

ENHANCING ECONOMIC QUALITY BASED ON TAXING SYSTEM APPROACH

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ABSTRACT

Developing tax system is recognized as one of the main pivots of economic development. So, substituting unstable oil income by tax revenues has always been of the critical issues of economic and social development plans. This concern is being more sensed regarding the requirement of the fifth plan on government current costs independency of oil and gas revenues to the end of plan, achieving minimum 10% tax proportion at plan termination, 10% annual growth rate of general income ratio, except gas and oil revenues, by cost credits as well as the resulted situations as the economic sanctions. It is obviously clear that the tax system development can be possible through simultaneously enhancing its three major components. Major future programs to develop the tax system include reforming country macro economy structure in terms of economic activities, developing corporation activities and qualitative development of services (modernization), expanding tax bases, removing unnecessary exemptions and budgets constraints, providing human resource, taking all legal, executives and judicial measures in facing with undergrounded economy. This research studied tax functions followed by the future developing programs of tax system.

Keywords: *Tax Potential (Tax Capacity), Tax Comprehensive Plan, Tax Revenues, Tax System*

INTRODUCTION

Tax system structure has been evolved with beginning industrial life, emerging democracy, regulating economic rules and providing economic theories on tax. Tax theories were also developed since the end of World War II, the Mid-Forties of the last century, simultaneously with mutation in macro- and micro economic theories.

Tax, at first glance, is a mean of increasing state revenues. However, detailed reviewing of tax policies show that tax rules are effective and efficient means to influence on economic development and create dynamic and productive economic direction. Tax policies may effect on the economic agents especially on firms.

Government, usually, by changing tax rules rates can cause some mechanisms to improve general economic issues such as budget deficits, inflation, unemployment, unequal income distribution, decline in non-oil exports as well as investment; moreover, to provide the opportunities for economic prosperity. Economic growth has historically been regarded as one of the main objectives of planners particularly in developing countries. There has been also some planning taken in Iran considering policy changing of one-product export into self-sufficiency in order to attract investments. So, it is required to regulate some rules that can meet the goals of economic development plan and to be consistent as much as possible to social regulations and traditions in addition to spirit of community. It seems that in countries like Iran in which social and economic status are developing in accordance with regulatory programs, changing in consistent rules and in line with desired progresses is required (Rafiei, 2003).

Research History

As tax concept is a critical issue in research; so, it is technically defined as follows:

- Fetiskiu expressed that state income is a part of all community property paying to the ruling system in order to maintain the remained property.
- Abliu, the French scientist, knew tax as the cost being paid for the service delivered by the state.
- Tax is a type of social cost in which firms and real individuals pay for using social facilities (Emami, 2004).

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Definition of Key Terms

Tax system: It is referred as a set of organization and tax culture rules and regulations that provides better and more collections through interaction (Gourchin, 2005).

Tax culture: A set of social beliefs, attitudes, values and behaviors indicating the role of tax in society (Gourchin, 2005).

Tax payers: it is referred to a natural or legal person which is liable to pay tax according to law (Tavakol, 2000).

Tax equality: It means that all tax payers must pay in terms of utilizing state services (Gourchin, 2005).

Tax potential: The tax payers afford in paying is measured based on tax potential (capacity) which is determined in terms of the amount of income, consumption, wealth and other factors (Tavakol, 2000).

Tax rate: It, indeed, determines the percentage and ratio of basic tax the payers must pay. Tax rates are proportionately employed progressive, descending method (Gerami, 2005).

Taxation Goals (Objectives)

Redistribution of Wealth

Unbalanced performance of the developed systems has disorganized the reciprocal interactions of economic factors dividing the community into two rich and poor poles which caused heterogeneity among different people.

This social unbalance will be more acute in capitalism or pseudo-capitalism systems. The economists suggested redistributing wealth and incomes to solve this problem (Gourchin, 2005).

Balancing State's Cost and Income

Providing the state's current costs, at first; and supporting constructional projects in the second steps is considered as taxes charges. Economists, in discussing budget balance, emphasized that permanent budget deficit i.e. higher expenditures in comparison to revenues, can lead to serious economic outcomes. Budget deficiency through more market requests and higher liquidity in community, can generate inflationary pressures.

Budget deficiency, in particular, in the current budget is challenging as there is no goods produced for the performed current costs to meet the created human requests. However, if it benefits financial supporting, minimally to pay the current costs, it will largely prevent budget deficiency (Gourchin, 2005).

Guiding Policy Tool

As tax is a tool to eliminate wealth peaks removing the large gap between rich and poor in the society, it can be considered as a tool to balance economic sectors, too. Level growth of various economic sectors and preventing particular facility concentration include some economic goals of any country (Gourchin, 2005).

Economic scholars introduced heavy taxation on nonproductive issues and offering tax exemptions in particular productive areas or certifying concentrated units in deprived areas as solution. Thus, applying tax as a policy tool can change economic operations' profitability such that the productive operations can be developed in the desired fields.

Tax System and Components

Tax system is a set of rules and regulations, organization and tax culture, containing data (incomes), process and outcomes like any other system summarized as follows:

1. **Data:** Data, in tax system, include rules, various tax and non tax sources.
2. **Process:** It includes planning, tax management, organizing and tax principles.
3. **Outcomes:** The goal of processing tax data is system outcome including expanding social justice under the light of economic independency, applying financial policy, money supply, tax distribution as well as establishing social justice.

Desired Tax System Basics

Adam Smith, the well-known classic school economists, mentioned four principles or basics on taxes. However, these were presented two centuries ago, they are still accepted by the scholars; moreover, it is required to follow these basics in tax system.

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Smith' four Maxims

- a. **Equity maxim:** According to this maxim, tax burden must be equally divided among people and it is dependent on the payers afford.
- b. **Certainty maxim:** According to this, the tax amount, source, time of paying (due time) and how to pay must be exactly determined.
- c. **Convenience maxim:** According to this maxim, relative satisfaction and various facilities for taxpaying are considered. Moreover, paying conditions and time of paying must be as easy as possible.
- d. **Economy maxim:** According to this, maximum saving must be taken and collection costs must be minimally reduced. In other words, the tax should be collected such that tax maxim is composed of little tax collection cost (Pour, 1990).

Of the aforementioned, he ranked the economy maxim the least. However, in economic perspective, it is one of the most critical issues of a desired tax system requiring attention. The following chart represents the above maxims.

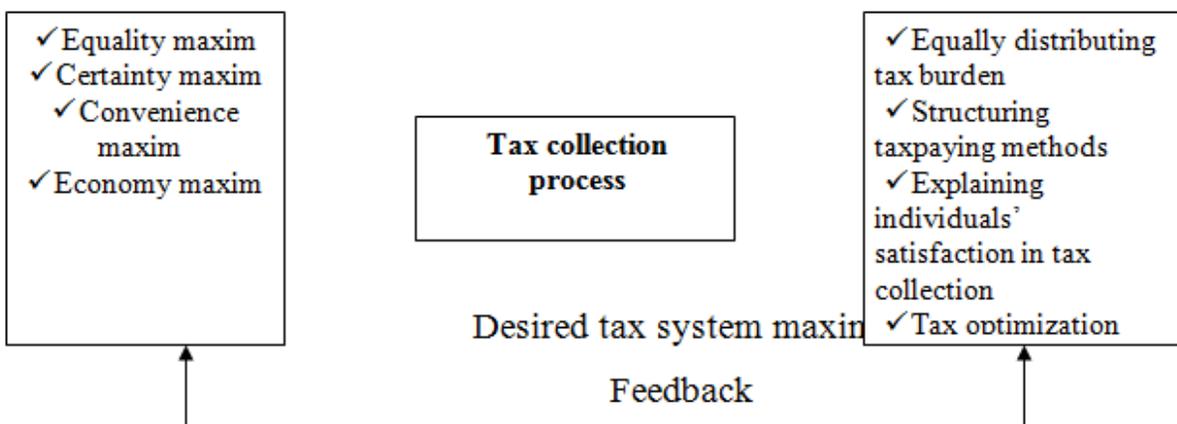


Chart 1-2

New Tax Basics

Adequacy of Tax Income

The goal of collecting tax is essentially earning adequate income to deliver necessary services by state.

Flexibility of Tax Revenues

Tax system is organized such that the revenues follow economic activities, decrease and increase subjected to activity change (Ameli, 2004).

Variety of Tax Resources

Tax revenues follow economic conditions and evolutions regardless of tax type; thus, relying on a particular tax type or a group of homogenous taxes is inappropriate (Ameli, 2004).

The major strategic actions are as follows:

- Integration and simplification of tax rules
- Updating tax collection regulations and ensuring integration with upstream documentation
- Fully implementation of comprehensive tax system in country
- Efficiency of self-reported tax policies
- Utilizing the capacity of civil institutes and economic intermediates (commerce room, unions, ...) for reducing tax evasion
- Revising legal exemptions and cancelling unnecessary exemptions
- Facilitating tax collections and...

In developed countries that the budget is independent of oil income, more than 70 to 95% of the state revenue is met through tax. It is interesting that these countries' tax-based revenues are higher than Iran's oil export income.

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More than 90% of revenues in Sweden, Denmark and Finland are supplied through tax. Studying nations' tax evolutions revealed that economic integration, expanded competition and strongly reduced life of investments, made states to revise in tax attitudes substituting consumption or sales tax by income tax and to seriously decrease enterprises' taxes namely transform the tax burden into consumption from production in order to encourage reinvestment in enterprises and provide job opportunities, higher supply and less expensive services. Based on the world experiences, ratification and implementation of the value added tax is now regarded as the best and most comprehensive tax collection method; a tax with the least implementing cost.

Achieving the goal of meeting country's costs through taxes depends on some already non-existed features including poor informatics system resulted from the required balance of other authorities with tax organization and lack of monitoring on transactions' documentation. It is hoped that to implement tax information comprehensive plan, a national plan in informatics information, according to schedule through state support and other related institutes.

Public attitudes toward various tax issues are one of the main effective factors on tax capacity known as tax culture.

Disclosure of how tax incomes are earned can be a key step toward attracting public trust. In most developed countries or even developing countries, approximately 90% of the state's current payments are supplied through taxes; whereas, the tax proportion is much less in Iran budget. A high amount of incomes in industrial countries are attributed to tax revenues including 97% in U.S., 94% in Austria, 91% in Australia and 93% in EU countries. The benefit of speculative activities, in Iran, like land business (buy and sell) is more than productive activities as there was no taxation. The solution is VAT (value added tax) (Ameli, 2004).

Resistive Economy Position and Explanation

Resistive economy, emphasized by the Supreme leader, includes components such as reforming state revenue system which requires increasing tax revenues. Administrating tax issues of the current traditional form is not only an inequality and injustice, but also causes destructive abnormality in community. So, it is considered as the major key components of the economic evolution in tax system.

The traditional tax system process in Iran is one of the problems marring tax system efficacy. Lack of mechanized system in executive process of tax system may lead to longer implementation as well as increased probability of error. On the other hand, individual preferences and personally decision making of tax authorities in assessment process and collecting tax revenues have increased tax revenues' vulnerability.

According to the fifth development plan, tax organization is committed to terminate information database of tax payers including income information and expenditures of natural persons till the end of plan and legal persons maximum to the end of plan second year.

Lack of a comprehensive tax information system, absence of multiple tax rates in different economic sectors, wide and varied tax exemptions, individual preferences in tax collections, inadequate proficiency in correctly performing rules and regulations, as well as increased corruption in some tax domains as inadequate technical supervisions on identification and collection processes are included as the most serious inconveniences (harms) and deficiencies of the tax system.

Integrated Tax system software

Of the tax system comprehensive projects, Iran integrated tax system software is the center and heart of the integrated system which implementing other projects depends on executing this project. Thus, all tax procedures including identification, registering payers, procedure and tax collection are conducted in an integrated, continuum process such that each step is independently done; then, the next step initiates (Asgari, 2013).

Value Added Tax (VAT)

It is referred as a tax on the added value i.e. the difference between revenues of selling product and total costs of preparing raw material, goods and intermediate services (production cost). It has been established in Iran economy, in line with the general guidelines of the development plan, that the ratio of tax revenues

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increases in combination with state income resources by expanding tax bases through value added tax in order to reduce the state's budget dependency on oil income.

Rules and Regulations' Revision

Taxing organization must precisely consider the following items:

1. Using ID number (for natural persons) and economic code (for legal persons) in bills
2. Appropriate implementation of code 169 of the direct tax (pronouncing and delivering quarterly deals list by tax payers)
3. Complete and accurate information about real (natural) payers
4. Coordination between social security and taxing organizations in terms of declaring the numbers of personnel and the amount of salary from legal and natural individuals
5. Providing a mechanism to present invoices of jewelry unions as well as contracts presented by real retailers
6. Updating taxing organization personnel's information in terms of accounting principles and accounting computerized systems
7. Applying a comprehensive taxing system to avoid a payer's exemption in several tax sources
8. Permanent observing and monitoring of home offices government services which are assigned by transforming vehicles and tax claims
9. Encouraging tax payers in using electronic, online systems to deliver tax statement, paying tax bills and added value duties in addition to information and required forms provided for electronic services and issuing tax papers for all or some of the aforementioned payers through innovative technologies such as electronic mail, electronic signature or ...
10. Extending services of the electronic service centers
11. Implementing optimization official health programs at organization level
12. Proper need analysis of the personnel required for examining, identifying and collecting of tax payers
13. Information technology programs for management, staffs and experts throughout country
14. Tracking and introducing unreal paper firms (nominal) issuing spurious invoices of different goods with no tax paying

Conclusion

Despite the special status of tax system in helping to realize the state central, key role in multidimensional development, discussed issues show that Iran taxing system is facing many challenges and dilemmas in its development. Broad scope of activities and current operations, on one side; and reciprocal interactions of country's official, social, economic and cultural structures on taxing system, on the other hand, require that all effective factors of development process work in coordination to facilitate reforming and evolution of tax system. Obviously, lack of this coordination causes taxing system and its executive systems not to achieve its determined objects and reformation; though, applying all its internal capacities and capabilities. There have been, in recent years, some critical measures taken toward economic evolution in which considering resistive economy components can be extremely helping.

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