

Full Length Research Paper

Investigation of the effective factors in the efficiency of tax system

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In Iran, Tax Organization is in charge of collecting taxes. To have an efficient organization, we need to investigate the factors effective in the efficiency of the organization and to determine the level of their effectiveness. This study focuses on six of several factors, which may be effective in the efficiency of tax system, including information technology (IT), tax law, administrative formalities, private sector services, encouragements, tax fraud and education. This study attempts to seek the opinions of tax experts regarding the aforementioned factors.

Key words: Efficiency of tax system, allocation officers, taxpayers, per capita allocation, tax formalities.

INTRODUCTION

A tax organization, which collects the highest amount of taxes from the existing resources in the fastest possible time duration and with the lowest possible collection costs can be regarded as an efficient organization.

It is possible to come to an efficient tax system, only if we obtain a scientific attitude towards whatever comes under the category of taxation. If we want to have a macro-structural point of view towards theoretical issues in taxation, the best way is to carry out scientific and academic studies, collect data from tax officers or, in other words, those in charge of collecting taxes and taxpayers (Samiei, 1999).

In a reformed system, the tax rates should be appropriate and rational, the exemptions should be lower in amount, the tax collection organization should be more efficient, the tax burden of the indigent people should be lighter and the fight against corruption and tax evasion should be much more intense.

The tax system in developing countries imposes high expenses on the society. Low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources are some of the features of such systems (Farzbod, 2000).

So, one can claim that in Iran, the existing tax sources are not utilized in an appropriate manner. The process of tax collection is a long and slow one and accordingly the cost of tax collection is high. In order to create a highly

efficient organization, it is necessary to carry out inclusive scientific studies and researches; this study aims to investigate some effective factors in the efficiency of the tax system, including technology, regulations, tax encouragements and frauds, private sector services and education (Nikchehreh, 2002).

Efficiency of tax organization

Today, the tax ratio and tax effort are considered as the main indicators for the measurement of the efficiency of tax system (Taghavinezhadian, 1990).

Tax efficiency is most often called as the tax effort. The main indices which are used in the analysis of the success or failure of the tax system include:

- 1) The ratio of the collected taxes to the allocated tax equals the amount of taxes estimated in Budget Act and ratified by the Parliament. One of the ratios used in analyzing the success of tax system is the ratio of the collected taxes to the ratified tax; if this ratio equals one, it would indicate that the tax system has been able to collect the taxes estimated in the national budget; in case the ratio is less than one, it would be the indicator of the failure of tax system in achieving the ratified budget; and in case this ratio is higher than one, it would indicate whether the budget estimation has not been based on real facts or the taxes have been collected in higher

amount than what people can afford (Masgrio and Masgrio, 1993).

2) The relative index equals the percentage of changes in the collected tax compared to that of the previous year. This index is relatively more applicable than the previous one. If this ratio is lower than one, the efficiency of the tax system decreased compared to that of the last year; in case it equals one, the efficiency of the tax system did not change compared to that of the last year; in case it is higher than one, the efficiency of the tax system has been increased compared to the last year. This index is not accurate enough to determine the level of efficiency, because it does not deal with the potential decrease or increase of income in the society;

3) The relative tax index and tax effort. The tax ratio equals the amount of taxes collected to the gross national product. The tax capacity includes the amount of taxes that the economy of a certain society may afford. Since tax capacity is directly related to the gross national product, so, tax ratio indicates the level of utilization of tax capacity.

The efficiency of tax system with tax effort shows to what extent the tax system has been able to use the existing capacity, therefore, tax system should do its best to achieve the objective, and hence tax efficiency is based on tax effort.

In case the index of tax attempt is lower than one, the tax system would be inefficient; and in case the ratio equals one, the tax system would be efficient (Taghavinezhadian, 1990, p. 168).

One of the aspects of an efficient tax system is that increase in its tax revenues should be higher and faster than the increase in gross national product. Indeed, this system should be able to appropriately respond to the increase of gross national product.

Effective factors in the financial power of individuals and the society to pay taxes

The effective factors in the power of the individuals and the society for payment of taxes are determined by two sets of structural and volitional:

1) The main structural factors that are effective on the ability of the individuals in payment of taxes include the level of per capita income of the economic texture of the society and the significance of the various kinds of economic activities as well as the macroeconomic policies adopted by the governments.

2. The effective volitional factors, which influence the ability of the individuals and the society in payment of the taxes include:

- a) The level of development of a culture of tax payment in the society;
- b) The position that public opinion holds about the tax system;

c) The attitude of the citizens towards the government that may be influenced by the quality of public services and the way of allocation of the tax revenues.

In general, the expansion of the culture of tax payment in the society in a way that people assume the payment of taxes as their duty, and have a proper understanding of the responsibilities and duties of the government in receiving a percentage of national products and expending it on providing the requirements of the people, would effectively influence the payment of taxes.

Effective factors in the ability of the government in tax collection

- 1) Enactment of appropriate tax laws;
- 2) The accessibility of tax bases;
- 3) Tax rates;
- 4) The number of tax sources; and
- 5) The executive expenditures of tax collection.

The ability of the government in tax collection depends not only on structural factors, but also on official factors. In many developing countries, the low level of tax revenues is due to the fact that the tax laws are not carried out properly and perfectly, and this, in turn, results from the inefficiency of the official system and the executive methods of allocation and collection systems (Nikchehreh, 2002).

METHODOLOGY

The statistical universe of this study includes the viewpoint of tax experts, which consist of all general auditors, chief auditors, assessors, and assistant auditors of departments of economic and financial affairs of Karaj (city of Iran).

In this study, the table of "Georges and Morgan" and "Cohen" was used for the sample volume. Moreover, for the preparation of the questionnaire appropriate for this study, some theses on the issue under investigation were studied and the supervisors and advisors of those theses were consulted and some tax experts were interviewed for their viewpoints to be understood and then the questionnaire was formulated.

For the validity of the questionnaire to be estimated, Cronbach α was used, where 0.7499 was established as α coefficient. When the data were collected, they were classified and analyzed, and then the research questions were answered based on statistical methods and so, the conclusions were drawn.

RESULTS AND DISCUSSION

The explanation of the results obtained for each of the effective factors in the tax system can be presented as follows:

- 1) More than 80% of the tax experts have recognized the utilization of IT as an effective factor for the efficiency of tax system. Utilization of the machinery and facilities may

promote the efficiency. Exploitation of IT may also provide the grounds for utilization of a more efficient and more advanced management system in the organizations.

2) More than 80% of the experts do not assume the present tax laws to be effective factors for the efficiency of the tax system. Even if we may have the most proper and appropriate laws, the efficiency would not be possible to achieved if these laws and regulations are not carried out properly. The studies reveal that simple, explicit, clear, and integrated laws can result in the promotion of the efficiency and satisfaction of the taxpayers.

3) More than 70% of tax experts do not consider the bureaucratic formalities as an efficient factor in the efficiency of the tax system. For a case to be dealt with, it is necessary to follow the procedures such as allocation of the tax unit, recognition of the tax amount and the tax collection; however, the length of the stage of tax collection may sometimes prevent the tax system to reach its objectives. For this reason, some arrangements have been considered for the reduction of the process of tax collection in the amendment of the laws ratified in 2001.

4) More than 70% of the tax experts do not believe in the efficiency of utilization of the private sector services. Lack of a scholarly and scientific management and the existence of traditional structure is one of the most significant factors that hinder the utilization of the services of the private sector in the tax system.

5) More than 70% of tax experts believed that tax encouragements are among the effective factors, which influence the efficiency of the tax system. Using the facilities, tax relieves, and the exemptions that are specific to the good pays can be effective factors in the promotion of the efficiency of the tax system.

6) More than 80% of the experts do not consider the tax fines as an effective factor for the efficiency of the tax system. One of the reasons for non-application of effective tax fines is the Islamic culture and the religious beliefs in the country.

7) More than 70% of the tax experts believe that application of judicial punishments is not an effective factor for the efficiency of the tax system. Lack of appropriate regulations and laws in this regard and the Islamic culture and the emphasis of Islam on the exclusion of harsh measures against those people who refrain from paying the taxes, can be among the significant factors, which cause the experts not to believe in the application of judicial punishments.

8) More than 80% of the tax experts believe that training the personnel and the taxpayers is one of the effective factors in the efficiency of the tax system.

Awareness of the experts and the taxpayers with the laws as well as their own responsibilities and duties, and the sufficient skill of the personnel of the tax system may

have a great influence on the efficiency of the tax system. Education through IRIB, newspapers, as well as inclusion of the issues related to taxation in the textbooks and providing an insight in the taxation issues can play a significant role in this regard.

Conclusion

With regard to the results obtained, it was concluded from this study that factors such as tax laws, utilization of the services of private sector, tax fines, judicial fines and the formal procedures (the unnecessary bureaucratic formalities) can not be regarded as effective factors in the efficiency of tax system.

On the contrary, the utilization of IT in tax system, tax promotions, training the personnel of tax system and taxpayers can be effective factors for the efficiency of the tax system. However, other factors can also influence the tax system, which, in turn, can be discussed in the future studies.

Some suggestions have been provided by the tax experts for the improvement of the tax system:

1. Improvement of the ways of taxation;
2. Financial ability of the personnel of the tax system;
3. Utilization of IT;
4. Avoiding the interference of the departments and industrial unions in taxation;
5. Increasing the manpower in the tax organization;
5. Considering the management quality in the tax organization;
6. Hiring those employees in the tax organizations who have degrees related to the financial affairs and taxation;
7. Encouragement and punishment of the employees;
8. Collection of the levies and coordination of the levies received from different departments;
9. Utilization of mass media in order to define tax and taxation and the ways the taxes are used and teaching the course of taxation on different educational levels;
10. Presenting the statistics of tax collection to the mass media;
11. Tax inactivity of those institutions and systems, which are exempted from tax according to the rules;
12. Utilization of successful tax patterns of other countries with regard to the tax collection.

Suggestions

Some suggestions have been provided by the tax experts for the improvement of the tax system. These include:

- i) Improvement of the ways of taxation;
- ii) Financial ability of the personnel of the tax system;
- iii) Utilization of IT;
- iv) Avoiding the interference of the departments and industrial unions in taxation;

- v) Increasing the manpower in the tax organization;
- vi) Considering the management quality in the tax organization;
- vii) Hiring those employees in the tax organizations who have degrees related to the financial affairs and taxation;
- viii) Encouragement and punishment of the employees;
- ix) Collection of the levies and coordination of the levies received from different departments;
- x) Utilization of mass media in order to define tax and taxation and the ways the taxes are used and teaching the course of taxation on different educational levels;
- xi) Presenting the statistics of tax collection to the mass media;
- xii) Tax inactivity of those institutions and systems which are exempted from tax according to the rules; and
- xiii) Utilization of successful tax patterns of other countries with regard to the tax collection.

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