



## Investigation of Relation between Tax Laws and Regulations and Tax Evasion

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### ABSTRACT

The main purpose of this research is considered of performance techniques for competent of tax system in country. Base of this research, this question will discuss why the tax system in country is ineffective? Although several answers bear in mind for this question for people and most of tax agents, but as a researcher, they attempt to find a strict and scientific answer for aforesaid question. In this study, statistics community consists of 250 persons of tax agents and payers in Ilam province. In this article they use of library and field approach. The information provided by questionnaire. They examine the investigations assumptions with use of 35 questions involving 4 choices. The validity of questionnaire questions is evaluated by ALFA test ( $\alpha = 0.85$ ) probably, we can plan for competent of tax system based on given results. There is a significant direct relationship between tax regulations and tax evasion. Further, there is a significant direct relationship between tax system efficiency and tax evasion tricks. Results of the present study suggest that any change, though small, in the body of tax rules and regulations would equally affect tax evasion, whether it is positive or negative.

**Keywords:** Tax, Tax Payers, Tax Obedience, Self-comment, Tax Evasion

**JEL Classification:** H2

### 1. INTRODUCTION

The subject of tax and necessity of tax reception by government and also taxpaying equitably by real tax payers is natural and obvious (The Law of Design of Cultural, 2005). This subject has been accepted in all of the political and legal systems. Today, it's proved that, if tax payers regulate sovereignty costs based on tax collection, we will have a more successful sovereignty, more development people and more efficient system (Lashgari and Azizi, 2012). So, the main purpose of this article is familiar of people with tax subject then, the people should know that tax is governments right and right are grasps. It's their religion and religion is payable. Finally, how can we take steps for access to a main purpose? This purpose is public confidence. Taking this step need to some introductions. In reality, the people should believe and feel that tax system and organization is just, impartial and

evenhanded. It's clear that, there is a prolonged way as long as they believe it. In considering of roots and factors of distrustful that result in dissatisfaction of people from tax organization practically, in first time, I observed that they ignore the rule not respect to it.

It means that, not only tax payers and agents didn't like to do their duties and tasks, but they are looking for ways for escape of rule. They also innovate some tricks for tax evasion. The investigative problem is why tax payers and agents are lawbreaker and unlawful.

1. Is it because of rules problems?
2. Does it results from ambiguity in rules?
3. Is it related to train of tax agents?
4. Which is the point of view of tax payers about this problem?
5. Is there any common point of view between tax agents and them?
6. What are rule difficulties and tax regulations currently?

Tax evasion will result in decrease of tax income of government, dysfunction in budget and finally create obstacles for access to purposes. This problem makes difficulties for management of social, economical and cultural programs. At the end, the country faces to some problems like financial supply and decrease of common welfare (Zahedi, 2016).

Tax evasion will change competition power of economical factors to benefit of whom doesn't pay tax, so the gap between different groups of income will increase (Khoddamipour and Torkzadeh, 2012). If we don't redress for prevention of tax evasion, it's possible that another person's encourage for this action in order to increasing of financial power. Because of social behavior of people on each other, tax evasion develops and accepts gradually. The main purpose of this research is considering of administrative applications for efficiency of tax system in country. I hope that tax payers and agents in country attempt toward rule administration with complete issue like tax. They should observe self-comment principle, its base on common confidence to people. For this purpose, I consider inefficiency factors of tax system in country. Here, at first we define some subjects like tax, tax payer, tax obedience, self-comment and tax evasion.

### 1.1. Research Hypotheses

There is a relationship between tax system efficiency and tax evasion tricks.

There is a relationship between tax rules and regulations and tax evasion.

## 2. THEORETICAL FOUNDATIONS

### 2.1. Tax

The tax that government receives from different classes of people is for income collection or economical development prosperity or both of them. So, at first we should say that what's the meaning of tax?

The monies like income tax of properties, rights, inheritance and funds that government receives from people for providing cost called tax) Mousavi et al., 2010). The people in a society that manage by tax income want an answer from government. The sovereignty that expense for society itself, don't need to people for society needs. In some of the societies that go toward democracy, tax system is very important. The people, who accept their sovereignty, participate in its costs. If tax organization and auditors show that there is a financial transparency, finally, confidence, trust and sovereignty acceptance will create in society) Soroni, 2004).

So, allocation of resources, distribution of resources and property in society and finally economical stability and growth are 3 main duties of government. Tax incomes have a key role in 3 domains, especially in domain of distribution of resources and property in society. However, social justice is very important in all of the countries, in developed countries, social justice accomplish by tax resources (Khoddamipour and Torkzadeh, 2012). Based on this definition, the strategic purpose for increasing government tax income depends on two factors:

First, the government tax policy should increase and reach to tax base and gross internal product. Second, internal revenue organization should increase the tax collection based on tax base (Khoddamipour and Torkzadeh, 2012).

### 2.2. Tax Payer

The main part of tax system is consisting of tax payers. Tax payers have clear and know definitions and duties (Mirtahami, 2011). Complete performance of these duties will result in increasing of efficiency in tax organization a person who acquisition income should pay tax (The Law of Direct Taxes, 1997). Tax payers have rights and punishments base on obedience or lack of obedience of taxpaying. Firstly, we consider general principles and legislation limitations here.

- a. Equality law: Base on rule, the law of equitable conflict, in addition to taxpaying, is necessary in all of the laws. Its means that, the law should perform completely and without any discrimination and apart from the person's position.
- b. The law of equitable behavior or common confidence in tax organization: This law means that tax collector shouldn't behave inequitably in conflict with tax payers.
- c. Conformity laws and ability to paying: This law in tax domain means that taxes shouldn't be very heavy for people.
- d. The lack of retroactivity law: Base on this rule, it's defensible that tax payers should make economical decisions with awareness of tax consequences.
- e. International contracts: We can limit government authority for legislation in tax affairs with international contracts and treaties.
- f. The right charters of tax payers: Some of the countries prepare and regulate charters or statements about the rights of tax payers. These charters consist of prohibition of decisions from tax organization and against tax payers.
- g. Another limitation of constitutional law: As we said, tax payers should pay the tax, if they don't obey of rule of taxpaying, they will be offenders and finally, some punishment takes into view for them (Mohseni et al., 2011).

In respect to aforesaid, the government use of preventive factors is consisting of cash penalties, civil or retributive punishments and so on. The purpose of this part is familiar with words like payer, authorities and responsibilities and limitations, we should consider another part.

### 2.3. Tax Obedience

Tax laws should increase the tax obedience constantly. Usually, based on agreement about obedience increasing, tax obedience has different aspects.

In this case, we can point to equitable and lawful regulation base on equality, so that obey of it is simple, and escape from it is difficult (The Magazine of Tax Payers, 2005). Another aspect of tax obedience is maneuver of effective punishments for cases like lack of obedience. The kind of classifications about tax obedience has been reported in university literature.

Probably, the main separation is between voluntary obedience and compulsory obedience. The first look at voluntary obedience shows that:

1. They don't know obedience method.
2. Obedience has many problems and troubles.
3. The cost of obedience is very high. One of the problems related to this difference is simplicity of abstinence or escape form law. A law that obedience is simple in it, probably, lack of obedience in it is relatively difficult.

The most successful law is a law with 2 characteristics simultaneous (Mirtahami, 2011). In this part of research, after definition of some of keywords, as requirements for this investigation, and brief descriptions for clarifying the subject. We refer to main part of investigation: Tax tricks (tax evasion) and technique for encountering to it.

### 3. WHAT IS TAX EVASION?

Any kind of illegal attempt to ignoring tax like lack of necessary information about profits and incomes to responsible authorities called tax evasion (Matin, 2004). The definition of tax evasion is equal in all kinds of taxes in tax evasion, in spite of conformity of activity with laws, in activity administration, usually one or more enactment regulations related to qualified authorities will ignore purposely (Anbarlooei, 2008).

#### 3.1. Appearance Fields of Tax Evasion

Different investigations show that the most prevalent fields in appearance of tax evasion are:

1. Tax lack of progression of tax culture in society.  
Tax culture is a collection of inference way, conception and reaction of people in face of tax system. In another way, inference way, conception, understanding, wishes, social values, ongoing laws, and degree of awareness and education form the tax culture (Dolatshahi, 1992).
2. The lack of complete interchange of information and lack of super vision and prosecution system in tax collection.
3. The principle recognition and identify of disadvantageous in its administration.
4. No receive of tax declaration and weak of administrative guarantees, not sending of declaration has many reasons. The most prevalent of no sending reason is no up to date of payer registry. The best opportunity for no sending of declaration is tax evasion. Another reason is incorrect clash of tax agents, because tax agents do not familiar with tax laws and finally they have not sufficient skill.
5. Delay in tax paying.
6. The lack of recognition of payers and lack of any well-documented reasons.
7. The presence of various and extensive exemptions:  
Sometimes, government open the way of tax evasion with making some of tax supportive policies and tax exemptions. Whereas, if efficiency information do not exit in tax system, the tax evasion will increase. Also, with granting of tax exemptions, some of the groups exempt from taxpaying, finally, this event will result in decreasing of tax incomes.

Therefore, if granting of exemptions do not accomplish carefully the government will impose heavy pressure on another groups of society for collecting tax incomes. It means

that, the government for compensating of empty port of tax income imposes more tax costs to another group (Zahedi, 2016). Undoubtedly, the granting of extensive tax exemptions will result in inefficiency of tax system and weakness of tax administrative system (Dolatshahi, 1992). Most of scholars believe that, one of the main reasons of development of industrial countries is a rightful society; conversely, the main reason of retardation of third (3<sup>th</sup>) world countries is an unlawful society. Researchers and scholars said that one of the main reasons in related to lack of development in our country is an unlawful society (Pour, 2003).

### 4. THE POINT OF VIEW OF TAX AGENTS AND PAYERS ABOUT LACK OF LAW ACCEPTANCE

In order to decrease of personal point of view of author, unreal understandings and reception and reception of taxpayers, the best is refer to their votes. The answers of taxpayers to questions will analyses and present with use of tables and statistics analyses.

These questions formulate in order to opinion polling.

Table 1 show the frequency distribution of the study population base on suggestions of tax agents in order to reform of some of law articles that need to reform immediately.

As Table 1 show, 90% of taxes agents believe that law should reform and 5.3% of them are agree with present situation. We can conclude that, there are many lacks in law that need to reform.

Table 2 show the frequency distribution of study population base of making policies and instruments for establishing a cultural insight in payers. According to Table 2, 41.3% of tax agents suggest training to agents and 30% of them suggest training to people by collective media. 26% of tax agents suggest that first then punishment, and finally 2.7% of them do not answer.

Table 3 show the frequency distribution of study population base on clear suggestion of tax agents about considering of legal rights of government and payers. According to Table 3, 38% of tax agents believe that taxpayers should justify by collective media, priest and clergymen.

26/6% of tax agents believe that taxpayers should trust in tax system. 10% of them believe that areas of self-comment design and voluntary paying should consider. So, we can conclude that the role of priest, collective media and clergymen is very key and important.

Table 4 show the frequency distribution of study population base on the reason of dissatisfaction of taxpayers about tax system. According to Table 4, 53.4% believe that taxpayers do not familiar with legal rights and duties. 28.6% believes that tax agents do not have legal and necessary awareness. 6% believe that most of tax payers feel discrimination.

Table 5 show the frequency distribution of study population base on the reason of dissatisfaction of taxpayers about tax system. According to Table 5, 37.4% believe that taxpayers have an injustice feeling in tax recognition. 32% of them believe that

taxpayers do not trust in tax agents. 18/6% believes that there is a mistreatment between taxpayers and tax agents. Finally, 12% of them ignore documents, proofs and main identification without regulation.

**Table 1: The frequency distribution of study population base on suggestions of tax agents in order to reform of some of the law articles that need to reform immediately**

Category	The suggestions of Tax agents in order to reform of some of the law articles that need to reform immediately	Frequency	The percent of frequency	The percent of cumulative frequency
A	They believe in reform of law	135	90	90
B	They agree with present situation	8	5.3	95.3
C	No answer	17	4.7	100
Total		150	100	

**Table 2: Frequency distribution of study population base on making policies and instruments for establishing a cultural insight in payers**

Category	Policies and instruments	Frequency	The percent of frequency	The percent of cumulative frequency
A	Training to people by collective media	45	30	30
B	Education in agents	62	41.3	71.3
C	First training, then punishment	39	26	97.3
D	No answer	4	2.7	100
Total		150	100	

**Table 3: Frequency distribution of study population base on clear suggestion of tax agents about considering of legal rights of government and payers**

Category	Clear suggestion of tax agents	Frequency	The percent of frequency	The percent of cumulative frequency
A	The payers should justify by collective media, priest and clergymen	54	38	38
B	We should attempt that payers trust in tax system	40	26.6	64.6
C	Mutual acceptance and bilateral trust should obtain between agents and payers	38	25.4	90
D	The areas of self-comment design and voluntary paying should consider	15	10	100
Total		150	100	

**Table 4: Frequency distribution of study population base on the reason of dissatisfaction of taxpayers about tax system**

Category	The reason of dissatisfaction of tax payers	Frequency	The percent of frequency	The percent of cumulative frequency
A	Tax payers don't familiar with Legal rights and duties	80	53.4	53.4
B	The tax agents don't have legal and necessary awareness	43	28.6	82
C	Some of aware payers don't like to pay tax	18	12	94
D	Most of tax payers, feel discrimination	9	6	100
Total		150	100	

**Table 5: Frequency of study population base on the main reason of un-paying of tax-by-tax payers**

Category	The main reasons of dissatisfaction of tax payers	Frequency	The percent of frequency	The percent of cumulative frequency
A	The feeling of injustice in tax identification	56	37.4	37.4
B	In trust of tax payers to tax agent	48	32	69.4
C	Mistreatment of tax agents	28	18.6	88
D	Ignoring of documents, proofs and main identification without regulation	18	12	100
Total		150	100	

**Table 6: Frequency distribution of study population base on a suitable way for reforming of structure and prevent of extortion to tax payers**

Category	A suitable way for reforming of structure	Frequency	Percent of frequency	The percent of cumulative frequency
A	Use of consultants, honest leaders and approved person's in area of tax that	42	28	28
B	Training and legal advice The taxpayer is required by the officers and agents of the task	49	32.6	60.16
C	However, Moody's attempt to teach to become familiar with their legal rights and obligations	39	26	86.6
D	Training classes for unions and trade associations	20	13.4	100
Total		150	100	

Table 6 show the frequency distribution of study population base on a suitable way for reforming of structure and prevent of extortion to tax payers.

32/6% of them believe that legal training, guide to tax payers by tax agents is necessary and it should be agent's duty. 28% of them believe that use of consultants, honest leaders and approved persons in area of tax is suitable. Few of them suggest use of educational classrooms for federations and trade unions.

## 5. HYPOTHESIS TEST

### 5.1. The First Hypothesis

Pearson's correlation coefficient was used to evaluate the hypothesis that the results can be seen in Tables 4-8.

$H_0$ : There is no relationship between the efficiency of the tax system and tax tricks.

$H_1$ : There is a relationship between the efficiency of the tax system and tax tricks.

Results Table 7 shows that, given the significance level of 0.000, which is <05.0, the relationship between the efficiency of the tax system and tax tricks is significant at a confidence level of 99%. Since a positive correlation coefficient, is the direct relationship between two variables increases (decreases) one, others increase (decrease) industry. The intensity of this relationship is equal to 49.0. So assuming a null hypothesis is rejected and confirmed.

### 5.2. Second Hypothesis Testing

There is a relationship between tax rules and regulations and tax evasion.

Pearson's correlation coefficient was used to test the above hypothesis. Results are presented in Table 8.

$H_0$ : There is no relationship between tax rules and regulations and tax evasion.

$H_1$ : There is a relationship between tax rules and regulations and tax evasion.

**Table 7: Pearson correlation test the first hypothesis**

	Efficient tax system	Tax Tips
Efficient tax system		
The correlation coefficient	1	49.0**
Significance level	250	0.000
Number		250
Tax Tips		
The correlation coefficient	49.0**	1
Significance level	0.000	250
Number	250	

**Table 8: Results of Pearson's correlation test related to second hypothesis**

	Tax Evasion	Tax rules and regulations
Tax rules and regulations		
Correlation coefficient	0.5**	1
Significance level	0.000	250
Number	250	
Tax Evasion		
Correlation coefficient	1	0.54**
Significance level	250	0.000
Number		250

Given the significance level (0.000) which is less than 0.05, the results of the above Table 8 show that the relationship between tax rules and regulations and tax evasion is significant at 99% confidence level. Since the Correlation Coefficient is positive, there is a direct relationship the two variables, that is, as one variable increases (decreases), the other one would also increase (decrease). The intensity of this relationship is 0.54. Thus  $H_0$  is rejected, while  $H_1$  is confirmed.

## 6. CONCLUSION

In this study, we considered bad result of law evasion and Illegalities of tax agents in Iran as destructive factors in tax rights (people and government). With user of number, tables, statistics and consultation, we proved that dissatisfaction reason of tax payers from tax system and lack of participation of people in tax paying is ignore of regulations and laws by tax agents. Base on aforementioned factors, the author concluded that distinguish, discrimination of and recognition of cultural contradiction with

use of cultural efficiency in order to law making and legitimate is a social value, so, we should take step in mind, thought, and spirit of tax agents and tax payers.

Finally tax payers will become lawgiver and vindicate the tax rights of two parties. For access to this purpose, we should start from ringleaders (Directors general+assistant of tax income+ministry of finance). The most evident result hypothesis testing suggests that there is a significant direct relationship between tax rules and regulations and tax evasion. Also, there is a significant direct relationship tax system efficiency and tax evasion tricks. Results of the present study indicate that any change, though small, in the body of tax rules and regulations would equally affect tax evasion, whether it is positive or negative.

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