Investigating the Status of the Tax System During 2005-2015 in Iran

[1]Sayyed Mohammad Mirmohammadi and [1]Nader Jannati
[1]Allameh Tabataba'i University, Tehran, Iran

Abstract: Iran's tax system has witnessed major reforms in tax policy and processes over the past decade. The aim of this study is to investigate the status of the tax system during 2005-2015 in Iran. The research method is descriptive conducted using a questionnaire, data obtained from statistics of tax organization and descriptive statistics such as tables and figures. The research population is the state tax organization and quantitative and descriptive data from 2005-2015 were used. The results showed that the direct and indirect tax revenues during 2005-2015 had increased with an average growth rate of 19.2% which shows the change in the composition of tax revenues that government has moved his taxation policies from production to consumption. Results showed that the highest percentage of direct and indirect tax revenues was in 2009 and 2014, respectively. The results also showed that the highest percentage in the natural entity's income tax, wealth tax and legal entity's income tax was observed in 2009, 2015 and 2013, respectively. With regard to indirect taxes on the imports of goods and services, the highest percentage was observed in 2005 and 2015, respectively. Investigation of direst tax and value added tax declarations showed that the number declarations had an increasing trend from 2005-2015 and business cooperation has been increased.

Key words: Iranian tax system, direct taxes, value added tax, tax declaration, business cooperation, Iran

INTRODACTION

Increasing tax revenue receipts is one of the main goals of reforming the tax system in many countries, especially developing countries. While most options and priorities for reforming the tax system are clear and the required procedure to make changes in the tax system are predetermined, developing strategy for the development of the tax system requires solving various administrative bottlenecks simultaneously which cannot be done without a clear indication of priorities and constraints.

Tax reforms are done through means consistent with the goals of efficiency, justice, simplification of administrative system and fiscal decentralization. Reforming tax collecting organization is one important aspect of tax reform that despite its immense importance, has not been paid much attention in the literature. This is of utmost importance especially in developing countries where their administrative capacities for implementing the regulations are limited. Relatively simple and basic tasks such as registration, identification, declares processing, tax collection, audit, tax dispute resolution, imposition of fines and etc., are factors that require a reconstruction and reengineering given massive amounts of tax records and administrative activities. In the meantime, the establishment of this new structure, staff training, computerization of tax collection and etc., are all elements that other reform programs must be programmed in their

context. Iran's tax system has witnessed major reforms in tax policy and processes over the past decade. Unfortunately, despite the progress made in applying IT in taxation, we are witnessing dispersion and multiplicity of different computer systems in state taxation affairs organization.

With regard to the abovementioned problems and considering the importance of developing the state tax system, the present study attempts to provide a new plan for the exploitation of Information Technology (IT) in the tax system which is considered a new step towards modernizing the tax system in the country. However, due to resource constraints, it is necessary to take advantage of international experience in addition to prioritize options for reforming the tax system in the field of information technology utilizing scientific methods.

Investigation of some of the tax system performance evaluation indexes such as the ratio of tax revenues to gross domestic production and the ratio of tax revenues to the government's current costs suggests a long distance with corresponding indices of a developed and modern tax system. The tax system of the country is faced with many challenges on the path to achieve its rightful place in the sustainable financing for the government. Low ratio of tax to GDP that was never >8%, relatively low ratios of tax to operating costs and tax to the public budget resources which have ranged from 40-45% and 30-37, respectively all indicate the poor role of tax in the

---

Corresponding Author: Sayyed Mohammad Mirmohammadi, Allameh Tabatabai University, Tehran, Iran

economic system of the country. Investigation of some factors of tax collection system, compliance costs and etc., shows not very favorable status of tax system in these sectors. However, the economic situation of the country in recent years and the problems caused by extreme volatility in oil revenues imply the need for reliance of state budget on domestic sources and tax more than ever.

Although, several programs have been implemented to reform the tax system in the past decade, there is a great distance from a favorable tax system. Without a doubt, the development of a tax system has various aspects. If the country's tax system is considered to be consisted of three components of the national production, the tax collector system and regulations, the implementation of any program of tax system reform and development should encompass all three components mentioned above. In other words, in addition to the reform of tax policies governing the tax base and the introduction of the new bases, improving the structure of tax rates, organizing incentives and tax exemptions system, improving performance bonds and reforming tax proceeding system are the most important steps that should be taken to reduce tax evasion, increase efficiency of tax assessment by reducing the cost of compliance, reduce administrative delay in tax collection reduce administrative costs of tax collection, move toward self-declaration, reform the process of detection and collection of taxes (Fig. 1).

Therefore, gaining access to the information of direct and indirect taxes is of great importance. In this regard, several studies have been conducted as follows.

GilakHakimabadi (2000) conducted a comparative analysis of the distributional effects of income tax in Islam and income tax system in Iran and stated that the role of taxes in reducing economic disparities has been one of the most controversial issues in recent decades. Destructive effects of progressive taxes on efficiency and tax compliance have led to global tax reforms. It seems that the implementation of the income tax system in Islam can partly overcome shortcomings of distributional effects of the current income tax system due to its features and popularity in the country.

Dadgar and Ghaffari (2008) investigated the effect of income taxes on distribution of income in Iran and the results indicated that favorable income tax rates in the years of the third development plan were 25.18, 28.28, 12.5, 12.5 and 12.5, respectively. Zayer (2009) studied the status of simplification in tax reform plans (based on global experience and challenges of the tax system in Iran) and the results showed that low tax compliance rate, high number of circulars issued and inappropriate combination
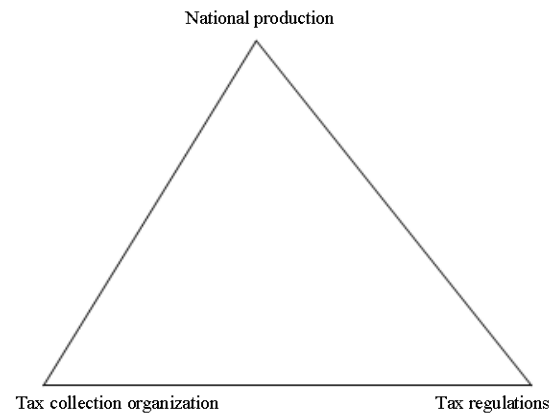

Fig. 1: Components of a country's tax system

of tax revenues are the basic and evident indications of the complexity of tax system in the country. Therefore, one of the fundamental challenges of the tax system in the country is tax simplification in its general sense and tax regulation's simplification in its limited sense which requires determination and cooperation of tax organization and legislative bodies.

Arabmazar and Dehghani (2009) investigated the efficiency estimates of businesses and legal entitie's income tax. The study of province's efficiency with regard to businesses and legal entitie's income tax suggested that the mean efficiency for developed provinces excluding Tehran province was 72.3% and for less developed provinces was 66.5%. With regard to the legal entitie's income tax, the mean efficiency for developed provinces excluding Tehran province was 47.8% and for less developed provinces was 72.4%. Inefficiency of each province is considered as the gap between legal and actual capacity of the province and the potential capacity is calculated. The results on tax effort also show that in the period, the mean tax effort of businesse's income tax had a decreasing trend and the mean tax effort of legal entitie's income tax had an increasing trend.

Bagheri and Amoori (2009) studied, identified and prioritized the financial ratios affecting taxable income and the results showed that the ratios such as net income, gross profit, earnings per share, return on equity and return on working capital that are somehow calculated based on the company's profit are more important in determining the risk of taxpayer's declarations by affecting taxable income.

Poorghorban (2010) evaluated the effect of food subsidies and indirect taxes on poverty and stated that when taxes and subsidies on food are imposed, prices change and there by the purchasing power of consumers and their welfare is also influenced.

Seifipoor and Rezaei (2011) investigated factors affecting income distribution in Iranian economy with an

emphasis on taxes and asserted that besides that tax is one of the most important sources of funding government spending, it is one of the policy instruments affecting restoring economic stability, reallocating economic resources and adjusting income inequality. The aim of this paper is to specifically assess the effect of the tax system on income distribution and in addition to the effect of direct and indirect taxes, factors such as unemployment and the minimum wage are also taken into consideration. The results show that income distribution is improved with the increase in direct taxes and minimum wages and cuts in indirect taxes and unemployment.

Khani *et al.* (2012) evaluated the effect of professional conduct observance on reducing tax audit conflicts of interest under Article 272 of direct taxes Act. The results showed significant differences of professional conduct observance in these two groups and differences of opinions on the effect of professional conduct observance on improving the efficiency.

Mehrabani and NassiriAghdam (2013) studies the optimal effective rate of income tax in Iran's economy. The findings showed that in Iran, the optimal effective rate of income tax is 3.1% in the short term and 1.26% in the long term. Based on the estimated optimal effective rate of tax on income, it can be concluded that if the effective rate of income tax is equal to the rates mentioned and then, the resulting tax revenue is redistributed among all taxpayers as a whole, social welfare will be maximized in the short term and the long term, respectively.

Jalalvand and Shahikitash (2013) assessed the efficiency of tax system in the development plans in Iran. The results showed that based on the method of center of mass, the average efficiency of the tax system during 1978-2008 was 0.55 using medium and almost large levels, respectively. The highest level in the efficiency of tax system was during 1998-2000.

Nasiri (2014) examined the direct tax and business environment reform bill and the results showed that with the adoption of this bill1. The overall tax rate does not change for typical corporations. If comprehensive tax plan is implemented, it is possible for the tax payer corporate to reduce the time and number of tax payments. In terms of the adoption of investment costs as an acceptable cost and not imposing taxes on premiums resulting from the revaluation of assets, business incentives for economic actors is strengthened. At the same time, the bill takes away from the economic basis of taxation by imposing tax on wealth and tax on repeated transfers. Taxes on people's income, regardless of the rate of tax on corporations and without reforming exemptions, the tax system is experiencing duality. In general, it seems that by fixing some shortcomings, the approval of the bill in Islamic parliament could lead to good improvements in the business environment of economic actors.

Research objectives:

- Investigating the status of tax revenues in Iran from 2005-2015
- Investigating the status of direct tax revenues in Iran from 2005-2015
- Investigating the status of indirect tax revenues in Iran from 2005-2015

MATERIALS AND METHODS

The research method used in this study is descriptive, since the aim of the study is investigating the status of tax revenues from 2005-2015. The present study was conducted using a questionnaire and data obtained from statistics of tax organization and descriptive statistics such as tables and figures.

Statistical population and sample: The research population is the state tax organization and quantitative and descriptive data from 2005-2015 were used. The amount of total tax revenue, direct and indirect taxes were also collected.

RESULTS AND DISCUSSION

Direct taxes: Table 1-2 shows the performance of direct taxes.

Indirect taxes: Table 3 shows the performance of direct taxes during 2005-2015.

The trend of electronic declaration: State tax organization has designed lots of programs to expand electronic tax in previous years. In this regard, the organization has adopted many measures in order to provide electronic services and realize electronic tax. Some of the most important ones are:

- Getting tax declarations electronically
- Allowing electronic payment of taxes in various tax sources
- Obtaining taxpayer's seasonal deals electronically
- Getting a list of payroll and taxes electronically
- Performance of measures for electronic tax declarations

Proceeding performance of total tax revenues: Direct and indirect tax revenues during 2005-2015 with the average growth of 19.2% have increased from 134,575 billion rials in 2005-781,931 billion rials in 2015 (Table 1). During this period, the share of direct taxes in total tax revenues has decreased from 62% in 2005-54%in 2015 whereas the share

Table 1: The number of electronic tax declarations

Source	2011	2012	2013	2014	2015
Direct taxes	1778363	2834623	3971574	4761835	4776481
Value added tax	768682	921846	1064528	1169230	1262441

Reports of the operational program of 2016

Table 2: Performance of tax revenues during 2005-2015

Year-description	Direct taxes	Indirect taxes	Total tax revenues
2005	84030	50545	134575
2006	97691	53929	151621
2007	126334	65482	191815
2008	167153	72589	239741
2009	209030	91005	300035
2010	168749	11579	284528
2011	220418	139034	359452
2012	248278	146889	395167
2013	277883	216367	494249
2014	359199	350452	709651
2015	421128	360804	781931
Mean growth	18	22	19

Figures are in milliard rial and percentage (statistics of national treasury)

Table 3: Performance of direct taxes during 2005-2015

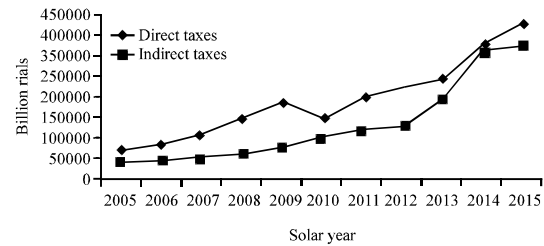| Year-description	Legal entitie's income tax	Natural entitie's income tax	Tax on wealth
2005	64460	15253	4317
2006	72862	19451	5378
2007	92611	25961	7762
2008	127794	31588	7771
2009	167300	33928	7802
2010	116500	41116	11133
2011	157893	49612	12913
2012	169706	62678	15894
2013	179969	76068	21846
2014	240046	94038	25115
2015	278202	118583	24342
Mean growth	16	23	19

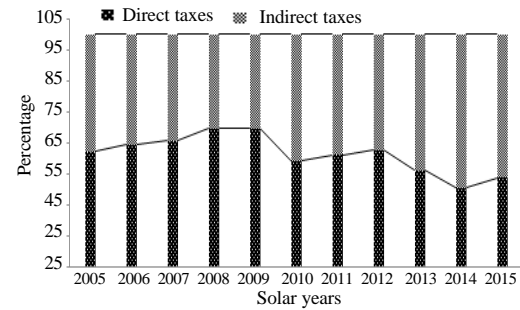Fig. 2: The trend of direct and indirect taxes during 2005-2015

Fig. 3: Combining direct and indirect taxes during 2005-2015 (statistics of national treasury)
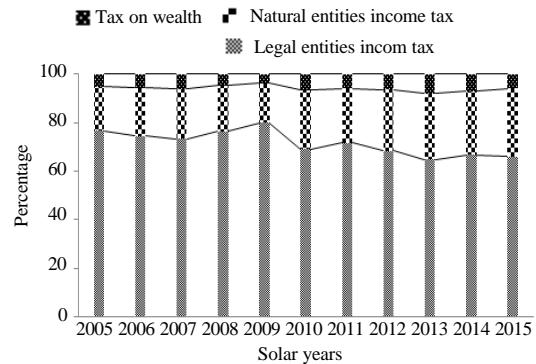

Fig. 4: The trend of changes in the composition of direct taxes during 2005-2015

of indirect taxes has increased from 38-46% (Fig. 2 and 3). The change in the composition of tax revenues shows that government has moved his taxation policies from production to consumption. This is especially quite obvious since 2008 and with the implementation of value added tax law and expansion of the scope of the tax.

Direct taxes: Direct taxes are compose of two bases of income (including legal entitie's income, businesse's income, tenement incomes and incomes of the salary and wage of public and private sector's employees) and wealth (including inheritance, transfer of shares and transfer of tenements). In the period under review (2005-2015) the average share of tax based on revenue from direct taxes was about 94% and its average growth was about 17%. During this period, the average share of tax based on wealth of direct taxes was about 6% and its average growth was 19%. In the period, the share of legal entitie's income tax as a major source of income base has decreased from 77% of direct taxes to 66% whereas the share of natural entitie's income tax and wealth tax has increased from 18 and 5% in 2005-28 and 6% in 2015, respectively (Fig. 4 and Table 2). It is worth noting that

investigating the changes in the share of the components of natural entitie's income tax shows that increasing the share of this tax source of direct taxes during the period was related to income tax and payroll tax and contribution of businesse's income tax and tenement tax has not changed during this period.

Indirect taxes: Indirect taxes are levied based on consumption and include import taxes and taxes on goods and services (VAT). Indirect taxes over the period of 2005-2015 with an average share of 39% of total tax revenues had an average growth of 22% and have increased from 50 thousand billion rials in 2005-360 billion

Table 4: Performance of indirect taxes during 2005-2015

Year-description	Tax on goods and services	Tax on imports
2005	14591	35954
2006	14123	39806
2007	16663	48819
2008	15900	56689
2009	28451	62554
2010	37893	77886
2011	60104	78930
2012	70486	76403
2013	135969	80398
2014	217026	133426
2015	246376	114428
Mean growth	33	12

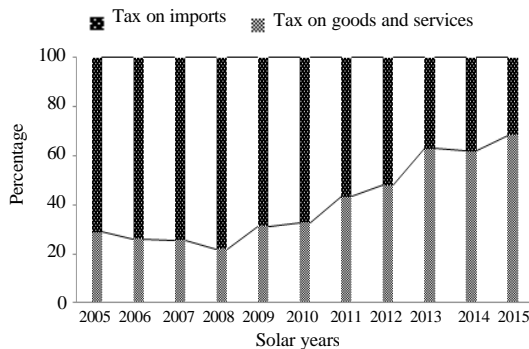Fig. 6: Trend of the number of electronic declarations

Fig. 5: The combination of indirect taxes during 2005-2015 statistics of national treasury

rials in 2015 (Table 3, 4 and Fig. 5). The composition of indirect taxes shows that during the period, the share of taxes on goods and services from this source has been rising and has increased from 29% in 2005-68% in 2015. The share of import taxes have also decreased from 71% in 2005-32% in 2015.

The trend of electronic declarations: State tax organization has designed lots of programs to expand electronic tax in previous years. In an ideal world and in a law-abiding society, people have to pay their tax debts and in such a society, the duty of the tax system is providing convenience to citizens in order to carry out their responsibilities. But the reality is that such a society does not exist and therefore, all countries should establish and institutionalize compliance to tax laws and implement it by the rule of law and there should be always care and continuous supervision (Fig. 6).

Based on existing literature, people will comply with tax laws up to a point where they feel that lack of tax compliance costs more than the tax they pay. In any case, a combination of factors such as social values, public morality, public perception of fairness in the tax system, economic factors and etc. are involved in the formation of tax culture or compliance. But the task of tax collecting organization is not only to levy tax through enforcement but tax collection through tax compliance.
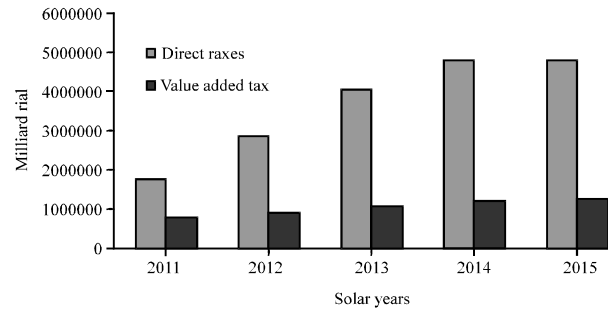
Due to limited resources, tax organizations cannot appoint one police for each tax payer. That's why today's tax systems in all countries have tended toward self-declaration so that tax payers pay their taxes without any compulsion. But self-declaration system leads to high levels of compliance only when the lack of compliance is associated with heavy fines. Efficient management of levy system requires that citizens voluntarily comply with the tax law and the research is done with the least possible cost for society. Tax compliance in developing countries with large informal sectors, low levels of literacy and popular culture inadequate salary structure for public sector employees, poor communications, corruption in the judiciary and above all the opposition of parties with major reforms in the tax system is associated with many problems.

As mentioned in the previous sections, reforming the tax system has several dimensions. In a general classification, there are two types of reforms in taxation system that is reforming tax policy and reforming tax system. According to the literature, reforming tax policy is monitoring changes and improving the tax structure or composition of taxes, tax rates, the rate of tax penalties, the tax exemptions, tax incentives and so forth. After scientific analysis and assessment of impact of any changes in the composition of taxes, tax rates etc., on the behavior of economic agents and on government revenues, the reforms ultimately lead to the tax law. While the reform of tax system or tax collecting organization is monitoring the design or redesign of the administrative procedures to implement the tax policies or implement tax laws. Here, the main objective was to design an efficient administrative mechanism for a tax system that could collect the government receivable taxes in minimum possible time and with the lowest cost of compliance and administrative costs. Reforming tax collecting organization in turn has various dimensions including designing forms, designing implementation processes, simplification, improving compliance, reforming registration processes,

filling in and submitting declarations, reforming auditing processes, mechanization of the processes of identification, detection and collection of taxes and issues like that.

CONCLUSION

One of the programs of reforming tax system that has attracted the attention of many countries of the world in more than a decade is development of IT applications in different sectors of the tax administration organization. Several goals for this program such as simplification, reduction of cost of compliance, improvement of tax compliance, reduction of tax evasion, reduction of tax fraud and crime are listed by countries around the world.

REFERENCES

Arabmazar, A.A. and A. Dehghani, 2009. Estimation of efficiency of business and legal entities income tax. Tax J., 17: 45-64.

Bagheri, B. and M. Amoori, 2009. Identifying and prioritizing financial ratios affecting taxable income. Tax J., 17: 73-80.

Dadgar, Y. and A. Ghaffari, 2008. Investigating the effect of income tax on income distribution in Iran. Econ. Stud., 8: 73-97.

GilakHakimabadi, M.T., 2000. Comparative analysis of the distributional effects of income tax on income tax system in Islam and Iran. Econ. Stud., 57: 198-228.

Jalalvand, V. and M.N. Shahikitash, 2013. Investigation and assessment of efficiency of tax systems in development programs. J. Econ. Sci., 7: 9-35.

Khani, A., K. Mehrani and J. Bagheri, 2012. The effect of observing professional code of ethics on reducing conflicts of interest of tax audit under Article 272 of Direct Taxes Act. Knowl. Auditing, 21: 1-12.

Mehrabani, V. and A. NassiriAghdam, 2013. The effectiveoptimal rate of income tax in Iran: Application of social welfare. Social Welfare, 13: 187-212.

Nasiri, A.A., 2014. The bill amending the law on direct taxation and business environment. Parliament Strategy, 21: 167-193.

Poorghorban, M., 2010. The effect of food subsidies and indirect taxes on poverty. Econ. Stud., 1: 1-16.

Seifipoor, R. and M.G. Rezaei, 2011. Investigating factors affecting income distribution in Iran with emphasis on tax. Tax J., 19: 121-142.

Zayer, A., 2009. The status of simplification in tax reform plans: Global experience and the challenges for the iranian tax system. Tax J., 17: 157-184.