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Verification of Legal Entities' Overpaid Claims in Value Added Tax System in Iran

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Abstract

This paper aims to investigate the relationship between the legal entities' overpaid claims and Value Added Tax Organization reports. The statistical population consists of those legal entities subject to the first and second phases of value added tax system operating in the city of Mashhad which have submitted their tax returns to the Tax Organization's offices during 2008 to 2012 and claimed that their paid taxes and duties are more than those received during the relevant period. Thus, they have requested refund for overpaid taxes and duties. The results showed that there is a significant difference between their claims and reports in the Tax Organization.

Keywords: Verification, Tax organization, Value added tax, Legal entities, Iran

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Introduction

Tax payment in some countries is a principal assignment and its non-payment leads to legal treatment for law violators (Faccio and Xu, 2010). Tax constitutes the main part of general expenses in different nations in the world in a way that it satisfies 90 to 95 percent of government general expenses. Despite of many governmental attempts, this figure is so low in Iran and shows a huge gap with current figures in the world (Fakhari, 2010). Additionally, Tax incomes involve about 32 percent of gross domestic production in some countries; while, this figure is little in Iran. Improvement of tax culture in Iran is a necessity to obtain a desired tax income situation. The implementation of tax self-expression at the end of each financial year is done for this purpose. Some economists believe that appropriate implementation of value added tax law in a macro-economic plan without divisional views contributes to justice in tax payment. This kind of tax payment considers exemptions for tax payers in the fields of households' essential goods and services which are determined based on the Value Added Tax Law, Article 12 (Pakzad, 2012). In the current century, value added tax has welcomed by many countries throughout the world; so that, more than 150 nations have implemented this tax and have taken advantage of its benefits. This kind of tax is received from firms' value added in different stages of production and distribution process and have many benefits such as high profitability potential for the government, wide tax base, easy implementation, reduction of tax evasion motives, direct contribution of tax payer in the taxation process, reliance on self-expression method, trust to tax payers, the mechanism of self-control, low cost of taxation due to self-implementation, double tax avoidance and so on (Faridzadeh, 2011).

Literature review

Definition of Tax

Tax is a part of individuals' income or assets which is received via government's administrative and executive levers to pay general expenses and implement financial policies in order to maintain a nation's economic, social and political resources. Some scholars believe that tax is a sum which government receives from individuals, corporations and institutions based on law for government reinforcement and financing general expenses (Pajouyan, 2005).

Definition of Value Added Tax (VAT)

Value added is the difference between an individual's value of goods and services at the times of their purchase and sale in a specified period. So, value added tax is a multi-steps tax which is received in different stages of production chain. In fact, it is a multi-steps tax on sale which exempts the purchase of intermediate goods and services (Pakzad, 2012). VAT Law involves all goods and services sold in the market; but, 17 goods such as Sugar, Edible Oil, etc. are excluded in the Article 12. There are exclusions for 2 goods of Cigarette and Airplane fuel. The former is taxed 12 percent and the latter 20 percent. However, according to the agreement between the parliament and the government, it is prescribed that, in the first step, importers and distributors with

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an annual turnover of more than 3.000.000.000 IR (Rials) are subject to this tax. Therefore, many retailers and service providers are exempted from VAT.

Additionally, it is prescribed in the Law of VAT that purchaser has to pay a cost approximate to 6 percent as tax for any increase in the value of produced good in each step of its production and distribution (Keen and Bansgard, 2009). VAT can help to increase the proportion of taxes to current expenses. This is a tax on multi-steps sale which is calculated and received as a percent of goods and services value added (Naderan, 2008). VAT has a broader base and levels the ground to receive many tax potentials. This kind of tax is called "Money Machine" due to its wide base of tax and high profitability potential. Regarding to low share of taxes in financing the government expenses in Iran and inefficiency of the current system in the recent years, attempts have been made to codify and implement the VAT.

A brief history of VAT in Iran

The VAT bill, which was submitted by the government cabinet to the parliament in 1987, was approved in 6 articles in the first and second reading. But, it was withdrawn to the government due to the price stabilization policies. In 1991, after a vast investigation by domestic and international experts, VAT system introduced to the government as a major solution to increase tax system efficiency. The VAT bill submitted to the parliament after approval in the cabinet in 2002. The VAT General Act was passed in the parliament open courtyard in 2005. It, finally, was approved in the Guardian Council and notified as law in 2008 (Kiani, 2012).

Research Hypotheses

H_1: There is a significant difference between the legal entities' overpaid claims and reports of investigation by Tax Organization's offices in field of export and import of goods and services.

H_2: There is a significant difference between the legal entities' overpaid claims and reports of investigation by Tax Organization's offices in field of domestic production.

H_3: There is a significant difference between the legal entities' overpaid claims and reports of investigation by Tax Organization's offices in field of domestic service provision.

Research methodology

Research design

This is an applied and Ex-post facto research which its main emphasis is on the control by statistical method. So, it has been done based on quasi-experimental research like most of the accounting ones.

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Population and sample

The statistical population of the research is the legal entities subject to the first and second steps of VAT system in the city of Mashhad which have submitted their tax bills to the Tax Organization's offices for the tax periods of 2008 to 2012 and have claimed that their paid tax has been more than the received one during the relevant period and therefore, demands for overpaid tax refund. The population sample also includes all legal entities cases which their request for tax refund has been investigated and led to the issuance of refund investigation report. The first step tax payers are all exporters, importers and all economic actors whose total sale of their goods and services has been more than 3.000.000.000 IR (Rials) in 2007 and more than 1.250.000.000 IR (Rials) in the first five months of the 2008. The second step tax payers are all individuals and entities, regardless of their amount of activities, which were not subject to the first step VAT system; but were engaged in each of the activity subjects listed in the Paragraph A of Article 96 in Direct Tax Law, except the activities exempted from the subject of Article 12 in VAT Law.

Data collection and analysis

All information required for analysis in this research were collected by library method, investigation of tax cases, interview with staffs and managers of the Tax Organization Head Office and review of regulations and directives. Tax sums, listed in the submitted bills, were collected from the VAT system portal for each individual tax payer for each tax period and then compared with VAT Auditing Offices' investigation reports in Khorasan Razavi province. It is mentionable that selected bills in this research are related to 239 quarterly periods for 111 companies operating in the field of domestic production, 113 quarterly periods for 74 firms engaged in the domestic service provision and 88 quarterly periods for 22 companies in the export and import of goods and services.

One-way Analysis of Variance and T-test were used to test the research hypotheses. The significant difference between the tax payers' overpaid claims and the refundable fee by Tax Organization's office would be examined. So, it is possible to test the significance of research hypotheses in different confidence levels and determine which party has expressed the most appropriate claim about the refund of amounts overpaid.

Research findings and conclusion

Descriptive statistics were used for initial investigation of research data. Table 1 shows these statistics for the studied variables in whole sample with regard to the companies' type of activities. According to the comparison of means of tax expressed and tax investigated, it seems that these means are close to each other in companies which are operating in export activities; while, there is a great distance between the means of these two variables in the other companies.

Since means of tax expressed and tax investigated are negative in export companies, it can be concluded that the investigated tax is consistent with expressed tax. It means

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that tax payers requested for refund of 647 Million Rials out of which 568 Million Rials have been agreed.

There were requests for refund of 707 and 509 Million Rials for manufacturing and service providing companies respectively for which not only these amounts were not agreed but also they were taxed for 247 and 1495 Million Rials respectively.

Table 1 Descriptive statistics of research variables (Figures are in Rials)

Type of Company		No.	Mean	SD	Median	Min.	Max.
Exporting	Expressed	88	-647647	2319438	-146592	-20146983	-1474
	Examined	88	-568823	2319474	-49354	-20110265	70446
Manufacturing	Expressed	239	-707698	2586091	-57945	-19339509	-26
	Examined	239	247943	4256552	-5648	-20334069	26898338
Servicing	Expressed	113	-509332	1302036	-31926	-7796693	-12
	Examined	113	1495629	14757967	6818	-6395114	155959364
Total	Expressed	440	-644744	2265241	-57102	-20146983	-12
	Examined	440	405018	8183166	-865	20334069	155959364

Normality test of variables

As table 2 shows, the P-value of Kolmogorov–Smirnov test is less than 0.05 indicating non-normality of variables. So, logarithmic transformation was used.

Table 2 Normality test of research variables distribution

Type of Company		No.	Kolmogorov–Smirnov		Shapiro–Wilk	
			K	P-value	W	P-value
Exporting	Expressed	88	0.390	<0.001	0.250	<0.001
	Examined	88	0.391	<0.001	0.235	<0.001
Manufacturing	Expressed	239	0.392	<0.001	0.277	<0.001
	Examined	239	0.447	<0.001	0.317	<0.001
Servicing	Expressed	113	0.348	<0.001	0.431	<0.001
	Examined	113	0.472	<0.001	0.107	<0.001
Total	Expressed	440	0.388	<0.001	0.284	<0.001
	Examined	440	0.454	<0.001	0.130	<0.001

One-way Analysis of Variance Test

According to the analysis of variance shown in table 3, there was a significant difference in expressed and investigated tax among companies with different type of activities (P-value = < 0.05). This difference may be due to the amount of tax for different companies. Because it is possible that companies such as service providers have more difference in expressed and investigated tax due to large amount of tax. Overcoming this problem, standardized values for expressed and examined tax variables were used. Table 4 shows the results of one-way analysis of variance with standardized values.

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Table 3 Comparison between variables' means of difference by applying ANOVA
(Figures are in Rials)

Type of company		Mean	SD	*F*	P-value
Investigated – Expressed	Exporting	80191	192526	5.399	0.005
	Manufacturing	140655	447894		
	Servicing	456982	1687061		

Table 4 Comparison between mean of differences for standardized values among
different activities by applying ANOVA

Type of company		Mean	SD	*F*	P-value
Investigated – Expressed	Exporting	0.001	0.083	41.427	< 0.001
	Manufacturing	-0.260	0.189		
	Servicing	-0.285	0.393		

According to the recent findings, it can be claimed that there is a significant difference among companies' different activities with 5% confidence level. But it is not possible to determine the difference between the types of companies. So, each of the companies were compared pairwise by Denken Test with regard to the difference in expressed and investigated tax. The findings showed that there is no significant difference between service providers and manufacturing companies at 5% confidence level. But, exporting companies have lesser difference in expressed and investigated tax compared to the two other companies. In other words, the difference between these two variables in exporting companies is lesser than two other ones. It means that investigation reports are closer to the tax expression in exporting companies.

Table 5 Comparison between expressed and examined values (Rials)

Type of Company		No.	Mean	SD	Pair T Test		Wilcoxon	
					T	P-value	*T*	P-value
Exporting	Expressed	86	-332189	497539	-3.881	<0.001	-6.716	<0.001
	Examined	86	-251997	462486				
Manufacturing	Expressed	227	-256029	667177	-3.253	<0.001	-11.593	<0.001
	Examined	227	-115374	488471				
Servicing	Expressed	107	-252477	473439	-1.443	<0.152	-9.105	<0.001
	Examined	107	204504	1552353				
Total	Expressed	420	-270719	589908	-2.684	0.008	-16.217	<0.001
	Examined	420	-61856	899344				

Pair T and Wilcoxon tests were used to compare the values of expressed and investigated tax; since Wilcoxon results are more valid due to the normal distribution of variables. It was observed that there is a significant difference between expressed and investigated tax variables for each type of companies.

According to the research findings all hypotheses were supported (Wilcoxon P-value = <0.05). It means that the legal entities' tax overpaid claims were not verified.

Recommendations

It is recommended to distinguish between the tax payers with good history, those who have submitted their tax bills on-time, precise and honestly, and those who have poor records. It is possible to grant a "Golden Card" to good tax payers.

It is needed to devise systems to govern and predict the amount of refund making adequate cash available for the payment of legal claims. Along with increase in the number of refund claims, tax officials must be able to predict the amount of refund facing during each year with a degree of certainty.

Refunds have to be made or rejected in a due time recognized at law which is regularly 30 days since the date of the claim. The deadline may be extended due to the following circumstances in a case: incompleteness of VAT bill, accumulation of accrued tax bills, tax payer's failure to respond in the due time, and mistrust of tax official to tax payer's carefulness in filling the tax bill based on proofs.

It is suggested that all tax payers open a particular bank account for VAT. So, all payments between them, as buyer or seller, subject to this tax can be made through the banking system. In this way, control of transaction by banking system prevent misuse and fraudulent claims.

Research limitations

Since this research is descriptive with time and geographic limitations, it is required to pay attention in generalization of the results to other times and statistical populations.

Accounting researches are often ex-post facto limiting the researcher to observe the variables at the time of occurrence; although, it is not even possible to control all variables in experimental researches.

One of the conditions to test assumptions in this kind of research precisely is thorough investigation of all cases in Tax Organization's offices. Since not all legal entities' tax cases subject to the first and second VAT system were not investigated completely, this brought a limitation for this research.

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