

Investigation of Main Factors on Tax Evasion in Iran

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ABSTRACT

The aim of this paper is considering main factors affecting on tax evasion in Iran economy at 1969-2007 periods. Results indicate that Tax fairness, tax morale, educational level and high age and job level have a significantly negative effect on tax evasion in Iran. Also, Tax burden (effective tax rate), complexity of the tax, middle-age and job level and active population of women to total active population ratio, have a significantly positive effect on tax evasion in Iran economy at 1969-2007 periods. So, government should make suitable fiscal policy in order to increase trust between government and households.

KEYWORDS: Tax Evasion, Tax fairness, Tax Morale, Iran Economy.

INTRODUCTION

The rich theoretical literature on tax evasion [Allingham&Sandmo (1972), Falkinger (1988), Klepper, Nagin, &Spurr (1991), Das-Gupta (1994), Pestieau, Possen, &Slutsky (1994), Caballe&Panades (1997)] has been comprehensively reviewed and analyzed by Andreoni, Erard, and Feinstein (1998). The literature's theoretical models are inventive and mathematically elegant and endeavor to identify variables that are likely to affect tax compliance behavior. However, the plethora of behavioral assumptions and alternative model specifications often yield conflicting results regarding the expected signs and magnitudes of many of the key variables believed to effect tax evasion. These theoretical ambiguities underscore the need for further empirical analysis to examine the determinants of tax evasion. Feige's (2009) study of overseas currency concludes that between 30% and 36% of America's currency is currently held abroad, and his new temporal estimates of overseas holdings are used to generate a time series of domestic currency which is employed in the present study.

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RESEARCH METHOD

Quantitative estimates of the tax revenue lost due to tax avoidance and evasion face the difficulty that, due to the nature of these activities, they escape normal statistical registration and documentation. Attempts to estimate the amount of tax avoidance and tax evasion therefore have to build on concepts which exploit correlations between observable and statistically documented variables and evasion. Estimates for developing countries face the additional challenge that the availability of economic data in general is much more restricted than in developed countries. These data problems may explain why there is very little reliable empirical evidence on tax avoidance and evasion in developing countries.

We have used the following model for considering main factors affecting on tax evasion in Iran economy:

$$\begin{aligned} TaxEvasion_t = & \alpha_0 + \alpha_1 TaxFair_t + \alpha_2 TaxGDP_t + \alpha_3 TaxMorale_t + \alpha_4 Complexity_t \\ & + \alpha_5 SourceIncomOilGas_t + \alpha_6 SourceIncomService_t + \alpha_7 SourceIncomIndustry_t \\ & + \alpha_8 LiteracyRate_t + \alpha_9 Gender_t + \alpha_{10} Age1030_t + \alpha_{11} Age3050_t + \alpha_{12} Age5070_t \\ & + \alpha_{13} Percentage20_t + \varepsilon_t \end{aligned} \quad (1)$$

We used data base from web site of Central Bank of Iran at 1969-2007 periods.

RESULTS

First of all, we have tested unit root for variables with ADF and PP tests by Eviews software.

Table 1. Unit Root Tests for Variables

Statistic	Type of Test	Variables
-2.21**	ADF	LTaxFair
-3.04**	ADF	LTaxMorale
-2.67***	PP	LTaxComplexity
-2.99***	ADF	LTGDP
-5.04*	ADF	LAge1030
-3.99**	ADF	LAge3050
-3.62**	ADF	LAge5070
-3.98**	ADF	LGender
-5.50*	ADF	LPercentage20
-3.46**	ADF	Literacyrate
-5.26**	ADF	LSourceIncomeService
-5.20*	ADF	LSourceIncomeOilGas

Results indicate that all of the variables are stationary. Second, we have used Johansen cointegration test for considering long run relationship between independent variables and dependent variable.

Table 2. Johansen Cointegration Test

Null Hypothesis	First Hypothesis	Statistic	Interaction hypothesis	Statistic
r = 0	r ≥ 1	208.6*	r ≥ 1	843.3*
r = 1	r ≥ 2	158.8*	r ≥ 2	634.7*
r = 2	r ≥ 3	103.7*	r ≥ 3	475.9*
r = 3	r ≥ 4	93.4*	r ≥ 4	372.3*
r = 4	r ≥ 5	69.6*	r ≥ 5	278.9*
r = 5	r ≥ 6	49*	r ≥ 6	209.3*
r = 6	r ≥ 7	48.4*	r ≥ 7	160.3*
r = 7	r ≥ 8	39.6*	r ≥ 8	111.9*
r = 8	r ≥ 9	33*	r ≥ 9	72.3*
r = 9	r ≥ 10	23.8*	r ≥ 10	39.2*
r = 10	r ≥ 11	15.1*	r ≥ 11	15.5
r = 11	r ≥ 12	0.37	r ≥ 12	0.37

Results indicate that there are ten and eleven long-run equilibrium relationship between independent variables and dependent variable.

Table 3 indicates estimation results as following:

Table 3. Estimation Results

P-Value	Coefficient	Variables
0.00	-58.98	Intercept
0.015	0.19	LTaxEvasion _{t-1}
0.08	0.12	LTaxEvasion _{t-2}
0.181	-0.05	LTaxFair _t
0.00	1.44	LTaxGDP _t
0.089	-0.17	LTaxMorale _{t-2}
0.102	0.39	LComplexity _t
0.135	-0.41	LSourceIncomeOilGas _t
0.00	3.65	LSourceIncomeService _t
0.012	-0.04	LiteracyRate _t
0.048	0.8	LGender _t
0.00	7.3	LAge1030 _t
0.026	2.6	LAge3050 _t
0.00	-4.5	LAge5070 _t
0.626	0.25	LPercentage20 _{t-1}

$$\begin{aligned}
 LTaxEvasion_t = & -58.98 + 0.19LTaxEvasion_{t-1} + 0.12LTaxEvasion_{t-2} - 0.05LTaxFair_t + 1.44LTaxGDP_t \\
 & - 0.17LTaxMorale_{t-2} + 0.39LComplexity_t - 0.41LSourceIncomeOilGas_t \\
 & + 3.65LSourceIncomeService_t - 0.04LiteracyRate_t + 0.8LGender_t + 7.3LAge1030_t \\
 & + 2.6LAge3050_t - 4.5LAge5070_t + 0.25LPercentage20_{t-1}
 \end{aligned}$$

Results indicate that Tax fairness, tax morale, educational level and high age and job level have a significantly negative effect on tax evasion in Iran. Also, Tax burden (effective tax rate), complexity of the tax, middle-age and job level and active population of women to total active population ratio, have a significantly positive effect on tax evasion in Iran economy at 1969-2007 periods. So, government should make suitable fiscal policy in order to increase trust between government and households.

Conclusion

Tax evasion is the general term for efforts by individuals, firms, trusts and other entities to evade taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability, and includes, in particular, dishonest tax reporting (such as declaring less income, profits or gains than actually earned; or overstating deductions). The aim of this paper is considering main factors affecting on tax evasion in Iran economy at 1969-2007 periods. Results indicate that Tax fairness, tax morale, educational level and high age and job level have a significantly negative effect on tax evasion in Iran. Also, Tax burden (effective tax rate), complexity of the tax, middle-age and job level and active population of women to total active population ratio, have a significantly positive effect on tax evasion in Iran economy at 1969-2007 periods. So, government should make suitable fiscal policy in order to increase trust between government and households.

The tax evasion decision may depend on the individual taxpayer's perceptions of the behaviour of others. The more widespread evasion is, the more socially acceptable it may become, and the lower is the subjective probability of being detected. This is a good reason for trying to control evasion; relaxing policy measures in this area may unleash mechanisms that lead to a much higher level of tax evasion.

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