

## Investigating Causes of Tax Evasion among Employees and Legal Persons

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### ABSTRACT

Tax revenues are among important financial resources in Iran, so that trying to increase these revenues and identifying obstacles of the process, especially determining causes of tax evasion and tackling them, are of a great importance in tax system policies. Furthermore, replacing oil revenues with tax revenues is one of economic programs of Islamic Republic of Iran. However, low tax revenues, especially those collected from employees and legal persons, make this goal hard to achieve. The main reason is tax evasion in these sectors.

This research is aimed at identifying backgrounds and reasons for tax evasion. This is a field research conducted using a questionnaire distributed among 1300 officials in employees and legal persons. We asked their opinions on different direct and indirect causes of tax evasion in an attempt to determine the effect of each one. We hope that the results of this study can help officials and increase tax revenues of the country.

**KEYWORDS:** Tax, Taxpayers, Legal persons, Declaration of Tax Status.

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### 1. INTRODUCTION

IRR tax system has been discussed from a new viewpoint after victory of Islamic Revolution. Since then it has changed a lot in order to achieve revenue-related goals of the country's budget. Establishment of State Tax Organization, affiliated to the Ministry of Economic Affairs and Finance, and correcting direct tax law in 2002 is among the latest changes in the field. Economic transition plan, started since 2008, and introducing value added tax are new trends in the country's tax system [1].

This research is aimed at identifying reasons for tax evasion among employees and legal persons and providing solutions for the problem. Nowadays, the importance of tax revenues is clear and, therefore, replacing other revenues, especially those earned from exporting crude oil, with tax revenues is one of the most important economic policies of Iranian government. On the other hand, problems of single product economy and strong dependence to crude oil revenues combined with economic and politic issues in domestic and international level and politic pricing of oil in the international scene force us to try to escape the dilemma by any means [2].

The best option to replace crude oil revenues are tax revenues. It is expressed in two forms: direct and indirect taxes. Direct taxes are inheritance tax, stamp duty, land income tax and income tax for employees and legal persons [3].

According to the statistics, tax revenues constitute only an insignificant percentage of Iran's GDP. There is a huge gap between this financial resource and revenues obtained from exporting crude oil. In other words, only a tiny part of IRR treasury is filled with tax revenues, an amount that is not significant compared with that of other countries. Tax revenues' share in the country's GDP is almost 25 percent, much less than 60 percent in most developed countries. Therefore, there is a need for correcting tax system of the country [4].

Unfortunately, the main reason for low tax revenues in Iran is tax evasion. Despite of having sufficient laws and regulations, a large number of workers, large structure of tax system and millions of job positions, legal persons and employees in the public and private sector, unfortunately tax revenues are not that high [5].

This research is aimed at identifying reasons of unwillingness among taxpayers to pay their taxes and determining causes of tax evasion among employees and legal persons. In spite of having millions of job positions in Iran, unfortunately the level of tax revenues is not satisfactory and the efforts made by State Tax Organization have not been successful enough. We prepared a questionnaire having 30 questions to investigate main issues. The participants were taxpayers, either employees or legal persons [6].

The main questions are:

1. Why are not taxpayers willing to pay their taxes?
2. Why is a huge part of employees' and legal persons' income tax determined by in-person tax assessment?
3. Why have not tax-related incentives and punishments been successful in attracting taxpayers to pay their taxes?
4. Why do not taxpayers collaborate with State Tax Organization and avoid paying taxes?

5. Why is not society yet familiar with the tax system?
6. Why does society considers tax a compulsion measure? Why is not there a suitable cultural ground for acknowledging tax as a public duty?

## METHODOLOGY

This research is aimed at finding causes of tax evasion among employees and legal persons. Existence of a causal relationship is a prerequisite for deduction. In a causal relationship, independent variables cause changes in dependant variable. This relationship might not be predefined, but a suitable research plan can prove its existence.

Research plans can be divided into two categories: empirical and semi-empirical. Taking into account the characteristics of this research, it is a semi-empirical study (post-event survey). In this research data are collected from the environment and the researcher has not interfered [7].

In order to collect data and test hypotheses we used survey method. In this method, the most common way for collecting data is arranging personal interviews and distributing questionnaires. In this study we used questionnaires consisting of general and technical questions. In the theoretical part, we used laboratory method in which information is extracted from books, journals and internet databases [8].

### Research questions and hypotheses:

Based on research objectives, the following hypotheses were drawn:

1. People do not trust government in paying taxes and consider tax a pressure on low-income class. Paying taxes does not favor people and taxpayers.
2. Since direct tax laws are too complicated, there are many ways for tax evasion and, besides, cultural ground for tax system is not satisfactory.
3. Have policy-makers been able to institutionalize tax equity by issuing right laws?
4. To what extent has government been successful in collecting required tax revenues by providing appropriate cultural ground?
5. What actions has government taken to improve tax system in terms of self declaration?
6. Is this rational from government to expect people to pay their taxes in a self declaratory way?

### Research variables:

A variable is a concept which can have two or more values or amounts. In other words, variables are characteristics that researcher observe or measure.

Our research variables are tax, taxpayers, legal persons and employees.

### Statistical universe:

Statistical universe or population includes all members that have common characteristics in a group of people, events or things. Our statistical universe consists of taxpayers (legal persons and employees) in Shiraz.

### Research findings:

First part of the questionnaire consists of 5 general questions related to personal characteristics of participants in different job categories based on article 96 and different legal person categories based on article 6 of Commerce Law. These questions are about education, age and gender. The results of descriptive analysis are presented in table 1.

Table 1: questionnaire general information

item	Description	frequency	percentage	
1	group	Natural persons (employees)	1234	98/4%
		Legal persons (companies)	20	1/6%
		Unanswered	56	4/3%
		Total	1310	100%
2	Jobs	Obliged to register activities in ledger and book of account (group a, article 96)	183	98/4%
		Obliged to register activities in book of costs and incomes (group b, article 96)	333	1/6%
		Obliged to keep cost and income status based on rules (group c, article 96)	718	4/3%
		Total	1234	100%
3	Legal persons	Public joint-stock company	3	15%
		Private joint-stock company	6	30%
		Other companies	8	40%
		Unanswered	3	15%
		Total	20	100%
4	Education	under high school diploma	294	22/4%
		High school diploma	377	28/8%
		After high school diploma	541	41/3%
		Unanswered	98	7/5%
		Total	1310	100%
5	Age	Between 20 and 30	416	31/8%
		Between 30 and 40	465	35/5%
		Between 40 and 50	288	22/0%
		Between 50 and 60	67	5/1%
		Older than 60	14	1/1%
		Unanswered	60	4/6%
		Total	1310	100%
6	Gender	Male	72/1%	994
		Female	23/4%	307
		Unanswered	4/5%	59
		Total	100%	1310

In the second part, frequency distribution and descriptive statistics for answers given to each question were provided based on research hypotheses. First, the number and percentage of each option were calculated:

Table 2: frequency distribution for questions

Item	Question	Frequency distribution						
		Very low	low	medi um	high	Very high	Unans wered	
1	How fair is the process of collecting taxes?	Number	332	438	431	93	14	2
		Percentage	25/3	33/4	32/9	7/1	1/1	0/2
2	How successful are government's policies in improving ethical issues and public interest in paying taxes?	Number	166	392	452	259	39	2
		Percentage	12/7	29/2	34/5	19/8	3/0	0/2
3	How charitable and informed are tax laws? To what extent are they in favor of the society?	Number	246	395	420	185	53	11
		Percentage	18/8	30/2	32/1	14/1	4/0	0/8
4	How successful has government's policies been in providing tax equity?	Number	167	396	409	245	71	22
		Percentage	12/7	30/2	31/2	18/7	5/4	1/7
5	To what extent do you consider yourself as obliged and committed in paying tax?	Number	134	220	377	361	196	22
		Percentage	10/2	16/8	28/8	27/6	15/0	1/7
6	How powerful is government in collecting taxes?	Number	105	289	404	335	164	13
		Percentage	8/0	22/1	30/8	25/6	12/5	1/0
7	What is the role of tax revenues in national development?	Number	147	296	360	278	207	22
		Percentage	11/2	22/6	27/5	21/2	15/8	1/7
8	To what extent do you use experts for preparing your accounting documents?	Number	269	363	336	224	94	24
		Percentage	20/5	27/7	25/6	17/1	7/2	1/8
9	How familiar are you with direct taxes law?	Number	313	390	351	174	65	17
		Percentage	23/9	29/8	26/8	13/3	5/0	1/3
10	How familiar are you with the process of preparing accounting documents and balance sheets?	Number	265	366	381	216	70	12
		Percentage	20/2	27/9	29/1	16/5	5/3	0/9
11	How familiar are you with the process of preparing tax declaration?	Number	274	395	407	158	63	13
		Percentage	20/9	30/2	31/1	12/1	4/8	1/0
12	To what extent were media successful in providing cultural ground and motivation for paying taxes?	Number	320	260	427	233	69	1
		Percentage	24/4	19/8	32/6	17/8	5/3	0/1
13	How familiar are you with the process of tax calculation?	Number	339	431	367	145	25	0

		Percentage	25/9	32/9	28/0	11/1	1/9	0
14	How familiar are you with the process of writing and keeping legal books of account?	Number	212	355	389	277	55	22
		Percentage	16/2	27/1	29/7	21/1	4/2	1/7
15	How much information do you have about cases of rejecting books and documents by State Tax Organization officials?	Number	276	447	359	173	33	22
		Percentage	21/1	34/1	27/4	13/2	2/5	1/7
16	How competent and capable are State Tax Organization experts in calculating taxes?	Number	172	328	473	258	65	14
		Percentage	13/1	25/0	36/1	19/7	5/0	1/1
17	How possible is discrimination in calculating taxes as in-person tax assessment?	Number	155	288	415	296	145	11
		Percentage	11/8	22/0	31/7	22/6	11/1	0/8
18	How competent and experienced are tax experts who assess in-person taxes?	Number	185	352	486	217	60	10
		Percentage	14/1	26/9	37/1	16/6	4/6	0/8
19	How do you evaluate commitment, ethics and conscience of tax officials?	Number	169	310	518	229	72	12
		Percentage	12/9	23/7	39/5	17/5	5/5	0/9
20	What is the effect of ambiguity in tax laws, bylaws and regulations on people's willingness to pay taxes?	Number	128	264	320	337	243	18
		Percentage	9/8	20/2	24/4	25/7	18/5	1/4
21	How much information do you have about tax exemption in your job?	Number	258	422	337	210	65	18
		Percentage	19/7	32/2	25/7	16/0	5/0	1/4
22	How familiar are you with tax-related punishments in your job?	Number	225	380	350	259	64	32
		Percentage	17/2	29/0	26/7	19/8	4/9	2/4
23	To what extent have tax-related punishments been effective in collecting taxes?	Number	224	347	372	242	98	27
		Percentage	17/1	26/5	28/4	18/5	7/5	2/1
24	To what extent have tax-related incentives been effective in motivating people to pay taxes?	Number	193	292	385	289	120	31
		Percentage	14/7	22/3	29/4	22/1	9/2	2/4
25	How do you evaluate your cooperation with State Tax Organization?	Number	156	283	403	311	127	30
		Percentage	11/9	21/6	30/8	23/7	9/7	2/3
26	To what extent do you trust tax officials in keeping your financial records private?	Number	189	319	448	261	77	16
		Percentage	14/4	24/4	34/2	19/9	5/9	1/2
27	To what extent do you think tax officials are accurate?	Number	171	362	496	194	65	1
		Percentage	13/3	28/1	38/5	15/1	5/0	0/1
28	To what extent has current tax system been successful in achieving taxpayers' satisfaction?	Number	202	405	465	165	39	34
		Percentage	15/4	30/9	35/5	12/6	3/0	2/6
29	To what extent has performance of State Tax Organization been successful in achieving taxpayers' respect?	Number	178	391	496	185	43	17
		Percentage	13/6	29/8	37/9	14/1	3/1	1/3
30	How successful has tax system been in attracting public participation and motivating self declaration?	Number	166	354	496	227	45	22
		Percentage	127	27/0	37/9	17/3	3/4	1/7
31	How accurate were you in answering above questions?	Number	69	143	283	453	347	15
		Percentage	5/3	10/9	21/6	34/6	26/5	1/1

## Conclusion

In this section we address research questions and analyze hypotheses we formulated about causes of tax evasion among employees and legal persons.

The main questions were as follows:

1. Why are not taxpayers willing to pay their taxes?
2. Why is a huge part of employees' and legal persons' income tax determined by in-person tax assessment?
3. Why have not tax-related incentives and punishments been successful in attracting taxpayers to pay their taxes?
4. Why do not taxpayers collaborate with State Tax Organization and avoid paying taxes?
5. Why is not society yet familiar with the tax system?
6. Why does society considers tax a compulsion measure? Why is not there a suitable cultural ground for acknowledging tax as a public duty?

We formulated hypotheses for the above questions in order to investigate causes of tax evasion and determine why people are not willing to pay their taxes. The hypotheses were as follows:

1. Taxpayers are not appropriately familiar with tax laws and regulations and, especially, incentives and punishments. Therefore, they were not able to coordinate themselves with these laws.
2. Taxpayers do not sufficiently trust tax officials. They do not perceive tax system as fair and, consequently, seek ways for tax evasion.
3. There is not a true will for announcing taxes in the society and State Tax Organization, as the main tax system authority, has not been able to manage all tax-related issues in the country. There is a loose cooperation between State Tax Organization and other ministries and organizations like Ministry of Education, Ministry of Science, Research and Technology, Ministry of Commerce, Ministry of Culture and Islamic Guidance, Ministry of Interior's,

Ministry of Mines and Industries, Islamic Republic of Iran Broadcasting, etc. therefore, there is a need for better cooperation in order to achieve desired outcomes through institutionalizing the concept of tax and its importance in the society.

Taking into account the above questions and hypotheses and after analyzing questionnaires, main causes of tax evasion among employees (natural persons) and legal persons can be classified as follows:

1. Significant deviation in calculated taxes for different taxpayers results in their mistrust and perception of tax system as unfair.
2. Obvious tax evasion among some employees results in a situation in which those who cannot find a way for avoiding taxes consider tax system as unfair.
3. Lack of transparency in tax rules and regulations, especially in evaluating and calculating taxes, results in mistrust and dissatisfaction and perception of tax system as unfair.
4. Lack of sanction for collecting taxes leads to tax evasion and greater mistrust towards tax system in the society.
5. There is not an appropriate system for using modern technology. Therefore, tax system cannot systematically identify salaried employees and collect taxes. This results in tax evasion.
6. Hiring inept and inexperienced staff results in significant deviation between calculated taxes for different taxpayers. This leads to unwillingness of people to pay their taxes.
7. Precipitate and reckless approval of some tax rules, on the one hand, and using inexperienced staff and insufficient facilities, on the other hand, do not result in implementation of direct tax laws, so that the public does not consider government as competent and powerful in collecting taxes.
8. There is not a suitable socio-cultural ground for extending tax flow from collecting phase to spending for national development.
9. The country's economy has depended on oil revenues for decades. Dependence on oil revenues, as the main ingredient of national budget, leads to the situation in which taxpayers underestimate the role of tax revenues in national development.
10. People have doubts about destination of tax revenues.
11. Taxpayers have not yet recognize the importance of keeping financial records based on law. In addition, employees are less willing to use accountants to prepare their financial accounts and documents.

In order to tackle the barriers and overcome the problems, these solutions can be followed:

1. Respecting citizens, attracting public confidence and improving treatment of officials with taxpayers in order to keep them satisfied.
2. Changing national tax system towards using modern methods and technologies.
3. Decreasing errors and waiting time, creating an inclusive tax information system and facilitating the process of service delivery.
4. Preventing tax evasion in a scientific manner, using less human force, utilizing internet, using maximum capacity of e-government concept in collecting taxes.
5. Providing cultural ground and informing taxpayers about the importance of keeping financial records and using experienced accountants in the process.
6. Training taxpayers about how to prepare financial records and accounts based on law.
7. Modifying tax laws so that the government issues licenses only if training courses are successfully passed.
8. Meeting basic principles and values by tax officials, like respecting citizens, following rules, being trainable and organized, having conscience and keeping workplace safe.
9. Meeting vocational principles and values like being confident, impartial, honest, independent and providing high quality services, having job expertise, following national interests and guiding taxpayers.
10. Using labor unions and arranging annual personal, distant and written learning courses, in order to make taxpayers familiar with rules and regulations.
11. Providing educational brochures for taxpayers.
12. Making cooperation between State Tax Organization and Ministry of Science, Research and Technology, Ministry of Education, Ministry of Mines and Industries, Ministry of Commerce and Islamic Republic of Iran Broadcasting in order to provide educational courses.
13. Controlling taxpayers' incomes in a way that in-person tax assessment is not economical for them and they prefer to announce their taxes in a self declaration manner. In this way, motivation for self declaration will be increased.
14. Observing the process of in-person tax assessment, so that actions of tax officials do not harm the government.
15. Approving laws to force all legal persons and employees to use expert accountants.
16. Planning from State Tax Organization to educate taxpayers on direct tax laws.

17. Training different categories of employees on tax laws and not issuing employment licenses unless people attend the educational courses.
  18. Introducing direct tax laws through radio, television and other mass media.
  19. Including tax laws in all university curriculums and adding the concept to pre-university educational books with the cooperation of Ministry of Education and Ministry of Science, Research and Technology.
  20. Providing cultural ground for emphasizing the importance of keeping financial records and accounts through public information provided by IRR Broadcasting, training students with the cooperation of Ministry of Education, and educating other groups of people with the cooperation of Ministry of Industries and Mines, Ministry of Commerce and Ministry of Science, Research and Technology.
  21. Issuing employment license for any job classified as group a, b, or c in article 95 of Direct Tax Laws after passing training courses on how to prepare financial records and accounts and balance sheets.
  22. Including laws and guidelines on how to complete tax declarations and business books and other effective rules on preparing financial documents in the first pages of business books like book of account, ledger, book of incomes and book of costs for the notice of taxpayers, employees and legal persons.
  23. Preparing brochures about how to complete tax declarations, business books and other accounting documents by State Tax Organization and distributing them through different unions among employees. These brochures can also be distributed through registration officers of companies and sealing and registration office of State Organization for Registration of Deeds and Properties.
  24. Arranging educational courses on how to assess taxes and prepare tax declaration and financial records for companies and employees in different townships with the cooperation of Ministry of Commerce, Ministry of Industries and Mines, Ministry of Labor and Social Affairs, provincial branches of State Tax Organization and different unions.
  25. Attracting and hiring expert staff and arranging higher level educational courses for State Tax Organization staff.
  26. Improving ethical issues among officials who are responsible for in-person assessment of taxes. This can be done through more noticed and unnoticed observation on the staff and even reinvestigating some cases of in-person tax assessment.
  27. Giving reasonable and detailed information to taxpayers whose taxes have been assessed using in-person method, removing their suspicion and mistrust informing them about tax-related punishments mentioned in articles 192 and 193 of Direct Tax Laws and cases of deprivation from exemptions mentioned in article 101 of the law.
  28. Correcting the system of tax assessment and collection and eliminating personal interference in the process of tax calculation with the use of modern technologies, computer programs and internet, so that all salaried employees can be identified with their records kept. In this way, it is easy to estimate incomes and assess taxes in an impartial manner. It is a good way to avoid tax evasion.
  29. Using sanction against tax-related crimes, so that taxpayers are aware that every violation of tax laws will be fully punished.
  30. Providing inflexibility in necessary cases, for example in collecting fines, so that taxpayers observe that all punishments are applied effectively.
  31. Modifying current tax-related punishments and adding some other ones including cancellation of employment licenses, temporarily closing workplaces, suspending some activities, or prohibiting people from vocational contacts with offenders.
  32. Modifying current tax-related incentives and adding some other ones including motivational and more attractive and efficient incentives. These can include exemption from costs of public services, discounts in public utility expenses and awarding prizes and acknowledgements in unions.
- The abovementioned solutions are actually ways of overcoming barriers and answers to the main research questions. It is hoped that the research is effective in protecting government's and citizens' rights, preventing discrimination, serving tax equity, and safeguarding national interests. It is also hoped that the above solutions are useful for State Tax Organization and Islamic Republic of Iran regime [9].

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