Investigating Causes of Tax Evasion among Employees and Legal Persons

Ebadollah Abbasi¹, Hamed Heidaryemady²

¹Department of Law and Political Sciences, Abadeh Branch, Islamic Azad University, Abadeh, Iran.
²Teacher of Ghaderabad Branch, Islamic Azad University, Ghaderabad, Iran.

ABSTRACT

Tax revenues are among important financial resources in Iran, so that trying to increase these revenues and identifying obstacles of the process, especially determining causes of tax evasion and tackling them, are of a great importance in tax system policies. Furthermore, replacing oil revenues with tax revenues is one of economic programs of Islamic Republic of Iran. However, low tax revenues, especially those collected from employees and legal persons, make this goal hard to achieve. The main reason is tax evasion in these sectors. This research is aimed at identifying backgrounds and reasons for tax evasion. This is a field research conducted using a questionnaire distributed among 1300 officials in employees and legal persons. We asked their opinions on different direct and indirect causes of tax evasion in an attempt to determine the effect of each one. We hope that the results of this study can help officials and increase tax revenues of the country.

KEYWORDS: Tax, Taxpayers, Legal persons, Declaration of Tax Status.

1. INTRODUCTION

IRR tax system has been discussed from a new viewpoint after victory of Islamic Revolution. Since then it has changed a lot in order to achieve revenue-related goals of the country’s budget. Establishment of State Tax Organization, affiliated to the Ministry of Economic Affairs and Finance, and correcting direct tax law in 2002 is among the latest changes in the field. Economic transition plan, started since 2008, and introducing value added tax are new trends in the country’s tax system [1].

This research is aimed at identifying reasons for tax evasion among employees and legal persons and providing solutions for the problem. Nowadays, the importance of tax revenues is clear and, therefore, replacing other revenues, especially those earned from exporting crude oil, with tax revenues is one of the most important economic policies of Iranian government. On the other hand, problems of single product economy and strong dependence to crude oil revenues combined with economic and political issues in domestic and international level and politic pricing of oil in the international scene force us to try to escape the dilemma by any means [2].

The best option to replace crude oil revenues are tax revenues. It is expressed in two forms: direct and indirect taxes. Direct taxes are inheritance tax, stamp duty, land income tax and income tax for employees and legal persons [3].

According to the statistics, tax revenues constitute only an insignificant percentage of Iran’s GDP. There is a huge gap between this financial resource and revenues obtained from exporting crude oil. In other words, only a tiny part of IRR treasury is filled with tax revenues, an amount that is not significant compared with that of other countries. Tax revenues’ share in the country’s GDP is almost 25 percent, much less than 60 percent in most developed countries. Therefore, there is a need for correcting tax system of the country [4].

Unfortunately, the main reason for low tax revenues in Iran is tax evasion. Despite of having sufficient laws and regulations, a large number of workers, large structure of tax system and millions of job positions, legal persons and employees in the public and private sector, unfortunately tax revenues are not that high[5].

This research is aimed at identifying reasons of unwillingness among taxpayers to pay their taxes and determining causes of tax evasion among employees and legal persons. In spite of having millions of job positions in Iran, unfortunately the level of tax revenues is not satisfactory and the efforts made by State Tax Organization have not been successful enough. We prepared a questionnaire having 30 questions to investigate main issues. The participants were taxpayers, either employees or legal persons [6].

The main questions are:
1. Why are not taxpayers willing to pay their taxes?
2. Why is a huge part of employees’ and legal persons’ income tax determined by in-person tax assessment?
3. Why havenot tax-related incentives and punishments been successful in attracting taxpayers to pay their taxes?
4. Why do not taxpayers collaborate with State Tax Organization and avoid paying taxes?

*Corresponding Author: Ebadollah Abbasi, Department of Law and Political Sciences, Abadeh Branch, Islamic Azad University, Abadeh, Iran. Email: abassi272@yahoo.com
5. Why is not society yet familiar with the tax system?
6. Why does society considers tax a compulsion measure? Why is not there a suitable cultural ground for acknowledging tax as a public duty?

**METHODOLOGY**

This research is aimed at finding causes of tax evasion among employees and legal persons. Existence of a causal relationship is a prerequisite for deduction. In a causal relationship, independent variables cause changes in dependant variable. This relationship might not be predefined, but a suitable research plan can prove its existence.

Research plans can be divided into two categories: empirical and semi-empirical. Taking into account the characteristics of this research, it is a semi-empirical study (post-event survey). In this research data are collected from the environment and the researcher has not interfered [7].

In order to collect data and test hypotheses we used survey method. In this method, the most common way for collecting data is arranging personal interviews and distributing questionnaires. In this study we used questionnaires consisting of general and technical questions. In the theoretical part, we used laboratory method in which information is extracted from books, journals and internet databases [8].

**Research questions and hypotheses:**
Based on research objectives, the following hypotheses were drawn:
1. People do not trust government in paying taxes and consider tax a pressure on low-income class. Paying taxes does not favor people and taxpayers.
2. Since direct tax laws are too complicated, there are many ways for tax evasion and, besides, cultural ground for tax system is not satisfactory.
3. Have policy-makers been able to institutionalize tax equity by issuing right laws?
4. To what extent has government been successful in collecting required tax revenues by providing appropriate cultural ground?
5. What actions has government taken to improve tax system in terms of self declaration?
6. Is this rational from government to expect people to pay their taxes in a self declaratory way?

**Research variables:**
A variable is a concept which can have two or more values or amounts. In other words, variables are characteristics that researcher observe or measure.
Our research variables are tax, taxpayers, legal persons and employees.

**Statistical universe:**
Statistical universe or population includes all members that have common characteristics in a group of people, events or things. Our statistical universe consists of taxpayers (legal persons and employees) in Shiraz.

**Research findings:**
First part of the questionnaire consists of 5 general questions related to personal characteristics of participants in different job categoriesbased on article 96 and different legal person categories based on article 6 of Commerce Law. These questions are about education, age and gender. The results of descriptive analysis are presented in table 1.
In the second part, frequency distribution and descriptive statistics for answers given to each question were provided based on research hypotheses. First, the number and percentage of each option were calculated:

Table 2: frequency distribution for questions

<table>
<thead>
<tr>
<th>Item</th>
<th>Question</th>
<th>Frequency distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Very low</td>
</tr>
<tr>
<td>1</td>
<td>How fair is the process of collecting taxes?</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Percentage</td>
</tr>
<tr>
<td>2</td>
<td>How successful are government’s policies in improving ethical issues and public interest in paying taxes?</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Percentage</td>
</tr>
<tr>
<td>3</td>
<td>How charitable and informed are tax laws? To what extent are they in favor of the society?</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Percentage</td>
</tr>
<tr>
<td>4</td>
<td>How successful has government’s policies been in providing tax equity?</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Percentage</td>
</tr>
<tr>
<td>5</td>
<td>To what extent do you consider yourself as obliged and committed in paying tax?</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Percentage</td>
</tr>
<tr>
<td>6</td>
<td>How powerful is government in collecting taxes?</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Percentage</td>
</tr>
<tr>
<td>7</td>
<td>What is the role of tax revenues in national development?</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Percentage</td>
</tr>
<tr>
<td>8</td>
<td>To what extent do you use experts for preparing your accounting documents?</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Percentage</td>
</tr>
<tr>
<td>9</td>
<td>How familiar are you with direct taxes law?</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Percentage</td>
</tr>
<tr>
<td>10</td>
<td>How familiar are you with the process of preparing accounting documents and balance sheets?</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Percentage</td>
</tr>
<tr>
<td>11</td>
<td>How familiar are you with the process of preparing tax declaration?</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Percentage</td>
</tr>
<tr>
<td>12</td>
<td>To what extent were media successful in providing cultural ground and motivation for paying taxes?</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Percentage</td>
</tr>
<tr>
<td>13</td>
<td>How familiar are you with the process of tax calculation?</td>
<td>Number</td>
</tr>
</tbody>
</table>
Conclusion

In this section we address research questions and analyze hypotheses we formulated about causes of tax evasion among employees and legal persons.

The main questions were as follows:
1. Why are not taxpayers willing to pay their taxes?
2. Why is a huge part of employees’ and legal persons’ income tax determined by in-person tax assessment?
3. Why have not tax-related incentives and punishments been successful in attracting taxpayers to pay their taxes?
4. Why do not taxpayers collaborate with State Tax Organization and avoid paying taxes?
5. Why is not society yet familiar with the tax system?
6. Why does society considers tax as a compulsion measure? Why is there not a suitable cultural ground for acknowledging tax as a public duty?

We formulated hypotheses for the above questions in order to investigate causes of tax evasion and determine why people are not willing to pay their taxes. The hypotheses were as follows:
1. Taxpayers are not appropriately familiar with tax laws and regulations and, especially, incentives and punishments. Therefore, they were not able to coordinate themselves with these laws.
2. Taxpayers do not sufficiently trust tax officials. They do not perceive tax system as fair and, consequently, seek ways for tax evasion.
3. There is not a true will for announcing taxes in the society and State Tax Organization, as the main tax system authority, has not been able to manage all tax-related issues in the country. There is a loose cooperation between State Tax Organization and other ministries and organizations like Ministry of Education, Ministry of Science, Research and Technology, Ministry of Commerce, Ministry of Culture and Islamic Guidance, Ministry of Interior’s,

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>Percentage</th>
<th>Number</th>
<th>Percentage</th>
<th>Number</th>
<th>Percentage</th>
<th>Number</th>
<th>Percentage</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>How familiar are you with the process of writing and keeping legal books of account?</td>
<td></td>
<td>25/9</td>
<td>162/2</td>
<td>27/11</td>
<td>11/1</td>
<td>19/4</td>
<td>5/2</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>How much information do you have about cases of rejecting books and documents by State Tax Organization officials?</td>
<td></td>
<td>32/9</td>
<td>28/0</td>
<td>11/1</td>
<td>5/2</td>
<td>0/2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>How competent and capable are State Tax Organization experts in calculating taxes?</td>
<td></td>
<td>28/0</td>
<td>25/8</td>
<td>11/1</td>
<td>5/2</td>
<td>0/2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>How possible is discrimination in calculating taxes as in-person tax assessment?</td>
<td></td>
<td>28/0</td>
<td>25/8</td>
<td>11/1</td>
<td>5/2</td>
<td>0/2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>How competent and experienced are tax experts who assess in-person taxes?</td>
<td></td>
<td>28/0</td>
<td>25/8</td>
<td>11/1</td>
<td>5/2</td>
<td>0/2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>How do you evaluate commitment, ethics and conscience of tax officials?</td>
<td></td>
<td>28/0</td>
<td>25/8</td>
<td>11/1</td>
<td>5/2</td>
<td>0/2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>What is the effect of ambiguity in tax laws, bylaws and regulations on people’s willingness to pay taxes?</td>
<td></td>
<td>28/0</td>
<td>25/8</td>
<td>11/1</td>
<td>5/2</td>
<td>0/2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>How much information do you have about tax exemption in your job?</td>
<td></td>
<td>28/0</td>
<td>25/8</td>
<td>11/1</td>
<td>5/2</td>
<td>0/2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>How familiar are you with tax-related punishments in your job?</td>
<td></td>
<td>28/0</td>
<td>25/8</td>
<td>11/1</td>
<td>5/2</td>
<td>0/2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>To what extent have tax-related punishments been effective in collecting taxes?</td>
<td></td>
<td>28/0</td>
<td>25/8</td>
<td>11/1</td>
<td>5/2</td>
<td>0/2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>To what extent have tax-related incentives been effective in motivating people to pay taxes?</td>
<td></td>
<td>28/0</td>
<td>25/8</td>
<td>11/1</td>
<td>5/2</td>
<td>0/2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>How do you evaluate your cooperation with State Tax Organization?</td>
<td></td>
<td>28/0</td>
<td>25/8</td>
<td>11/1</td>
<td>5/2</td>
<td>0/2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>To what extent do you trust tax officials in keeping your financial records private?</td>
<td></td>
<td>28/0</td>
<td>25/8</td>
<td>11/1</td>
<td>5/2</td>
<td>0/2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>To what extent do you think tax officials are accurate?</td>
<td></td>
<td>28/0</td>
<td>25/8</td>
<td>11/1</td>
<td>5/2</td>
<td>0/2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>To what extent has current tax system been successful in achieving taxpayers’ satisfaction?</td>
<td></td>
<td>28/0</td>
<td>25/8</td>
<td>11/1</td>
<td>5/2</td>
<td>0/2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>To what extent has performance of State Tax Organization been successful in achieving taxpayers’ respect?</td>
<td></td>
<td>28/0</td>
<td>25/8</td>
<td>11/1</td>
<td>5/2</td>
<td>0/2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>How successful has tax system been in attracting public participation and motivating self declaration?</td>
<td></td>
<td>28/0</td>
<td>25/8</td>
<td>11/1</td>
<td>5/2</td>
<td>0/2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>How accurate were you in answering above questions?</td>
<td></td>
<td>28/0</td>
<td>25/8</td>
<td>11/1</td>
<td>5/2</td>
<td>0/2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Abbasi and Heidaryemady, 2012
Ministry of Mines and Industries, Islamic Republic of Iran Broadcasting, etc. therefore, there is a need for better cooperation in order to achieve desired outcomes through institutionalizing the concept of tax and its importance in the society.

Taking into account the above questions and hypotheses and after analyzing questionnaires, main causes of tax evasion among employees (natural persons) and legal persons can be classified as follows:
1. Significant deviation in calculated taxes for different taxpayers results in their mistrust and perception of tax system as unfair.
2. Obvious tax evasion among some employees results in a situation in which those who cannot find a way for avoiding taxes consider tax system as unfair.
3. Lack of transparency in tax rules and regulations, especially in evaluating and calculating taxes, results in mistrust and dissatisfaction and perception of tax system as unfair.
4. Lack of sanction for collecting taxes leads to tax evasion and greater mistrust towards tax system in the society.
5. There is not an appropriate system for using modern technology. Therefore, tax system cannot systematically identify salaried employees and collect taxes. This results in tax evasion.
6. Hiring inept and inexperienced staff results in significant deviation between calculated taxes for different taxpayers. This leads to unwillingness of people to pay their taxes.
7. Precipitate and reckless approval of some tax rules, on the one hand, and using inexperienced staff and insufficient facilities, on the other hand, do not result in implementation of direct tax laws, so that the public does not consider government as competent and powerful in collecting taxes.
8. There is not a suitable socio-cultural ground for extending tax flow from collecting phase to spending for national development.
9. The country’s economy has depended on oil revenues for decades. Dependence on oil revenues, as the main ingredient of national budget, leads to the situation in which taxpayers underestimate the role of tax revenues in national development.
10. People have doubts about destination of tax revenues.
11. Taxpayers have not yet recognize the importance of keeping financial records based on law. In addition, employees are less willing to use accountants to prepare their financial accounts and documents.

In order to tackle the barriers and overcome the problems, these solutions can be followed:
1. Respecting citizens, attracting public confidence and improving treatment of officials with taxpayers in order to keep them satisfied.
2. Changing national tax system towards using modern methods and technologies.
3. Decreasing errors and waiting time, creating an inclusive tax information system and facilitating the process of service delivery.
4. Preventing tax evasion in a scientific manner, using less human force, utilizing internet, using maximum capacity of e-government concept in collecting taxes.
5. Providing cultural ground and informing taxpayers about the importance of keeping financial records and using experienced accountants in the process.
6. Training taxpayers about how to prepare financial records and accounts based on law.
7. Modifying tax laws so that the government issues licenses only if training courses are successfully passed.
8. Meeting basic principles and values by tax officials, like respecting citizens, following rules, being trainable and organized, having conscience and keeping workplace safe.
9. Meeting vocational principles and values like being confidant, impartial, honest, independent and providing high quality services, having job expertise, following national interests and guiding taxpayers.
10. Using labor unions and arranging annual personal, distant and written learning courses, in order to make taxpayers familiar with rules and regulations.
11. Providing educational brochures for taxpayers.
12. Making cooperation between State Tax Organization and Ministry of Science, Research and Technology, Ministry of Education, Ministry of Mines and Industries, Ministry of Commerce and Islamic Republic of Iran Broadcasting in order to provide educational courses.
13. Controlling taxpayers’ incomes in a way that in-person tax assessment is not economical for them and they prefer to announce their taxes in a self-declaration manner. In this way, motivation for self-declaration will be increased.
14. Observing the process of in-person tax assessment, so that actions of tax officials do not harm the government.
15. Approving laws to force all legal persons and employees to use expert accountants.
17. Training different categories of employees on tax laws and not issuing employment licenses unless people attend the educational courses.
18. Introducing direct tax laws through radio, television and other mass media.
19. Including tax laws in all university curriculums and adding the concept to pre-university educational books with the cooperation of Ministry of Education and Ministry of Science, Research and Technology.
20. Providing cultural ground for emphasizing the importance of keeping financial records and accounts through public information provided by IRR Broadcasting, training students with the cooperation of Ministry of Education, and educating other groups of people with the cooperation of Ministry of Industries and Mines, Ministry of Commerce and Ministry of Science, Research and Technology.
21. Issuing employment license for any job classified as group a, b, or c in article 95 of Direct Tax Laws after passing training courses on how to prepare financial records and accounts and balance sheets.
23. Preparing brochures about how to complete tax declarations, business books and other accounting documents by State Tax Organization and distributing them through different unions among employees. These brochures can also be distributed through registration officers of companies and sealing and registration office of State Organization for Registration of Deeds and Properties.
24. Arranging educational courses on how to assess taxes and prepare tax declaration and financial records for companies and employees in different townships with the cooperation of Ministry of Commerce, Ministry of Industries and Mines, Ministry of Labor and Social Affairs, provincial branches of State Tax Organization and different unions.
25. Attracting and hiring expert staff and arranging higher level educational courses for State Tax Organization staff.
26. Improving ethical issues among officials who are responsible for in-person assessment of taxes. This can be done through more noticed and unnoticed observation on the staff and even reinvestigating some cases of in-person tax assessment.
27. Giving reasonable and detailed information to taxpayers whose taxes have been assessed using in-person method, removing their suspicion and mistrust informing them about tax-related punishments mentioned in articles 192 and 193 of Direct Tax Laws and cases of deprivation from exemptions mentioned in article 101 of the law.
28. Correcting the system of tax assessment and collection and eliminating personal interference in the process of tax calculation with the use of modern technologies, computer programs and internet, so that all salaried employees can be identified with their records kept. In this way, it is easy to estimate incomes and assess taxes in an impartial manner. It is a good way to avoid tax evasion.
29. Using sanction against tax-related crimes, so that taxpayers are aware that every violation of tax laws will be fully punished.
30. Providing inflexibility in necessary cases, for example in collecting fines, so that taxpayers observe that all punishments are applied effectively.
31. Modifying current tax-related punishments and adding some other ones including cancellation of employment licenses, temporarily closing workplaces, suspending some activities, or prohibiting people from vocational contacts with offenders.
32. Modifying current tax-related incentives and adding some other ones including motivational and more attractive and efficient incentives. These can include exemption from costs of public services, discounts in public utility expenses and awarding prizes and acknowledgements in unions.

The abovementioned solutions are actually ways of overcoming barriers and answers to the main research questions. It is hoped that the research is effective in protecting government’s and citizens’ rights, preventing discrimination, serving tax equity, and safeguarding national interests. It is also hoped that the above solutions are useful for State Tax Organization and Islamic Republic of Iran regime [9].

REFERENCES