - confirming the existence of statistically significant differences (p = 0.041) at a 95% confidence level - is accepted. These results provide empirical support for the conclusion that the adoption of IFRS 15 significantly affects corporate income tax liabilities in Iraqi contracting companies.

Table 1: Tax comparison between conventional and IFRS 15 measurements for the research sample companies.

No.	Company	Traditional measurements	IFRS 15 measurements	Difference
1	F. G. General Contracting Limited Liability	162,592,096	62,307,493	100,284,603
2	D. D. General Contracting Ltd.	67,927,116	56,532,618	11,394,498
3	E. G. General Contracting Ltd.	717,982,662	744,930,762	-26,948,100
4	T. M. General Contracting Ltd.	258,145,554	475,993,420	-217,847,866
5	T. S. General Contracting Ltd.	0	98,317,075	-98,317,075
6	E. D. General Contracting & Public Transport Ltd.	158,040,967	91,626,466	66,414,501
7	H. H. General Contracting Limited Liability	14,257,005	21,494,505	-7,237,500
8	V. S. General Contracting Ltd.	13,642,647	13,642,349	298
9	H. U. General Contracting Limited Liability	119,507,747	127,752,996	-8,245,249
10	E. O. General Contracting Ltd.	11,218,245	73,350,120	-62,131,875
	Total	1,523,314,039	1,765,947,804	-242,633,765

Comparison of tax between traditional measurements and IFRS 15 measurements

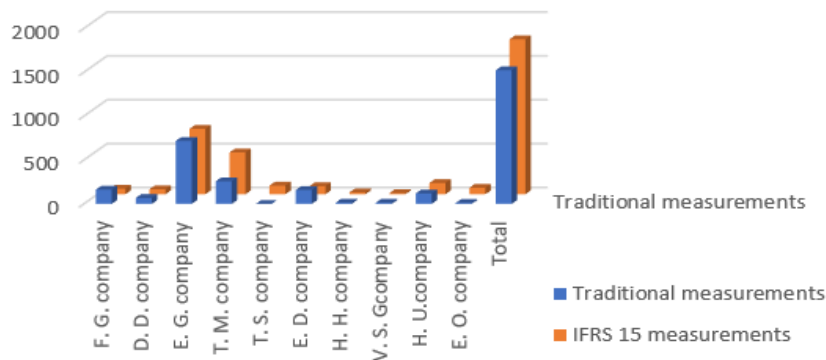


Figure 1: The comparison between traditional measurements and IFRS 15 standard measurements justify.

Table 2: Results of the T-test for the differences between income tax before and after the application of the standard.

Variable	Average	Difference between averages (X2b – X2a)	T value	Significance level P	Total
Tax according to conventional measurements (X2b)	152,331,403.9	(24,263,376.5)	Calculated * 1.950	0.041	The presence of differences
Tax according to IFRS 15 (X2a) measurements	176,594,780.4		Tabular 1.833		

4 CONCLUSIONS

The study concludes that the application of IFRS 15 has a significant impact on the measurement and recognition of revenues and, consequently, on tax outcomes. The standard enhances transparency by requiring entities to recognize revenues based on actual performance obligations, which leads to clearer identification of taxable income and more accurate reflection of financial performance. The findings show that applying IFRS 15 results in noticeable changes in reported revenues, tax bases, and deferred taxes, particularly in contracting companies, as revenues are recognized according to completion rates rather than upon project completion. This approach improves the reliability of financial reporting, aligns accounting income with economic reality, and supports better assessment of tax obligations. Overall, the adoption of IFRS 15 contributes to improved financial discipline, higher-quality reporting, and more realistic measurement of income and taxes.

Based on the study findings, it is recommended that Iraq continue aligning its accounting and tax systems with IFRS 15 by updating laws, regulations, and accounting frameworks to ensure consistency with international standards. Adopting IFRS 15 enhances tax revenues, supports economic stability, and enables companies to better manage profits and expenses. Furthermore, implementing modern electronic tax systems that integrate with IFRS 15 requirements would improve efficiency, transparency, and compliance. Establishing digital tax accounts for taxpayers and strengthening coordination between tax authorities and contracting companies would facilitate accurate calculation of taxes, reduce disputes, and support sustainable economic development.

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