

THE STUDY OF THE FACTORS THAT INFLUENCE ON THE PERFORMANCE OF VALUE ADDED TAX SYSTEM IN IRAN

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Abstract

As a financial policy – making means tax allows government to control economic activities. System of value added tax is one of indirect taxes which due to its particular features like high efficiency and income, self-regulatory nature and transparency has become popular and practiced in many countries over recent decades. The experience of successful and unsuccessful countries show that leveraging value added tax can be helpful in solving the problems when there would be the required and environmental capacities to correct tax system within the system and whole economy.

Keywords: value added tax, tax culture, inflation, underground economy

Introduction

Governments need financial resources for performing their economic and non economic responsibilities and duties. These financial resources are provided by tax and non tax incomes. Non tax incomes are generally the sum that government earns from their own economic activities. The main particularity of these income resources are the insecurities and irregularities. So even there has been more share of this kind of incomes in total government income, though it may be more deficit and further side effects. In contrast, the high level of tax income share can prevent from these kinds of undesirable effects as the fixed income resources (SeyedNourani and TootoonchiMaleki, 2010).

In this field of the study of the country tax performance system shows that it hasn't had any efficiency in tax system. The ratio of the tax to the domestic gross product in 1998 was approximately 5.5 %,and however it has reached to 9% in 1999, but this had become 6.3 % in 200 and 2001, and in 2002 had decreased to 5.5 %. Also in this situation in most developed country the taxes cover all the expenses of the government, unfortunately the tax is very low in our country and disable to cover even a little part of the government current expenses.

In every twenty years platform document in 1404, one of the necessities is the convert of oil and gas incomes to generative properties according to stabilizing the development process and specializing and utilizing from recourses 9article 2 of the document). To the following the cutting current expenses to oil incomes, the government were responsible to provide the major parts of this expenses from tax incomes (article 51) and by using and fixing new tax systems such as "value added tax", the financial and budget regularity and disciplinary of and the balance of between resources and uses (article 50) (Saeidi and Nahtani, 2009).

Importance and expressing of the subject

Value added tax in comparing with some other common taxes is a new one that has been formed by economist's affairs to omitting or decreasing of the traditional tax disorders and shortages and also increasing government incomes. The first idea of this tax was introduced in 1918 by a German businessman called Phone Zimense. After that there were presented so many written studies that the most famous of them was moriceloure that was known as "the father of value added tax". Undoubtedly, the development of this system is the major tax developing and has become one of the most criticizing issues of the late twentieth century, and it were researched and issued even some decade s after that. But the value added tax was performed for the first time in France in 1948. This tax was acted as the value added tax of the kind of consumption after the correcting of tax on sale. However this form of tax was performed completely in Brazil on 1968. Meanwhile the Europe federation committee has advised the executing of value added tax to other countries from 1962 (Gholami, 2010).

These are the fundamental cases that should be executed by every country in designing a value added tax system:

1. The fundamental of this tax is usually on the consumption. The basic material was concerned as the links.
2. The factorial tax method (included tax that received in sale time minus receiving of paid taxes in saline) is used for the competing the borrowings.
3. The target aim (exporting rates is zero and importing is included tax) that is always used for foreign business.
4. The existence of various tax ratios, but according to many reasons it is use for mango goods and services and for some other types it use low or zero type of that.
5. Offish or leave for some goods or special parts that often act to the social reasons distributing reasons and or in agricultural parts .

The Europe scientific society has concluded after extended researches that the value added tax is useful just when the ratio of value added tax would be single ratio. The countries like Germany, Luxemburg and Holland a normal ratio and a limited one with adding some zero ration and munity offish of that. The countries like Belgium, Ireland, France and Italy apply four taxes ration besides offish at least. The value added tax is a fix ratio of 12.5 percent in Denmark but were cut some certain tax ratio. The England value added tax is also a fix a certain ratio of 15% but some goods in included leave of offish (Molaeepour,2010).

Up to the end of the 60 decade, value added tax was performed only in eight countries, after that, this process had a great speed like this that in the 90 decade if 2000 to 2004 the number of countries were 136 and this shows that it was successful even in poor or not developed countries like Ethiopia, Uganda, Benin, Borkinafaso, Tanzania, (hadadi et al, 2006).

South Korea is the first Asian country that accepted tax with assistance of money international fund in 1977 and the following of that, there were the countries like turkey, Pakistan, Bangladesh and Lebanon. It just like this that from 57 Islamic country in Islamic conference organization meeting, 36 countries of them had performed this tax that in 61

percent of them the share of value added tax from inter gross product was 4 percent or more than this (zaremoqhadam and Ghani, 2009).

Some years after the fixing of this tax system in Iran, due to the high amount of dependency of economy to the sources like oil resources and tolerances of the price that lead to deficit of balance in payments it caused not only high density inflammation but also has shown the inefficiency of tax system more than before. Therefore for meeting this shortages, performs and providing the work and structure of tax system is necessary. One of the tax types that could cross out shortages and use it as a revenue recourse for government is value added tax according to the scholars beliefs (farabi,2010)).

In Iran, the value added tax was performed in the second half of 2008 with the ratio of 3 percent. According to article 53 of the value added tax law, this law experimentally performed for 5 years (value added site, version 2.2008, p5)

The value added tax (VAT) has the great potential for money making just like that the scholars called it as money machine. This tax has faced the government with the fixed and flexible and in this regard decreases the dependency of petroleum incomes. VAT is a kind of multi stage that has taken in different production and distribution stages on the base of some presented services.

Linkage services are off in tax payment and this reason lead to disappearing additional tax (arshadiet all, 2011).

The advantages of executing of this value added tax could be mentioned like this:

- Transparency of economic exchanges
- To encourage investment, production and export
- To take more tax from those society people that consumes more luxury and un necessaries goods and services.
- To prevent from taking additional tax from product or

Final services.

Therefore the issuance and execution of the value added system is a great development in the country tax son income system (seyed Hashemi, 2009).

According to the said advantages, this research is seeking to the answer to this question that which factors effect on the value added system in Iran?

The research analytical model

According to the mentioned model now we will discuss to the value added system performance.

Tax culture

Tax culture could be known as the collection of the way of talking, approach and reaction of people's affords of tax system. This kind of approach will effect on tax affairs and the way of

their relationship that is from ideological, political and economical factors. Citizens of development countries know that the paying tax is one of their most important international duties. One of the very important factors in growing tax payment culture in development countries is the existence of powerful supervisory organizations that ensure the tax payers their tax will spend just for governments 'budget. So the necessary actions for creating desirable tax culture are as follows:

- a- Creating general acceptances to tax subject, it means that the people belief about tax, should be changed .people should have positive view to the government expenses.
- b- Creating a two-side belief between government and people, the government should inform the society with the related issues and problems and make their beliefs strength and positive about them in this way that they spent the tax just for people welfare and comfort and social services.

As mentioned above, the main goal of creating tax culture is the change in the view and manner of people regarding to the society and government (Askari ,2010).

Inflation effects on value added tax

About inflation effects of value added system, the World Bank studies in two stages, first in 35 countries and second in 41 countries show that the value added tax naturally has no inflammation creating effect. And with appropriate politics of governments it could be compensate and limit the potential effects of that (shahsavari and Jafari, 2009).

Apart from economist idea about inflammatory or not inflammatory of value added tax every country which do this tax system is very worry about that because they confirm theoretical analysis of appearance inflammation in short term duration according to keeping this inflammation of execution value added system it could be use by different method; some of these methods are as follows:

- Creating multiple ratios in value added tax of consuming goods and investments
- Taking complementary policies of absorbing cash and decreasing money supply
- Taking control policy and issuing needed laws in this field
- Dedicating offish tax to the economics segments with traditional works
- Supplementary policies after fixing and regulation of the price (farabi2010)

The effect of value added tax to price changes could be seen from two angles:

- In economic approaches, the amount of increasing market price is from indirect taxes to relative strength of supply and demand functions, in fact we face with transition of tax load. In other word, the total increasing price of value added tax don't convert to market but regarding to the function straight supply and demand functions in changes courses some of share for producer and some of them is for consumer. All of the tax converts to market and prices.

- The analysis of inflammatory works of value added tax couldn't be explained without the economical status and budget balance. In the country it is almost a long period that the government faces with deficit budget. The government also with borrowing from central bank or decreasing the saving currency will increase the amount of money, so the pressure of currency leads to inflammation. If the law of value added tax effect on increasing government income and government costs lead deficit or even balance of budget and in this regard it can say that the executive of value added tax may increase inflammation so total effect on inflammation can be null or negative.

Adoptive accounting system with VAT

In the field of value added tax accounting system, the study of various countries status show that the kind of added value accounting system stabilized with buying and selling account system that mostly is based on selling method minus buying materials and goods. The most important needed accounts are the buying and selling accounts. Too other words, in this tax system every seller has the duty for keeping accounting book and should have slip book to register the complete properties of documents, goods, price and tax to the related columns.

The seller is responsible to pay according to positive documents and minus the selling tax from his/her sells and pay it to the government (Jafari samimi,2005).

Value added tax system according to not to accumulate the tax. This will done by at first, the tax calculate apart from the original price of the goods and be exactly reflex to the name of value added tax. Secondly, in every stage from production to distribution, tax payer accounts the tax on his/her main selling price. Not the price added tax, he/she counts and then minus the last paid tax and pay the difference sum of that price.

Furthermore one of the important subjects about tax accounting system is the application and using them for economic units, responsible, tax rejoins and necessary adaptation for unity of accounting system. For example in some countries such as Japan, in tax accounting system, perfect unity and disciplinary could be observed. In fact there is a close relationship between tax laws and accounting principles. In other words in these countries like our country, it is allowed to the firms for contributing two or more separate methods to represent their own report to tax committees. In addition it can be summaries the particulars of a tax accounting system as follows:

1. The value added tax accounting system should be able to register and fix the value added tax and representing accounts briefly.
2. This system should be able to prepare urgent information to complete standard form for value added tax returns reason of this case is that the most great firms don't able to account necessary information manually.
3. However exchange registration transfer to general document accounts so this system should arrange general document accounts to register value added accounts.
4. Every exchanges and business should transfer to general document accounts and also tax certain accounts.
5. This system should arrange these accounts for identifying the value added tax.
6. This is necessary that the value of every goods register in related accounts and the value added tax keep in separate accounts.

7. Every economic activities value added tax should transfer to the related accounts document.
8. The value added tax registration book or certain book should represent accurate information for simplifying availability to all of the accounts.
9. Due to complete efficiency of the account, it should be like the way that user can register all the data.
10. An appropriate value added tax accounting system should be completely realizable and cover all of account.
11. Its I needed to arrange every goods separately because the act of value added tax I different for different kind of goods not doing so, the complete auditing lead to delay in payment and the principles of tax in income organization complete liquidation during 60 days and after completing the tax sheet .

Underground economy and value added tax

Underground economy is that part of the economy that I not clear and does not have transparency but use the governmental equipment. If the underground is very huge so the executive organization should try more to cover the identify affairs, auditing, and receiving tax because in tax culture, the persons more like tax escape, so executive organization should spend more and more to arrest tax escapers and control them. The executing VAT and developing of tax on consuming of all services and goods increase all common prices of goods and services in formal section. As ample due to performing VAT in food materials by families it can replace the restaurant and ready food that this issue is practical in clothes, in this regard production line in formal section will be limit. If the laoubors have more motivation in informal section, it will develop the hidden economy. Totally even the null VAT on production I one of the major characteristics of tax, but informal economy has made it like a question (seyed Noorani and azizkhani,2008).

Informing and training in VAT system

Economy activator in value added tax system has a two-side role: it has the role of actor in tax affairs organization and the role of tax accommodation officer for consumer. Any shortage in doing the duties on timely and correctly will have terrible consequences. But from the viewpoint of the organization, due to center role of actor of value added tax system this mean to fail or breakage. Training or education is the most complementary part of the value added tax operation. Modern nature, short term courses, self representation and majority of actors in contrast with traditional system make it urgent and necessary. In this regard in article 35 of law, the organization of country tax was responsible to prepare the necessary design for developing, equip, train and extending tax culture by media and concerns in the country level and in five year in maximum (shahriari rad and Moshtagh sefat,2009).

Conclusion

Tax makes possible the politic financing to control the economical activities as a politic tool. The value added tax system is one of the indirect taxes that have some particularities such as self regulatory and having transparency, and this was experienced in many countries. The successful or unsuccessful countries experiences of executing this policy show that it is a method for

healing and correcting capacity for obstacles and problems. Some of these capacities can be mentioned like this:

Tax culture: designing and explain the value added tax as a new born tax base increased the satisfactory level of the actors and cult rising. The main aim of tax culture is change on the approach and view and manner of the tax actors and the government is responsible for receiving tax, and social welfare and services.

Inflammation: however the value added tax increase the government income but decrease the deficit and finally decreasing inflammation. If government financial resources change from petroleum dollars to value added tax, so the government doesn't have to force to prepare its economic designs from the petroleum dollars of central bank of and cause the inflammation. This prevention from inflammation increase makes an appropriate bed for increasing investment and production.

Adoptive accounting system with VAT: the existence of homogeny and unity between organization acceptable tax accounting system and financial accounting cause to simplifying and fasting in calculation affairs besides transparency. If the firms use manual system to accounting operation, they should make an outline document as the name of value added account, and if they use software they should they should create another software for separating them which in this type of receiving taxes account the cost of goods or services will minus from total selling and the remain of three months will pay to tax affairs organization account, so the mentioned account will be zero.

Underground economy: Underground economy is a part of the economy that is not transparent, doesn't pay the tax but use the government equipments. Because of this reason that actors like tax escaping, so organization should spend more costs for identifying auditing and receiving tax to control the amount of tax escaping.

Informing and training: training is the most complete factor and the element of operating value added tax. Modern nature of short term courses, the process of self represents and receiving and maximum of the number of actors' professional jobs and related workers and economical firms is necessary.

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