

A Survey on the Relationship between Involvements Factors in The Taxation System with Improving Taxpayers' Compliance (Case study: Tax Affairs Office of Fars Province)

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ABSTRACT

Tax is an important source of governments' income. Tax collection stability and continuity brings about constancy in the government's planning to offer services needed in different fields. Therefore, a principal strategy of tax organization is to obtain taxpayers' cooperation and compliance. Thus, the overall purpose of the present research is to investigate the role of the taxation system in improving tax compliance. This is an applied research of correlation type. The participants include all the staff of Fars Province Tax Affairs' Office (the sample size being 150 employees). The data collection instruments were two questionnaires made by the researcher. After the analysis of the data using the SPSS software, the research hypotheses were confirmed and research findings showed that there is a significant positive relationship between internal factors (training of rules and regulations, simplification of tax rules' texts, taxpayers' honesty and sense of responsibility, awareness of the importance of tax and equity, and correct function of the tax organization) and tax compliance; and the dimensions of the internal factors are able to predict taxpayers' compliance. Therefore, some suggestions were made to improve taxpayers' compliance.

KEYWORDS: taxation system, taxpayers' compliance, tax culture, taxation systems internal factors, taxation system's external factors

INTRODUCTION

The main source of income in both developed and developing countries is taxation. However, the main source of Iranian Government's income is crude oil sales. The government has turned to other funding sources such as taxes to provide more funds and reduce reliance on oil. Undoubtedly, no one can deny the influence of taxes on the countries' life and economic cycle, and all the world's economists believe that tax incomes are the safest among the governments' revenues. However, Iran is a country the economic structure of which is based on oil incomes rather than tax incomes.

Tax non-compliance occurs due to different factors including the taxpayers' lack of knowledge about the rules and regulations of taxation as well as their duties, their uncertainty about the correct use of tax incomes, and their lack of knowledge regarding how the collected taxes are expended. Promoting tax compliance is a strategy leading to furthering the interaction between the taxpayers and the Tax Affairs' Organization, accelerating the tax-collection process, reducing the tax-collection costs, and consequently increasing the tax incomes. It is necessary for the Tax Affairs' Organization to recognize and work the factors affecting tax compliance. Therefore, the researcher seeks in this research to investigate the role of the taxation system in improving the taxpayers' compliance.

Definition of key terms:

Tax compliance: this refers to acceptance and voluntary payment of the legal tax levied by the tax organization (Richard M. Board, 2004).

Tax culture of a certain country: this refers to integration of all the official and non-official institutions relating to the taxation system and its practical implementation, which has historically been internalized in the culture of that country, such as dependencies and connections arising from interactions (Birger 2004).

Tax evasion: this refers to legal arrangements to conceal or avoid tax debts, which is made in one of the following ways (Salmon, 2004).

1. Not mentioning in the tax declaration the taxable income of the transactions.

2. Reporting the deductible expenses to be more than real.
3. Avoiding submission of the tax declarations for transactions.
4. Reducing the figure of the tax debt, or turning to untrue declarations.

Tax avoidance: by tax avoidance is meant the taxpayers' use of different legal ways to reduce the tax rate. Thus, tax avoidance is a legal behavior whereas tax evasion is an illegal one (Arabmazed et al., 2010).

Taxpayers: taxpayers are the owners of earnings legally required to pay tax.

Tax declaration: this is a special form prepared according to the tax provisions and submitted to the taxpayers to be set, after which it will be submitted to the tax unit.

Internal factors of the taxation system: these factors are inside the organization and under its control. It is important to recognize these factors as they lead to strengths and weaknesses.

External factors of the taxation system: these factors are outside the organization and out of its control. Recognizing these factors will lead to opportunities and threats.

Importance of Tax Compliance

Tax compliance is considered the most important goal of an efficient taxation system in the tax literature. Most taxation systems give an accurate, precise and operational definition of tax compliance, whereas this concept is too obscure and vague in Iran's tax system. In Iranian tax literature. Tax compliance refers to the taxpayers' commitment to the tax duties and their observance of the tax rules. This definition is both obscure and uninterpretable, and makes researches in this field difficult to do. Various studies done by different researchers and experts from the tax arena reveal that there exists a noticeable gap between the tax potential capacity and the country's tax collections. This shows that we can increase tax collections and the government's reliance on tax incomes by taking measures to reform the country's taxation system. This issue is so crucial that the Development Programs have placed special emphasis on it and specified certain goals for it (Kamali et al., 2010). Taxpayers are interdependent in some way, so that their share in the income of general interests and services is indeed a combination of their chosen performance in tax payment. Therefore, the tax payment issue is a social problem, rather than a personal one. Taxpayers may choose tax evasion so that they can increase their incomes and simultaneously take interests from the public services while they have not stepped toward improving these public services. Therefore. If such behavior continues among a large number of taxpayers, the country's tax income will certainly go down. Consequently, the public services will definitely not be able to give services, and this will cut down the individuals' income. Therefore, we can help increase tax income by propagating among the taxpayers the idea that tax payment will increase their income (SeyedNoorani, 2009).

Tax Capacity

A fundamental problem of Iran's taxation system is absence of scientific predictions for tax incomes (Amini, 2008). Tax capacity is indeed the tax rate that the community is able to pay, and this capability relies on revenues, expenditures, and investments on the one hand, and on the long-term and medium-term planning on the other (Monjazez, 2005).

The performance of the country's taxation system concerning incomes

Diversity of economic activities, the government's increasing role in the economic development and fair distribution of income have turned tax payment and collection into an important and influential issue. Iran's economic reliance on oil revenues and presence of monopolies and abuses resulting from them in different sections have led tax to compose only a slight part of the government's income. An index clearly showing the potential capacity or tax ability of a country is the tax share in Gross Domestic Production (GDP). Tax income elasticity in proportion with GDP in Iran between 1350 and 1372 has been estimated to be 8%, which shows inadequate inflexibility against the changes of GDP. This elasticity has been 9% and 75 % for direct and indirect incomes respectively, which indicates higher elasticity of the direct tax in relation to price changes (Aghanazari, 2010).

Table 1 shows a comparison of tax status in developing countries, developed countries and Iran

Table 1.A comparison of tax status in developing countries, developed countries and Iran

Country/ Countries	Total Income of Tax	Indirect Tax	GDP
<i>Corporate Tax Ratio</i>			
Developing	52.2	60.0	5.4
Developed	38.0	35.4	7.8
Iran	26.4	26.2	1.8
<i>Income Tax Ratio</i>			
Developing	23.8	43.6	4.4
Developed	39.0	56.1	11.5
Iran	16.9	2.29	1.8
<i>Wealth Tax Ratio</i>			
Developing	2.7	8.2	0.4
Developed	3.3	7.3	1.1
Iran	5.1	8.6	0.4
<i>Imports Tax Ratio</i>			
Developing	16.3	27.0	2.1
Developed	1.0	9.0	0.2
Iran	28.6	78.6	2.3

Source: (Aghanazari, 2010: 99)

This table has corporate tax ratio, income tax ratio, imports tax ratio, and consumption and sales tax ratio in developed countries, developing countries and Iran. This study shows Iran's large distance with the developed and developing countries. The developing countries obtain a significant portion of their tax income via corporate taxes (taxes levied on companies). This share of GDP is also noticeable. The difference is greater income tax, which shows absence of an adequate and efficient taxation system to recognize taxpayers. A concise comparison of the two groups of countries and Iran shows that the ratio of imports tax in Iran is greatly high in proportion with the total tax income, indirect taxes and GDP. This roots in reliance of national production on the goods imported, high rate of imports, absence of appropriate substitutes for extending the tax base as well as Iran's lack of membership in the World Trade Organization. However, as the tax base and consumption and sales tax in Iran is limited, it has been shown that this ratios too low in Iran in comparison with the total tax income, indirect income and GDP. In other words, the total tax income and the ratio of indirect taxes to the total tax income and the ratio of the total tax income are very low in Iran as compared with the developed and developing countries. Although the wealth tax ratio is high in comparison with the total tax income, its ratio to GDP is low. While the wealth tax ratio to GDP in the developed countries is 1.1, this ratio is 0.4 in Iran and developing countries (Aghanazari, 2010).

2-2-8.Simplification of the taxation system and its consequences

Undoubtedly, a positive outcome of restricting the role of tax is simplification of the taxation system as the source of many complexity-raising factors lies in the role of tax as the provider of justice and the open tool for income distribution. By eliminating this role, it is no longer necessary to levy taxes with exponential rates, tax deductions and preferences for taxpayers. Economists have traditionally classified taxation systems based on efficiency, justice, administrative possibility and simplicity. Administrative possibility refers to the fact that tax collection has financial costs and some types of taxes have lower collection costs for economic activists than some others. Therefore, access to a simple taxation system involves creating a balance among the goals, efficiency, justice and administrative simplicity. The goal of taxation system simplification is adding to the ease of tax compliance which is reflected in the rate of costs and saved time. An efficient taxation system should enable the taxpayers to calculate their taxes, complete their tax declarations and finally compensate for any mistakes made with the least costs. Moreover, a taxation system should present the tax agents with simpler methods to recognize and collect the taxes. Accordingly, any action to simplify the taxation system involves having a clear definition of the taxation system complexity, its criteria and the complexity-creating factors. Simpler taxes have several advantages presented below:

1. Simpler taxes lessen the taxpayers' compliance costs from the temporal and financial points of view. As this type of costs reduces, the simplicity of the total tax pressure will go down.
2. Simpler tax regulations have more possibility of application. If people are unaware of the function of the regulations and arrangements made to encourage some activities such as saving and investment, they may lack efficiency in practice.
3. Simplifying the taxes will most likely increase tax compliance (in other words, it will decrease illegal tax evasion). There are some cases where people do not pay taxes due to lack of familiarity with the tax regulations. Transparency and simplification of the rules and regulations can help people to understand the rules better.

4. Simpler taxes can be followed by the public's further support and regarded as the essential part of any attempt to offer state services (Azir, 2009).

Research Hypotheses

1. There is a relationship between internal factors and taxpayers' compliance.

1-1. there is a relationship between the rules and regulations, and taxpayers' compliance.

1-2. there is a relationship between justice and correct function of the tax organization, and taxpayers' compliance.

1-3. there is a relationship between tax agent's honesty and sense of responsibility, and taxpayers' compliance.

1-4. there is a relationship between awareness of the importance of tax and taxpayers' compliance.

1-5. there is a relationship between simplification of the texts of tax rules and taxpayers' compliance.

2. There is a relationship between external factors and taxpayers' compliance.

2-1. there is a relationship between community's factors of public administration and taxpayers' compliance.

2-2. there is a relationship between cultural factors and taxpayers' compliance.

2-3. there is a relationship between social factors and taxpayers' compliance.

2-4. there is a relationship between legal factors and taxpayers' compliance.

2-5. there is a relationship between economic factors and taxpayers' compliance.

RESEARCH METHOD

This is a descriptive-analytic field research. The required tables have been prepared using descriptive statistics and the correlation method, and the data have been analyzed using inferential statistics and by help of the software available, and the data have finally been summed up.

Participants

The participants of this research include all the staff of Fars Province Tax Affairs' Office (the sample size being 150 employees) and the data collection instruments were two questionnaires made by the researcher, the validity and reliability of which were confirmed.

Research Findings

The findings of this research show that there is a significant positive relationship between internal factors (training of rules and regulations, simplification of tax rules' texts, taxpayers' honesty and sense of responsibility, awareness of the importance of tax and equity, and correct function of the tax organization) and tax compliance; and the dimensions of the internal factors are able to predict taxpayers' compliance. The findings of Pearson Correlation Test and Kendall Test show that there exists a positive and significant relationship between internal factors/ external factors and taxpayers' compliance in the significance level of 95%.

Table 2. Summary of Regression Test results concerning simultaneous impact of external factors on tax compliance

Test type	Independent variable	Dependent variable	Level of significance	Correlation coefficient
Pearson	Internal factors	Taxpayers' compliance	0.000	0.617
Tab Kendall	Internal factors	Taxpayers' compliance	0.000	0.543

Table 3. Summary of Correlation Test results between training the rules and regulations and taxpayers' compliance

Test type	Independent variable	Dependent variable	Level of significance	Correlation coefficient
Pearson	Rules and regulations training	Taxpayers' compliance	0.000	0.558
Tab Kendall	Rules and regulations training	Taxpayers' compliance	0.000	0.458

Table 4. Summary of Correlation Test between justice and the correct function of the tax organization and taxpayers' compliance

Test type	Independent variable	Dependent variable	Level of significance	Correlation coefficient
Pearson	Justice and correct function of the tax organization	Taxpayers' compliance	0.000	0.410
Tab Kendall	Justice and correct function of the tax organization	Taxpayers' compliance	0.000	0.352

Table 5. Summary of Correlation Test between taxpayers' honesty and sense of responsibility and their compliance

Test type	Independent variable	Dependent variable	Level of significance	Correlation coefficient
Pearson	Taxpayers' honesty and sense of responsibility	Taxpayers' compliance	0.000	0.574
Tab Kendall	Taxpayers' honesty and sense of responsibility	Taxpayers' compliance	0.000	0.472

Table 6. Summary of Correlation Test between awareness of the importance of tax and taxpayers' compliance

Test type	Independent variable	Dependent variable	Level of significance	Correlation coefficient
Pearson	Awareness of the importance of tax	Taxpayers' compliance	0.000	0.398
Tab Kendall	Awareness of the importance of tax	Taxpayers' compliance	0.000	0.317

Table 7. Summary of Correlation Test between simplification of the texts of the tax rules and taxpayers' compliance

Test type	Independent variable	Dependent variable	Level of significance	Correlation coefficient
Pearson	Simplification of the tax rules texts	Taxpayers' compliance	0.000	0.598
Tab Kendall	Simplification of the tax rules texts	Taxpayers' compliance	0.000	0.522

Table 8. Summary of Correlation Test between external factors and taxpayers' compliance

Test type	Independent variable	Dependent variable	Level of significance	Correlation coefficient
Pearson	External factors	Taxpayers' compliance	0.000	0.657
Tab Kendall	External factors	Taxpayers' compliance	0.000	0.528

Table 9. Summary of Correlation Test between the general administration of the community and taxpayers' compliance

Test type	Independent variable	Dependent variable	Level of significance	Correlation coefficient
Pearson	Community's general administration	Taxpayers' compliance	0.000	0.397
Tab Kendall	Community's general administration	Taxpayers' compliance	0.000	0.563

Table 10. Summary of Correlation Test between the cultural factors and taxpayers' compliance

Test type	Independent variable	Dependent variable	Level of significance	Correlation coefficient
Pearson	Cultural factors	Taxpayers' compliance	0.000	0.540
Tab Kendall	Cultural factors	Taxpayers' compliance	0.000	0.497

Table 11. Summary of Correlation Test between the social factors and taxpayers' compliance

Test type	Independent variable	Dependent variable	Level of significance	Correlation coefficient
Pearson	Social factors	Taxpayers' compliance	0.000	0.499
Tab Kendall	Social factors	Taxpayers' compliance	0.000	0.430

Table 12. Summary of Correlation Test between the legal factors and taxpayers' compliance

Test type	Independent variable	Dependent variable	Level of significance	Correlation coefficient
Pearson	Legal factors	Taxpayers' compliance	0.000	0.578
Tab Kendall	Legal factors	Taxpayers' compliance	0.000	0.478

Table 13. Summary of Correlation Test between the economic factors and taxpayers' compliance

Test type	Independent variable	Dependent variable	Level of significance	Correlation coefficient
Pearson	Economic factors	Taxpayers' compliance	0.000	0.813
Tab Kendall	Economic factors	Taxpayers' compliance	0.000	0.668

Table 14. Summary of Regression Test results concerning simultaneous impact of internal and external factors on tax compliance

Standard variable	Statistic index	Multi-layered correlation coefficient	Coefficient of determination	F-statistics	Level of significance	B	Beta	T-statistics	Level of significance
	Predictor variables								
Tax compliance	Internal factors	.692	.480	70.023	.000	.278	.307	3.730	.000
	External factors					.445	.441	5.359	.000

Table 15. Summary of Regression Test results concerning simultaneous impact of internal factors' dimensions on tax compliance

Standard variable	Statistic index	Multiple correlation coefficient	Coefficient of determination	F-statistics	Significance level	B	Beta	T-statistics	Significance level
	Predictor variables								
Tax compliance	Training the rules and regulations	.689	.475	26.940	.000	.174	.248	3.104	.002
	Simplification of tax rules					-.095	-.109	-1.328	.186
	Taxpayers' honesty and sense of responsibility					.263	.357	3.773	.000
	Awareness of the importance of tax					-.046	-.055	-.653	.515
	Justice and correct function of the tax organization					.269	.336	3.956	.000

Table 16. Summary of Regression Test results concerning simultaneous impact of external factors' dimensions on tax compliance

Standard Variable	Statistic Index	Multiple Correlation Coefficient	Coefficient of Determination	F-Statistic	Significance Level	B	Beta	T-Statistic	Significance Level
	Predicator Variables								
Tax Compliance	General Administration	.835	.698	68.766	.000	.224	.218	4.042	.000
	Cultural Factors					-.003	-.004	-.066	.947
	Social Factors					-.060	-.092	-1.456	.147
	Legal Factors					-.120	-.176	-2.363	.019
	Economic Factors					.690	.936	11.853	.000

DISCUSSION AND CONCLUSION

A characteristic of efficient tax system lies indeed in tax collection at the least administrative cost and compliance cost. It seems that no special attention has been given to this issue in Iran's tax reforms programs, though abundant attention has been directed to taxpayers' self-report and voluntary participation in tax payment. There is no doubt that in addition to institutionalizing the culture of tax and informing the taxpayers, the effectiveness and efficiency of this approach depends to a great extent on the ability and willingness of the taxpayers to understand and practice their legal commitment as well as on the tax offices ability in fair implementation and interpretation of the tax rules. The complex nature of the tax rules and regulations has made voluntary compliance meet problems. A consequence of the tax system's complexity is to give the public the perception of unfairness of tax in the community and prevalence of tax discrimination. Most of those directly or indirectly involved in the taxation system believe that simplifying the rules and regulations if taxation is crucial for ensuring continuity of the self-report programs' approach.

Taxpayers' lack of knowledge about their legal duties causes dissatisfaction among them and delays the tax-collection stages. A way of reducing the non-compliance behavior is penalizing those who avoid paying taxes. Penalty for failing to do a legal encourage the taxpayers to do that if it is properly made. Tax offences and an appropriate penalty system are effective in reducing tax evasion (their higher compliance) (Mirmohamadi et al., 2011).

The complexity of tax laws and regulations, absence of transparent, thorough and consistent communication of information, taxpayers' lack of awareness of the role and process of taxation, and improper tax penalties for people are the chief problems of compliance and tax collection in Iran. Therefore, the obstacles to tax compliance are known to be inefficiency of rewarding and punishing taxation system and mechanism, obscurity and unfairness of the penalty system, and weakness in taxpayers' training programs. The taxpayers may not be fully aware of how their paid taxes are used up, and do not comply on the basis of this. Awareness of how taxes are used up can increase the public trust and their compliance rate.

Citizens' opposition to the way the tax incomes are used by the government reduces their willingness to comply. Fortunately, the series of measures taken to provide the cultural background has increased the taxpayers' participation in recent years. The number of the declarations submitted can be a proper indicator for assessing the taxpayers' voluntary participation. However, a basic problem that has attracted less attention in the taxation system is the complexity of the taxation system, particularly that of the taxation rules.

There are several indicators for assessing the taxation system's complexity degree, some of which are: costs of compliance, tax rates, tax rates classes, tax types exemption, deductions, preferences and discounts, the number of legal Acts and their amendments, and so on. However, an index according to which one can show the taxation system's complexity and the country's tax law is the number of the circulars issued. It is a truism that despite several measures taken to reform the taxation system over the two last decades, less attention has been given to

simplification of the taxation system. Thus, it is really necessary to support the tax rules simplification program. The legislators and regulators should keep in mind that tax simplification should be the prioritized goal of taxation policy and true simplification will lead to economic, social and political advantages.

Extending the tax base in the added value system can increase the government's income and minimize its budget deficit, although it increases the prices. This action will modify the price effects of this method, provided that the government's expenses have undergone no changes. Tax on the value added will also be helpful in solving many problems in the country's taxation system.

High complexity of the rules and regulations, and existence of bureaucracy in Iranian taxation system causes the taxpayers to resort to the subterranean section. High rate of unemployment in the country plays an important part in the relation between GDP growth rate and the subterranean economy, so that individuals and activists of the official section will not rush to the subterranean section as the GDP growth rate rises and the unemployment rate falls.

Suggestions

The Tax Affairs' Organization should take effective measures to increase tax compliance rate and encourage the taxpayers to perform their legal duties. Thus, special attention should be paid to taxpayers' self-report and voluntary participation in tax payment and this approach should be continuously used.

The most important component used by most countries to reform their tax structures is mechanization of the taxation system. As noted above, full and rapid implementation of the comprehensive tax plan and mechanization and simplification of the tax processes will have the most impact on reducing the taxpayers' compliance costs, which can be proved by reducing the bureaucratic procedures.

Lack of skilled manpower to audit and investigate the tax affairs and provide services to the taxpayers, correct setting of the taxpayers' legal documents and other related affairs, involvement of the tax agents personal ideas in the investigation procedure, interpretability of the tax rules and regulations, and lack of integrated information systems are other important reasons for non-compliance in Iran's taxation system.

The Tax Affairs' System is an organization which requires experts from different fields due to the vast responsibilities it has, but unfortunately, after nearly one decade of independence from the Ministry of Economic Affairs and Finance, this organization is still suffering from shortage of manpower and facing many problems in the recruiting process. Solving this problem can remove part of the problem of non-compliance by increasing auditing in order to put an end to tax avoidance and evasion.

Finally, we must bear in mind that the non-compliance problem is not merely the outcome of the failed economic policies, but many complex factors are involved in that problem, especially in the economic transition process. That is why the developing countries face this problem more than other countries. Political, social and managerial factors also affect the compliance level, so a comprehensive look at this phenomenon and lack of unilateral policy is necessary.

Practical Suggestions

Culture is manageable. In order to institutionalize the favorable and appropriate culture, values and beliefs concerning taxation, we need the authorities from the Education sectors to incorporate the subject of tax in primary school textbooks (Persian Language, Mathematics and Social Studies), secondary school and high school textbooks, as well as in college courses. The tax organization can extend the values and beliefs of tax culture in the community by producing radio and television programs. In order to develop a progressive tax culture proportionate with the system of the Islamic Republic of Iran, this organization can make use of the contributions made by scientists and experts from universities (jurists, sociologists, psychologists, economists etc.). In order to reduce taxpayers' resistance against tax payment, the tax organization should recognize the causes of their resistance via accurate and precise strategies and methods, and take appropriate measures to remove their resistance.

The subject of bargaining exists in all nations, but this subject is excessively existent in the sectors of economy and tax in Iran. Therefore, when there is no valid belief system, the bargaining power gets a particular place in the tax organization, so creating an accurate system and transparent law will certainly obviate bargaining for tax reductions.

As taxpayers believe that their payment capability is lower than the organization's demand, so the organization can determine the tax rate proportional with the taxpayers' payment capability if it verified that the taxpayers are right, but it proves that the taxpayers are wrong, it should clearly and logically explain that the demanded tax is proportionate with their payment ability.

As taxpayers have little trust in the tax authorities, the tax organization can take effective steps to make them confident via precise planning and use of committed, competent and creative manpower and recognition of the strategies and weaknesses.

As taxpayers believe that there exists discrimination in the organization, the organization can take effective and precise measures to remove it if it really exists, but if it is proved not to exist, the organization should clearly and logically explain this issue to the taxpayers using correct ways and procedures.

As taxpayers do not like to pay tax and often postpone it, the tax organization can make use of scientific strategies and correct ways and thus act in a way that tax payment becomes a norm, belief and value among the taxpayers, although this is time-taking.

As taxpayers have certain ideas about direct and indirect types of tax payment and possibly believe that direct payment is hard for them. The organization can possibly collect their taxes using the indirect methods, and take into consideration the proportionality of tax collection with regard to the tax sources.

As taxpayers have particular sensitivity about how the collected taxes are used up, and meticulously ask about it, the tax organization should take appropriate measures to let the public know about how the taxes are expended.

Due to the belief prevalent among the taxpayers that tax is something distasteful, or put differently, it is extortion money, the tax organization can take different effective strategies to change this belief.

As taxpayers have little trust in the transparency of the tax organization. This organization should try its best to increase transparency in all processes and rules.

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