

Full Length Research Paper

Investigation of the effective factors in collection of occupation tax in Iran

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Occupation tax is assumed as one of the significant sources of tax collection for the revenue sources of the government. Due to this fact, this research attempts to investigate the effective factors in the collection of the occupation tax according to the auditors as well as the taxpayers of Iran, and so identify the weak points as well as the potentialities of this field of activity, and also to help the tax system to be more efficient. It should be mentioned here that the most important factors which are investigated in this study include the computerization of the tax system, self expression program, tax laws, the field of study of the auditors, the trust of the taxpayers and auditors for each other, and tax allocation per capita (Nakhjiri, 2000). In this regard, the most fundamental objective of this study is to identify and investigate the ideas and viewpoints of the taxpayers and auditors on the issues and factors that were described earlier.

Key words: Self expression program, tax allocation per capita, allocation officers.

INTRODUCTION

The tax system as a subsystem of the executive system includes components such as human resources (managers and other employees), organization, institutions, processes and procedures, regulations, as well as facilities and resources in an organic and reciprocal relation which guides the society towards its objectives and ideals. A thorough understanding of the tax system and the principles (norms) dominating that system, as well as the contextual and internal conditions of the system can help us explain its procedural objectives and strategies as and can also help us regulate executive programs and would provide the grounds for the improvement of the tax system (Nakhjiri, 2000). Today, due to the particular internal situation, as well as the international conditions of the Islamic Republic of Iran, the need for transforming the tax system of the country is felt more than ever and it is essential to regard it as one of the most essential programs of the development of the country, considering the role an appropriate and efficient tax system can play in executing the development plans.

An analysis of this issue and the outcomes of the first and second development program indicates that in order to provide the grounds for coming to a comparison and the public trust in the management of the economic

situation, as well as the financial policies at a macro level, the government needs to substantially revise its own view on the management and the issues and problems of the economical system and to clarify on its main advantages and disadvantages as well as the threats and opportunities of the domestic and international context. During the last decade, a special emphasis has been put on the financial policies appropriate for the economical development in the developing countries and among these, the attentions have been directed towards the tax policies as the main portion of the financial policies. In addition to the improvement of the tax revenues which can be obtained through an effective administration of taxation, another factor, which can strengthen the tax administration, is the inclination toward the income tax with an increasing rate, and the reasons for that can be investigated in the tax equity and the concept of the affordability as well as the increase of the income with an economical perception. If the tax auditors' field of study in tax assignment and determination; administration is not properly addressed in the tax policies, that is the tax assignment with regard to their results and consequences, the desired results can not be achieved; and the reception of new taxes as the compensation for the weaknesses and the failure in the existing tax

administration would distort the equity of the tax system.

So, maintaining a dynamic tax system in the process of economical improvement is considered as a significant factor in the elimination of wealth and redistribution of the revenues and finally directing the financial courses towards the required investments in the society (Arab, 1999). With the progress and improvement of culture, science and technology as well as the development of human societies in this age, the responsibilities of the government have also been developed and duties such as providing the healthcare, education, housing and welfare providing have also been added to them, and as a result tax collection ways have also been evolved, so that the developed countries are now equipped with an appropriate and advanced tax system which not only is able to establish the social justice it can also guarantee all essential economical and social objectives (Hamidi, 1999).

With regard to the government's financial policies which are based on the gradual departure of the economical reliance of the country on the economical monopoly, taxation can be regarded as one of the main revenue sources of the country which can provide a great portion of the government's expenditure. On the other hand, it is particularly essential for the tax policymakers to look for a sound and efficient tax system which can play an active role in the development and activation of several sectors of the society. Hence, the tax system's efficiency can be improved through the investigation and analysis of the effective factors in the tax collection; and on the other hand, this tax system can be made an effective system through the implementation of a sound management and an efficient and optimized utilization (Arman, 2000) of the sources on the other hand so the purposes of this study include:

- 1) The investigation and analysis of the ideas and opinions of the auditors and taxpayers on the tax penalties and punishments;
- 2) The investigation and analysis of the ideas and opinions of the auditors and taxpayers on the taxpayers' self-expression plan;
- 3) The investigation and analysis of the ideas and opinions of the auditors and taxpayers on the tax allocation per capita.
- 4) The investigation and analysis of the ideas and opinions of the auditors and taxpayers on the computerization of the tax system;
- 5) The investigation and analysis of the ideas and opinions of the auditors and taxpayers on the role of the
- 6) The investigation and analysis of the ideas and opinions of the auditors and taxpayers on the tax law.

The research questions are:

- 1) Do tax penalties influence the tax collection?
- 2) Would the taxpayers' self-expression plan result in the establishment of tax equity?

3) Is the per capita allocation of taxes by the auditors an appropriate basis for tax assignment?

4) Does computerization of the tax system facilitate the taxation process?

5) Does the auditors' field of study influence the tax assignment?

6) Is the current tax law responsive to the requirements in the taxation affairs?

METHODOLOGY

The purpose of choosing a research method is that the researcher defines what method and approach he/she takes in order to enable him/her come to the possible answer(s) as soon, fast and economical as possible (Naderi and Seif, 1999). The present study is a descriptive research and its purpose is to describe the properties of a subject matter in an exact, true and orderly manner. The descriptive data are usually collected through questionnaires, interviews with the experienced people, observation of the events, or the documentary analysis. In other word, in descriptive surveys, the researcher focuses on the investigation and definition of the ongoing situations and sets to measure what exists and not why it exists. A survey is implemented to reveal the ideas, perceptions and preferences of the individuals. The selected universe for this study included two groups of:

(A) The society of the auditors; which included all job evaluators who were employed in the western district of Tehran (West Tax Administration); totally 250 job evaluators were determined.

(B) Taxpayers society; which included all taxpayers working in the western district of Tehran.

A random sampling was chosen in this study for the sampling as well as the members. The concept of a simplified random sampling includes the sampling in which all components of the society have enjoyed an equal chance for being selected. In this study, the sample size was estimated by Kuchran formula through the consideration of several factors and the preliminary study of the statistical universe and adopting an appropriate potential accuracy and the reliance of 95%. The instruments used for the data collection in this study include questionnaire and library. The questionnaires applied which is prepared in concordance with the purposes of the study include a questionnaire with 20 closed questions for the auditors and another questionnaire for the taxpayers with 18 closed questions. The 5-graded scale of Likert was applied for the measurement of the frequencies.

To gather the information needed for the review of the literature and the history of the related studies, a library research was used through the application of computerized research, domestic and foreign researches related to the subject of this study. The administration and distribution of the questionnaires was carried out by going to the workplaces of the auditors and handing over the questionnaires to them. The presence of the researcher at the time of the distribution and completion of the questionnaires made it possible to clarify on the original subject of the study, its purposes and significance and the way of answering the questions. In this regard, due to the existence of 19 general auditors in the western districts of Tehran, the taxpayers' questionnaires was also handed to the auditors of the district and they were asked to present them to those occupation taxpayers who had a longer years of record and are much more aware of the issues and then to receive the questionnaires after being completed and return them to the researcher.

Accordingly, out of 157 questionnaires presented to the auditors, 150 were collected after leaving out the unfinished and incomplete questionnaires. The same number was gathered for the taxpayers.

The statistical analysis in this study was carried out at two descriptive and deductive levels. At the descriptive level, the frequency, percentage, average mean and standard deviation were used, and at the deductive level, the statistical tests were used as follows, as fits the basic data and assumptions:

- a) Binomial test;
- b) Chi Square test (χ^2);
- c) Mam-Whitney U test.

The processing tools for the data included the related softwares.

Review of literature

Prior to the twentieth century and the existence of the liberal thoughts (physiocrats and classics), the governments did not directly intervene with the economic affairs and their responsibilities of the governments only included the maintenance of the external and internal security and order and the establishment of the social justice. The scientists of economy following the school of the physiocrats and the classics believed in the no-interference in economical affairs from the part of the government. The foundations of the Classic school were established on the freedom in business, and through the acceptance of this principle the classics believed that the best governments are those who rule less. They believed that the force of competition, profit seeking, and the freedom of business would automatically lead the production and the distribution of the goods and services towards the complete balance and employment of the production agents. Unlike the physiocrats who believed in a natural system for the fulfillment of the social interests, the classic folk believed in following the individual and personal interests among the social interests.

With regard to the tragic experiences of the first half of the twentieth century and the ideas of the socialists and the modern scholars of the field of economy, such as Kines, on the inability of the capitalist system of economy in guaranteeing the highest level of economic and social welfare for the society, public finance along with the duties of the government and its significance as a leader for economy and the provision of welfare became so important for all people. The policy makers and economists spent many years to regulate and establish some principles for steering the financial policies. Colbert, one of the French politicians stated:

"the art of taxation is the same as the art of plucking a goose, that is to get the highest possible amount of feathers with the least amount of cries".

It should always be focused on how to assign a tax system, so that the economic efficiency would improve and the fair distribution of the revenues would be progressed. Generally speaking, a tax is often called a fair tax when the same tax is received from the people with the same affordability; and an efficient tax system is the one that its expenditures are at the minimum level. Pitro Very says:

"it should be borne in mind that it is the people who tolerate the tax burden".

In some tax laws, the institutions and companies are considered as people. But this is not true. According to the economists, people are the shareholders, workers, the lessor, and the consumer who bear the tax burden and a company cannot; and when the politicians say that "organizations should pay their share of the tax equity" it is not clear what they mean. A nation might be directed towards a decline or downfall in two ways based on the way it administers its taxes; the first happens when the level of taxes exceeds the affordability of the nation and does not conform to the public wealth, and the second occurs when the amount of the taxes conforms to the total

affordability of the nation; however, it is equally and fairly distributed among the nation. The traditional analysis of the tax systems has revealed many principles about taxation.

The taxes should enjoy both horizontal and vertical equity, should be impartial to the economical incentives, and be simple in administration of the affairs. One of the men who were truly after the establishment of a tax system with a definite horizontal equity was named Simon. He believed that the people with an equal level of income should pay an equal amount of money and at the same time should be ranked based on the principles of the vertical equity. Such a tax system required leaving out the other classes of taxes and only focusing on income taxes. Nicolas Caldor, the professor in Cambridge University strongly supports expenditure tax or consumption tax. He believes that it is consumption, and not the income that is to be considered as the basis and source for tax assignment, and that part of the income which is not consumed is added to the national wealth as a saving and would increase the total productive capacity. Jesus Honmer believes that taxes are the price for civilization; however the concern here is that who is to pay the price.

During the last years, the public finance economists have entered some particular guidelines into the principles of the welfare economy and have drawn out the criteria for an appropriate tax system. In this study, attempt has been made to investigate and analyze the problems which have been turned into real barriers for tax collection in the area of the western districts of Tehran; since the issues and concerns of the tax system are of the same nature, one can claim that the recognition of these factors in the western part of Tehran can be generalized to the whole tax system of the country, though it seems that the adjustment of some problems and issues is out of the strength and power of the officials and authorities of the western districts of Tehran and requires the consideration of the senior economic and political officials.

DISCUSSION

The results obtained from this study can be expressed as follows:

1) The results achieved on the influence of the tax punishments on the tax collection indicates that 70% of the taxpayers do not assume the punishments and fines as a factor for hastening for the payment of their taxes; and more interestingly, 76% of the tax auditors had the same opinion about the influence of the fines in the tax collection. Also, the ineffectiveness of the tax fines in the acceptance and obedience of the taxpayers was confirmed both by the taxpayers and the auditors and there was an agreement between both groups in this regard (taxpayers 79%, auditors 78%). Therefore, it can be accepted that fines and punishments are not appropriate strategies for the tax collection and the tax system has investigated the reasons for its inefficiency.

On the other hand, according to the analyses made, it was revealed that 70% of the taxpayers consider the tax incentives as an important factor in timely payment of their own taxes, while 74% of the auditors did not believe tax incentives to be appropriate tools for receiving the moneys which should be paid to the government. This distinction in the thoughts of these two groups is an indicator of a wide gap in the points of view of the auditors and the taxpayers.

2) The studies carried out showed that more than 62% of the taxpayers assume the self-expression plan, as an effective program in the collection of the taxes and nearly 53% of them have counted this plan as a positive factor for the establishment of a successful tax equity, while the belief in this plan as a tool for speeding up the tax collection process and establishment of the tax equity was 39.3 and 16.6%, respectively. So, it can be said that the perspective of both groups differed in this case and this means that the auditors did not believe in the self-expression plan as an effective tool for the establishment of tax equity and the acceleration of the tax collection process, but the tax payers have implicitly agreed with this plan. If we compare this result with the answers given to the question asked from both groups of taxpayers and auditors, that reads: "to what extent the income tax return of the taxpayers is established on documented facts?", then we would notice that 97% of the auditors consider the declarations of the taxpayers as unreal; hence, it can be said that this program has not been so much successful as an appropriate basis for the assignment and collection of taxes and until a sound bilateral relation and confidence is not formed between the auditors, as the agents of the tax organization, and the taxpayers, this plan should not be expected to have its own status in the tax system; if we are going to compare this plan with a country like U.S., we would see that in the U.S. more than 97% of the taxpayers deliver their income tax return timely to the tax administration, and this not only accelerates the collection procedure, but also reduces the expenditures both for the tax organization and for the directors.

3) The results about the per capita allocation of the taxes by the auditors shows that none of the two groups of the taxpayers and the auditors have confidence or belief in per capita allocation of taxes; in other word, approximately 80% of the taxpayers do not consider the per capita allocation of taxes as a proper criterion for the evaluation of the incomes subject to taxes, and nearly the same number of the taxpayers did not assume per capita allocation of taxes as an effective factor in establishing the tax equity. The opinion of the auditors about the per capita allocation of taxes and its conformity to the realities has been about 8.7% and about its effectiveness for the establishment of the tax equity has been 13.3%.

4) Concerning the results about the computerization of the job tax system, it was revealed that more than 70% of the taxpayers and auditors believed that computerization would accelerate the taxation affairs; however, it should be mentioned that a comprehensive information system for taxation which ensures the determination of the way of preparing and coordinating the databases, information technology and notification, has not been clearly defined and some measures which have been taken by the tax organization in a non-concentrated manner in each of the aforementioned areas do not enjoy the required coordination and overlapping and in some cases have been

carried out in a parallel, repetitive, or even unnecessary manner.

5) About the tax laws, it was revealed that 78% of the taxpayers did not assume the tax laws to be sufficient for the needs and requirements of the tax system, and about 85% of them believed that the regulations in force are not clearly and explicitly defined. The opinion of the auditors about the insufficiency of the regulations for the requirements of the tax system was about 89% and about the vagueness of the regulations was about 92%. So, both groups believed that the regulations were not conforming to the requirements of the tax system both in their content and in their structure, and interestingly, this belief was stronger among the auditors than the taxpayers.

Suggestions of the research

- 1) Creating information services centers for training the taxpayers and familiarizing them with their duties;
- 2) Accelerating the creation and utilization of the comprehensive information services system for taxation;
- 3) Reformation of the methods and procedures for the taxation affairs;
- 4) Providing the conformity between the tax laws and regulations;
- 5) Reformation of the welfare affairs;
- 6) Reformation of the payment, wages and rewards system for the auditors;
- 7) Reformation of the appointment and promotion of the directors;
- 8) Reformation of the employment and selections.

LIMITATIONS OF THE STUDY

1) One of the most basic limitations in this study, other than the fact that it was a survey study, was that the tax districts were heterogeneous with regard to the kind of jobs in that geographical area. Even though we tried to deliver the questionnaires to the most experienced auditors and taxpayers who were much more aware of the issues of the day; however, the lack of a comprehensive planning system and its required essential requisites, as well as the lack of clear theoretical principles and skilled expertise in the field of taxation and the lack of protective information and researches, has inevitably resulted in some shortages in the theoretical dimensions of the concepts, drawing inferences from the realities and the analyses as well as the results and conclusions.

2) Pessimistic beliefs on the research performance at all organizational levels and among the taxpayers, and their indifference to the questionnaires and the results of the study.

3) Lack of related studies in the western districts of

Tehran and lack of reliable libraries for this field of study.
 4) Doubt of some taxpayers in this fact, that answering these questions would not affect their job performances.

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