

A Survey in the Status of Instrumental, Diagnostic and Certain Taxes

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Abstract

As tax law increases in complexity, its impact on individuals grows burdensome, the stakes involved for businesses continue to rise and proper tax support becomes of cardinal importance. The setting of new taxes is a notably visible act that has potential political costs. Risk needs to be mitigated; opportunities cannot wait to be seized; critical decisions should be taken and implemented. We undertake to provide consulting services to businesses and individuals with regards to taxation issues either on an "ad hoc" basis or in the form of continuous tax support. This paper examines differences in taxation process between instrumental, diagnostic and certain incomes and also the impact of auditors' statements on companies' tax differences in Tehran Stock Exchange. Results showed that quality improvement of auditing makes the taxation process better. Quality of tax declared by tax auditors influenced from auditing assessments and auditing quality is efficient in this case

Key words: Instrumental Tax, Diagnostic Tax, Certain Tax

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Introduction

The setting of new taxes is a notably visible act that has potential political costs. Today, taxes as fiscal policy tools of governments play a crucial role in the economic growth and stability. Proper implementation of the provisions of the direct taxes is one of the most important objectives of the Tax Organization and in this regard, the tax collection system ensures the enforcement of the law. Although tax issue is one of the oldest issues in Iran, compared to the most developing countries and some of the developed ones, tax system performance reflects the weakness of rules efficiency. Low acceptance and inefficiency of previous tax law especially during 1971s, leads to law reform and revise. In revising previous law and establishing current one, we seek to achieve the objectives of development programs in the tax sector (Alm, 1999). In other words, through applying expansionary fiscal policy and reducing tax rate, the government can increase manufacturers' margin, consumers' disposable income and demand for goods and services and in this way it can cope itself with the pressures of the recessions. (Park and Hyun, 2003). In Iran, economy due to economic, cultural and political reasons, tax effectiveness especially in annual budget is not considered much. The role and impact of oil incomes in government's current funding makes that government budget depends on oil incomes and current expenditures will increase and will deprive the economy to rely on steady and reliable incomes. The main problems in this regard are as follows. (Falihi, 2008)

1) Incompatibility of financial and tax laws; 2) direct relationship between taxpayer and tax officer; 3) tax evasion; 4) high costs of collecting tax; 5) Low share of non-governmental organizations in tax revenues; 6) lack of tax leverage for economic control; 7) low share of tax incomes in GDP and government expenditures. Hence according to these obstacles, it can be expected that in Iran the process of expression to taxation has some weaknesses but the macroeconomic planners must consider the difference between expression (related to tax quality by taxpayers) and diagnosis (related to tax quality by auditors) steps. In this study the researcher tries to answer this question: Which of the mentioned sections (taxpayers or auditors) have the higher tax quality in the listed companies of Tehran Stock Exchange?

Literature

Tax is a powerful leverage for financial and economic policies, social activities and government expenditures in developed countries. (Australian Taxation Office, 2008). In these countries tax incomes are on the top of government's public incomes. In many countries the share of tax incomes from the government's total incomes is often more than other incomes. (Michelson et al., 1995). Asgarifard (2007) in a study of descriptive analysis of tax system combines law, operative methods, taxpayers and tax office as a government representative which consists of register chain by taxpayers to the tax levy by tax office. In this context, tools in the tax system like tax payment methods, updating tax laws, Modernization of the job description and organizational chart considers the tax office as a material element of tax culture. Abdollahi (1999) believes that reasons for tax evasion by taxpayers consists of inefficiency of information system, lack of effective enforcement and also progressive tax rates with fast slope. Ghamtiri and Eslam Lulian (2008) in an article entitled "Estimate of tax endeavors in Iran and its comparison with selected developing countries" examined tax capacity of Iran and compared it with 14 selected developing countries. In this regard, the pattern of tax ratios during 1994-2002 are examined by using regression methods seemingly irrelevant.

Research Method

Regarding objectives, this study is an applied research. Regarding the method of inference, this is a descriptive-analytic research. Descriptive research describes and interprets the reality with no manipulation. This kind of research includes collecting information to test hypothesis or to answer the questions related to the current studying situation. Regarding research design, current study is an ex post facto research. The objective of this kind

of research is to examine the relationship between variables and data collect and analyze from a natural environment or from a past events that have occurred without the involvement of the researcher.

Research Hypotheses

Hypothesis 1: there is a meaningful relationship between the type of industry, diagnostic and certain tax differences.

Hypothesis 2: there is a meaningful relationship between the type of auditor assessment, diagnostic and certain tax differences.

Statistical Population and Sample

Availability of data is the necessary condition for every study which in the current situation of Iran only available data is from listed companies in Tehran Stock Exchange. In this study, the population consists of companies with following characteristics:

1-As regards that instrumental taxes of companies surveyed by tax office in next year, so it is expected that diagnostic and certain taxes of accepted population can be available from 2011.

2-Companies accepted in Tehran Stock Exchange from 1998 to 2014.

3-Company should not be an investing or financial broking company (due to the lack of providing budget and lack of profit forecasts).

4-Company's financial year should be finished in March.

5-The company should be profitable.

According to the above restrictions, 86 companies were selected as our statistical sample.

Table1. : Statistics of surveyed companies regarding restrictions

Number of accepted companies in Exchange in 1998 to 2014	405
Number of companies that don't finished their financial statements in March	98
Number of companies that don't disclose their instrumental, diagnostic and certain taxes	124
Investment companies and financial brokers	103
Companies deleted during the studying years	22
Companies with loss during the studying years	64

Testing Hypotheses

Hypothesis 1: there is no meaningful difference between diagnostic and certain taxes due to the type of industry.

Table3. : Evaluation of significant difference between diagnostic and certain taxes

Level of significance	t	Mean	diagnostic tax & Certain tax
.042	-3.032	-589	Mining Industry
.115	-1.754	-412	Food Industry
.715	-.857	-434	Carton Making Industry
.009	-10.03	-318	Engineering Industry
.023	-2.326	-714	Car Industry
.037	-2.369	-507	Metallic and non-metallic minerals industry
.011	-4.845	-196	Machinery and Equipment Industry
.036	-2.578	-3298	Chemical Industry

The above table suggests that this hypothesis is rejected in most of the studied industries. In other hands, there is a significant difference between the mean of instrumental and certain taxes in level of significance 5%. Also, negative upper and lower bound of chemical, machinery and equipment, metallic and non-metallic minerals, car, engineering, and mining industries showed that mean of instrumental tax is lower than the mean of certain tax. Just in the carton making industry and food industry this difference was not seen.

Hypothesis 2: there is no meaningful difference between instrumental and certain taxes due to the type of industry.

Table4. : Evaluation of significant difference between instrumental and certain taxes

Level of significance	t	Mean	Instrumental tax & Certain tax
.125	1.658	6897	Mining Industry
.564	-.325	-863	Food Industry
.318	.907	4356	Carton Making Industry
.235	-	-878	Engineering Industry
.086	1.365	2564	Car Industry
.036	2.236	960	Metallic and non-metallic minerals industry
.874	.032	1236	Machinery and Equipment Industry
.147	2.514	2795	Chemical Industry

Unlike the quality of tax in scope of taxpayers, the above table suggests that this hypothesis is accepted in most of the studied industries. In other hands, there is no significant difference between the mean of instrumental and certain taxes in level of significance 5%. Also, negative upper and lower bound of chemical, machinery and equipment, car, engineering, carton making, food, and mining industries showed that there is no significant

difference between the mean of diagnostic and certain taxes. Just in the metallic and non-metallic minerals industry this difference was seen.

Hypothesis 3: there is no meaningful difference between instrumental and certain taxes with acceptable assessment auditing.

Table5. : T-test for evaluation of significant difference between instrumental and certain taxes with acceptable assessment

Level of Significance	df	t	Paired Differences					Instrumental tax & Certain tax
			95% Confidence Interval of the Difference		Mean Error	Standard deviation	Mean	
			Upper bound	Lower bound				
.519	85	-1.658	712	-5418	1435	203	-329	

Results of table 5 show that the hypothesis has been accepted. In other words, when auditors' reports be accepted, there is no significant difference between the mean of instrumental and certain taxes in level of significance 5%. Also, negative upper and lower bound showed that there is no significant difference between the mean of diagnostic and certain taxes. However, our selected sample includes the companies which receive accepted assessment from auditors (financial statements provided according to accepted rules). So on the basis of results obtained from data analysis, we can conclude that quality of taxpayers' tax is affected by auditing assessment and it can be useful in this regard. On the other hand, by having standard or accepted assessment it can be expected that tax quality be improved. Also with regard to results obtained from conditional reports analysis, this hypothesis strengthened that there is a close relationship between auditing assessment and quality of taxpayers' tax. Results obtained from conditional report analysis are as follows:

Hypothesis 4: there is no meaningful difference between instrumental and certain taxes with conditional assessment auditing.

Table6. : T-test for evaluation of significant difference between instrumental and certain taxes with conditional assessment

Level of significance	df	t	Paired Differences					Instrumental tax & Certain tax
			95% Confidence Interval of the Difference		Mean error	Standard deviation	Mean	
			Upper bound	Lower bound				
.009	84	-3.568	-1744	-6218	913	5113	-3542	

Table 6 shows the hypothesis of no significant difference between instrumental and certain tax when reports are conditional, has been rejected. In other words, there is a significant difference between the mean of instrumental and certain taxes in level of significance 5%. Also, negative upper and lower bound showed that the mean of instrumental tax is lower than the mean of certain tax. However, our selected sample includes the companies which receive conditional assessment from auditors. In the following, we evaluate the quality of diagnostic tax.

Hypothesis 5: there is no meaningful difference between diagnostic and certain taxes with acceptable assessment auditing.

Table7. : T-test for evaluating significant difference between diagnostic and certain taxes with accepted assessment

Level of significance	df	T	Paired Differences					Diagnostic tax & Certain tax
			95% Confidence Interval of the Difference		Mean error	Standard deviation	Mean	
			Upper bound	Lower bound				
.147	84	1.325	2548	-635	719	6542	5879	

Results of table 7 show that the hypothesis has been accepted. In other words, when auditors' reports be accepted, there is no significant difference between the mean of diagnostic and certain taxes in level of significance 5%. Also, negative upper and lower bound showed that there is no significant difference between the mean of diagnostic and certain taxes. It should be noted that auditor's assessment is of accepted one (financial statements provided in accordance with generally accepted accounting principles). So on the basis of results obtained from data analysis, we can conclude that quality of tax diagnosed by tax auditors is affected by auditing assessment and it can be useful in this regard. On the other hand, by having standard or accepted assessment it can be expected that diagnosing tax quality be improved. Also with regard to results obtained from conditional reports analysis, this hypothesis strengthened that there is a close relationship between auditing assessment and quality of taxpayers' tax. Results obtained from conditional report analysis are as follows:

Hypothesis 6: there is no meaningful difference between diagnostic and certain taxes with conditional assessment auditing.

Table8. : T-test for evaluating significant difference between diagnostic and certain tax with conditional assessment

Level of significance	Df	T	95% Confidence Interval of the Difference		Paired Differences Mean error	Standard deviation	Mean	Diagnostic tax & Certain tax
			Upper bound	Lower bound				
.026	84	2.117	3274	625	745	588	2986	

Results of table 8 show that the hypothesis of no significant difference between diagnostic and certain taxes when the reports are conditional has been rejected (like instrumental tax). In other words, there is a significant difference between the mean of diagnostic and certain taxes in level of significance 5%. Also, positive upper and lower bound showed that the mean of diagnostic tax is more than the mean of certain tax.

Conclusion

According to the main assumptions tests, the quality of declared tax by taxpayers has a significant difference with certain tax and the representation theory can justify this difference. But what is important in this way is the lack of transparency of financial statements and false declaration of tax which impairs the tax justice rule and true declaration by taxpayers. But in the test of auditor's quality of tax, diagnosed tax by them in comparison with declared tax by taxpayers is more acceptable. Industry is an important variable which can affect information environment and sometimes macroeconomic variables. So this expectation was tested in the second hypothesis to evaluate its effect on tax process.

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