Full Length Research Paper

Unnecessary execution of tax audit from the view of tax officers

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Official accountants know they are right according to law, and they know distrust can cause a kind of indifference to audit profession. This causes displeasure among taxpayers, because they incur expensive costs during provision of tax reports subject of article 272. However, tax officers certainly have special reasons for this decision. In this paper, we study the unnecessary execution of tax audit from the view of tax officers, and distrust of tax officers on official accountants’ report. Statistical society of this research includes two groups of official accountants in Tehran and tax officers of General Administration of Taxpayers (GAT) of Tehran; there were 110 persons from the first group and 170 persons from the second group. Data gathering tool of this research was questionnaire with Lickert’s 5 options spectrum. Assumptions were tested by t test in 5% error level. The findings show that there is significant relation between “unnecessary execution of tax accounting by tax officers” and distrust of tax officers on reports of official accountants.

Key words: Tax audit, tax officers, official accountants.

INTRODUCTION

Lack of transparent rules and laws causes personal problems when collecting taxes; this leads to wasting of people’s and government’s rights (Zare et al., 2012). Therefore, guiding tax system by using efficient styles to diagnose tax incomes causes change and promotes qualitative level of settlement and determination of real income subject to tax. It provides necessary base for settlement of financial discipline and transparency in real and legal person activities and produces a trust between tax system and taxpayers (Zare, 2011).

Attracting the trust of taxpayers is one of the most effective solutions for success of The State Tax Affairs Organization to diagnose and collect taxes. But, accomplishment of this problem requires existence of sufficient rules and laws.

Now, one of the effective tools to determine income subject to tax is using the services of an official accountant, a member of Iran Official Accountants Society, toward execution of article 272 of DTA. One of the most important steps of tax collection process is determination of income subject to tax, which is accomplished through the following groups according to terms of Direct Taxes Act (DTA) and its executive bylaws (Davani, 2002):

a) Officers of The State Tax Affairs Organization (STAO)
b) Official accountants and institutions members of Iran Official Accountants Society (IOAS) and Audit Organization (AO) (subject to article 272).

After approval of the act of using specialty services of qualified accountants in 1993, regarding all important goals followed by this act, it was delayed up to 2001 because of non-cooperation between the dominant tax structures in country (Zare and Shahsavari, 2012).

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However, this act was added to the text of The State tax laws on 16/2/2002 subject to article 132 of amendments of Direct Taxes Act.

The complete text of article 272 of DTA is (Hanifehzadeh, 2011):

"Iran Audit Organization, official accountants and audit institution members of IOAS in charge of audit affairs or legal supervision are obliged, if requested, to provide a tax audit report according to the sample provided by STAO and submit it to taxpayers for submission to the related tax affairs administration. This report may include the following items:

a) Remarks on sufficiency of accounting documents for audit according to the related law and rules;
b) Determination of income subject to tax according to laws and rules;
c) Remarks on tax that a taxpayer is legally obliged to pay to Ministry of Economics and Finance (imperative tax);
d) Other items mentioned in the sample.

Note 1: Tax affairs administration accepts the tax audit report without settlement and according to the rules of Tax Diagnosis Note (TDN). This is subjected to a taxpayer affixes financial audit report provided by the same official auditor or audit institution; or submits it during 3 months after expiration of the manifest.

Note 2: STAO can assign audit of financial statements and prepare tax reports of real persons to official accountants or audit institutions. In this case, fee is paid by STAO according to the related rules (Moradmand, 2007).

The problems is that although it is 8 years after execution of this act, tax officers have repeatedly adjusted income subject to tax provided by official accountants during settlement of tax reports issued by official accountants and they have issued confliction notes; so this conflicts with the above mentioned law (Derang, 2002).

Extension and importance of this subject is obvious in the newspapers, sites, journals, and meetings (Beheshti et al., 2012).

In addition, poor execution of article 272 has produced many problems and discontent among official accountants, tax officers, and taxpayers (Salehi et al. 2011).

Official accountants know that they have complete right according to the law and they know that this could cause a kind of indifference to audit profession (Sarmad and Bazargan, 2008).

On the other hand, this caused displeasures among taxpayers, because they incur expensive costs during provision of tax reports subject to article 272 (Davani, 2002).

However, tax officers certainly have special reasons for this decision. But this subject was so broadly extended that convinced us to fulfill this research to investigate the existing problems from the view of tax officers and accountants.

In this paper, we study unnecessary of execution of tax audit from the view of tax officers, and distrust of tax officers on official accountants’ report. This subject was so broadly extended that convinced us to investigate the existing problems from the view of tax officers and accountants.

HISTORY OF RESEARCH

Iman Zare, in a research, titled “Study of reasons for distrust of tax officers on official accountants’ tax reports”, in 2012 found the following results: official accountants believe that there is a significant relationship between unfamiliarity of tax officers with tax and accounting rules, and distrust of tax officers on official accountants’ report, while tax officers disagree with this assumption. In contrast, tax officers believe that there is a significant relationship between unfamiliarity of official accountants with tax rules, and distrust of tax officers on official accountants’ report, while official accountants disagree with this assumption (Beheshti et al., 2012).

Derang found the following results in 2002 by studying the effects of report of auditors on tax reports of tax officers:

1. Tax audit by independent auditors decreases application of personally diagnosis procedure.
2. Tax audit saves the time of tax certainty.
3. Tax audit decreases tax claim costs.

So, he emphasized benefit of tax audit report by independent auditors and proposed this as a future research subject (Davani, 2002).

In 2005, Bahrami comparatively studied tax report efficiency before and after execution of article 272 of DTA. He found the following results:

1. Execution of article 272 does not increase tax incomes.
2. Execution of article 272 accelerates tax certainty.

Finally, in 2007, Moradmand from Allameh Tabatabayi University evaluated performance of execution of article 272 during 2002 to 2004. The main question of his research was:

"Is there any significant difference between income subject to tax determined by official accountants and tax officers?"
Table 1. Reasons for the difference between official accountants and tax officers

<table>
<thead>
<tr>
<th>Row</th>
<th>Reason</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Items 147 and 148 of DTA for unaccepted costs</td>
<td>146</td>
<td>31.8</td>
</tr>
<tr>
<td>2</td>
<td>Disagreement for yearly adjustments</td>
<td>146</td>
<td>31.8</td>
</tr>
<tr>
<td>3</td>
<td>Allotment of costs to waived and non-waived incomes</td>
<td>28</td>
<td>6.1</td>
</tr>
<tr>
<td>4</td>
<td>Exempts subject of note 5 of article 105 of DTA, like 3 in thousands share of Commerce Chamber</td>
<td>27</td>
<td>5.8</td>
</tr>
<tr>
<td>5</td>
<td>Exempts subject of article 145 of DTA, like bank deposit profit</td>
<td>26</td>
<td>5.6</td>
</tr>
<tr>
<td>6</td>
<td>Fixed taxes subject of articles 59, 77, and 143 of DTA</td>
<td>19</td>
<td>4.1</td>
</tr>
<tr>
<td>7</td>
<td>Rent income subject of article 53 of DTA</td>
<td>14</td>
<td>3</td>
</tr>
<tr>
<td>8</td>
<td>Encounter with yearly loss and its deterioration</td>
<td>10</td>
<td>2.2</td>
</tr>
<tr>
<td>9</td>
<td>Exempts subject of article 4 of Act of Facilitate and Renovation of Industries</td>
<td>6</td>
<td>1.3</td>
</tr>
<tr>
<td>10</td>
<td>Exempt of income from exports subject of article 141 of DTA</td>
<td>6</td>
<td>1.3</td>
</tr>
<tr>
<td>11</td>
<td>Excess income by reevaluation of assets</td>
<td>6</td>
<td>1.3</td>
</tr>
<tr>
<td>12</td>
<td>Exempt of development plans subject of article 138 of DTA</td>
<td>5</td>
<td>1.1</td>
</tr>
<tr>
<td>13</td>
<td>Exempt subject of article 132 of DTA</td>
<td>4</td>
<td>0.9</td>
</tr>
<tr>
<td>14</td>
<td>Others</td>
<td>136</td>
<td>29.2</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>462</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 2. Differences between income subject to tax determined by official accountants and tax officers.

<table>
<thead>
<tr>
<th>Reason</th>
<th>Difference</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess income by reevaluation of assets</td>
<td>274,505,762</td>
<td>1</td>
</tr>
<tr>
<td>Exempts subject of article 4 of Act of Facilitate and Renovation of Industries</td>
<td>99,643,759</td>
<td>2</td>
</tr>
<tr>
<td>Items 147 and 148 of DTA for unaccepted costs</td>
<td>3,071,742</td>
<td>3</td>
</tr>
<tr>
<td>Exempt subject of article 132 of DTA</td>
<td>1,943,964</td>
<td>4</td>
</tr>
<tr>
<td>Others</td>
<td>1,153,505</td>
<td>5</td>
</tr>
<tr>
<td>Fixed taxes subject of articles 59, 77, and 143 of DTA</td>
<td>681,717</td>
<td>6</td>
</tr>
<tr>
<td>Allotment of costs to waived and non-waived incomes</td>
<td>616,717</td>
<td>7</td>
</tr>
<tr>
<td>Exempt of development plans subject of article 138 of DTA</td>
<td>404,151</td>
<td>8</td>
</tr>
<tr>
<td>Disagreement for yearly adjustments</td>
<td>158,715</td>
<td>9</td>
</tr>
<tr>
<td>Encounter with yearly loss and its deterioration</td>
<td>100,212</td>
<td>10</td>
</tr>
<tr>
<td>Exempt of income from exports subject of article 141 of DTA</td>
<td>69,344</td>
<td>11</td>
</tr>
<tr>
<td>Rent income subject of article 53 of DTA</td>
<td>(14,663)</td>
<td>12</td>
</tr>
<tr>
<td>Exempts subject of note 5 of article 105 of DTA, like 3 in thousands share of Commerce Chamber</td>
<td>(300,306)</td>
<td>13</td>
</tr>
<tr>
<td>Exempts subject of article 145 of DTA, like bank deposit profit</td>
<td>(9,526,236)</td>
<td>14</td>
</tr>
</tbody>
</table>

In conclusion, it was found that income subject to tax calculated by official accountants was 20% more than the same calculated by taxpayers, so he evaluated article 272 positively (Hanifehzadeh, 2011).

But it is interesting that it was found that there was 20% unsuitable difference between income subject to tax calculated by official accountants and tax officers (income subject to tax calculated by tax officers was more than the same calculated by official accountants) (Beigpour, 2006).

In the mentioned research, which was held by direct investigation of tax files of 1034 companies in General Tax Administration (GTA) and 508 companies in General Administration of Taxpayers (GAT) area, it was found that in 462 companies (307 in GTA and 155 in GAT) income subject to tax determined by official accountants was not accepted by tax units and TDNs were issued. Finally, tax of those taxpayers in the related years was calculated by agreement.

The following results were obtained by test of 462 companies, which show different reasons for official accountants and tax officers (Table 1).

Also, items with most differences between income subject to tax determined by official accountants and tax officers are given in Table 2 (Nikkahah, 2003).

All previous researches emphasize benefit and
Table 3. Formulas for calculating official accountants and tax officers’ report.

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Index</th>
<th>Numbers</th>
<th>Average</th>
<th>SD</th>
<th>t</th>
<th>Freedom</th>
<th>Sig. level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official accountants</td>
<td>Unnecessary execution of tax audit from view of tax officers</td>
<td>170</td>
<td>3.87</td>
<td>0.91</td>
<td>12.53</td>
<td>169</td>
<td>0.0000</td>
</tr>
<tr>
<td>Tax officers</td>
<td>Unnecessary execution of tax audit from view of tax officers</td>
<td>110</td>
<td>3.69</td>
<td>0.65</td>
<td>11.02</td>
<td>109</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Effectiveness of tax audit and tax auditor’s report. They also emphasize the differences between income subject to tax by official accountants and tax officers. However, no research pointed the reasons for the conflicts between income subject to tax calculated by tax officers and accountants. This conflict, in fact, is breach of article 272 of DTA.

Research assumption

There is a significant relationship between unnecessary execution of tax audit from the view of tax officers, and distrust of tax officers on official accountants’ report.

RESEARCH METHOD AND DATA COLLECTION

This is a descriptive and application research. Also, this is a retrospective and post-event one.

In this research, data were collected from library and field, so that theoretical fundamentals were gathered from internet and library sources such as books, papers, and economical and accounting journals. Also, in the field section, questionnaires were used to gather data.

Statistical society and sampling method

Statistical society of this research includes two groups:

1. All tax officers of GAT of Tehran (according to the approval of this administration, there were 245 tax officers in that place)
2. All official accountants of Tehran Province

According to the last statistics from site of IOAS, there were 1173 official accountants in Tehran (Iran). Also, only those official accountants in audit organization and audit institutions of Tehran Province were included in this research, which were about 1021 persons.

Samples were selected randomly. Also, the following formula was used to select volume of samples (Davani, 2009):

\[ n = \frac{Nz_{\frac{\alpha}{2}}^2 PQ}{Nd^2 + z_{\frac{\alpha}{2}}^2 PQ} \]

in which,

- \( d \) : absolute error equal to 0.07
- \( p \) : a ratio equal to 0.5 to obtain maximum sample size
- \( q = 1 - p \) : here equal to 0.5
- \( z_{\frac{\alpha}{2}} \) : percentile \((1 - \frac{\alpha}{2}) \times 100\) of standard normal distribution equal to 1.96, namely, 95th percentile of standard normal distribution
- \( N \) : volume of statistical society

Regarding the volume of statistical society, 110 questionnaires were for tax officers and 170 questionnaires were for official accountants.

Test of assumptions

Assumptions were tested in four steps by t test.

1. There is not a significant relationship between unnecessary execution of tax audit from the view of tax officers, and distrust of tax officers on official accountants’ report.
2. There is a significant relationship between unnecessary execution of tax audit from the view of tax officers, and distrust of tax officers on official accountants’ report.

\[ H_0 : \mu \leq 3 \]
\[ H_1 : \mu > 3 \]

Step 2: It is calculated by the following formulas for official accountants and tax officers (Table 3):

\[ t = \frac{3.69 - 3}{0.60 / \sqrt{110}} = 11.02, \quad t = \frac{3.87 - 3}{0.91 / \sqrt{170}} = 12.53 \]

Step 3: Acceptance and rejection regions of zero assumption are similar to assumption 1 (Figure1).

Statistic value of test in level of confidence of 95% as one-way

Step 4: The value of statistic of test for official accountants is \( t = 12.53 \), and for tax officers is \( t = 11.02 \).
Figure 1. Acceptance and rejection regions of zero assumption are similar to assumption 1.

Thus, official accountants and tax officers reject zero assumption. Therefore, both groups confirm assumption.

Conclusion

The findings show that there is significant relation between “unnecessary execution of tax accounting by tax officers” and distrust of tax officers on reports of official accountants.

Regarding the results of test of assumptions, both groups confirm assumption research. In fact, both official accountants and tax officers believe that there is a significant relationship between unnecessary execution of tax audit from the view of tax officers, and distrust of tax officers on official accountants’ report.

REFERENCES


1 Direct Taxes Act, approved on 16/02/2002

2 Act of using professional services of qualified accountants as official auditors, on 11/01/1994.