

## Developing Value Added Tax from the Perspective of the Managers and Staff of Tax Affairs in Iran

Ahmad Ali Asadpour  
Department of Economics, Islamic Azad University, Bandar  
Abbas branch, Bandar Abbas, Iran

**Abstract:** Due to extensiveness of tax base, value added tax is one of the taxes that earns governments high revenues. Therefore, because of highly gainful feature of value added tax, the present study was aimed at investigating strategies to develop value added tax from the perspective of the managers and staff of Tax Affairs General Department of Bushehr Province. Since no research has yet been carried on this issue in Iran and this type of tax is more efficient than other known types therefore, the present study was conducted to figure out strategies to develop this type of tax. The results of this study can be utilized as a guideline by the Tax Affairs Organization of the country in order to adopt appropriate taxation and economic policies. The present study is a descriptive (non-experimental) survey in which 181 questionnaires were collected. The statistical population of the study included all managers and staff of Tax Affairs General Department of Bushehr Province. Stratified sampling was utilized in order to select a homogeneous sample. With respect to the descriptive statistics section, indices of frequency, percentage and mean were employed to examine the questions of the questionnaire. And for the inferential statistics section, T-test was used to examine the study hypotheses. All of the hypotheses were confirmed and practical suggestions were made according to the analysis results.

**Key words:** Tax, Value added, value added tax, mean, frequency

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### INTRODUCTION

Taxation is one of the main policy instruments and the most important source of revenue and provision of relevant costs. In developed countries, taxation is a potent leverage to exercise economic and financial policies and social activities and supply the expenditures of the government (Moghiminia, 2008).

According to the documentation of Iran's 20-Year Economic Perspective, one of the necessities in the beginning of 2025 is to convert the oil and gas revenues into productive assets in order to stabilize the process of optimal development, allocation and utilization of the resources (Paragraph 42 of the Documentation). Following independence of current expenditures from oil revenues, the government has been obliged to supply most part of these expenditures from tax revenues (Paragraph 51) and by utilizing and adopting new taxation systems like Value Added Tax (VAT), financial disciplines and balance between resources and expenditures.

This tax is a type of multistage sales tax whereby purchasing mediated goods and services will be exempted from paying tax. Systematic features of this tax can resolve many economic problems like government's budget deficit, lack of investment and so on (Tahmasabi Beldaji *et al.*, 2004).

By choosing the tax base from income to consumption, VAT increases motivations to invest and prevents capital from transmission from productive sectors to service ones. This type of tax, in fact, does not disrupt the production process and since it has an extensive base it enhances tax revenue. Likewise, exempting export goods from VAT and imposing it on import goods improve foreign trade balance and increase non-oil exports. This tax will have a remarkable effect on changing the consumption pattern because most essential goods and food are exempted from VAT. On the other hand, VAT is imposed on luxury goods in different stages of production (Ziyae Beigdeli and Tahmasabi Beldaji, 2004).

Currently, 160 countries in the world use VAT that is known as "the money machine" due to its high taxation efficiency.

**Statement of the problem:** All governments gain revenue by different methods to supply their expenditures. One of these methods is taxation. During the economic life of governments, revenue sources have gradually been increased and nowadays a part of the government's revenue is provided through bank loans, raw oil sales and different services like post, transportation, governmental monopolies and transfer of state enterprises. However,

based on the consensus of economists and experts in public finance, taxation is a sustainable component of revenue in order to supply the government's expenditures and intellectual politicians try to channelize other revenue sources toward investment. In Iran, the government also attempts to optimize its taxation and financial policies by enforcing the VAT law. Nowadays, taxation is considered as one of the stable bases of progress and enhancement of welfare and security in communities. In today's countries, receiving tax is common and based on financial policies. In some industrialized countries a large part of the public budget is supplied through taxation and people do not react negatively. The development process of tax system in Iran has led to the VAT law that has been emphasized and recommended to be enforced in the 4<sup>th</sup> and 5<sup>th</sup> development programs.

According to the data extracted from the website of the World Bank [4], 90% of the government budget in developed countries is provided through tax revenues while this figure in Iran is 38 and 43% is related to oil revenue and 19% to other sources [5].

Currently, VAT revenue accounts for 40% of the whole tax revenues in developed countries while in Iran this figure is only 7% (Tax Accounts Office) [6].

VAT is an important tax sources with extensive bases which is applied in many countries in the world. Compared to other types of tax, VAT has a higher efficiency; however in practice it involves special challenges and complexities (The Office for VAT Plan, 2007). The main question in the present study is "What are strategies to develop VAT from the perspective of the managers and staff of Tax Affairs General Department of Bushehr Province?"

**Significance of the study:** Since strategies to develop VAT have not investigated yet and due to the higher efficiency of this tax compared to other known types and because of necessity of reforming taxation system, the present study was aimed at figuring out strategies to enhance and develop this type of tax. The results of this study can be utilized as a guideline by the Tax Affairs Organization of the country in order to adopt appropriate taxation and economic policies.

#### **Literature review**

**A review of the studies conducted outside the country:** In his study entitles, "Value added tax administration in Ethiopia", Yesegat investigated the administration of VAT in Ethiopia and specified key problems like lack of enough skilled personnel and its administrative gap. He recommended that the total capacity of administration should be improved and tax audit program should specifically be considered (Yesegat, 2008).

In their study entitled, "Is VAT the best way to

impose a general consumption tax in developing countries?", Bird and Gendron (2006) have examined the critical literature of VAT dimensions like revenue efficiency, justice and effect on official economic development in developing countries. In so doing, they conducted a case study of Jamaica and Ukraine. The results of their study indicated that although some critiques are correct and there may be others and some VAT aspects are not yet known, it seems that it is more appropriate than other types of tax. Amos and Marlon conducted a study entitled, "VAT: Is it suitable for the Caribbean community?" They first investigated theoretical issues, practical experience of administration of VAT and tax and economic features of Caribbean countries and then they concluded that VAT should be administered as an appropriate type of tax.

#### **A review of the studies conducted inside the country:**

Hassani (2013) has carried out a study entitled, "Investigating appropriate strategies to impose VAT in the final distribution chain: a case study of Tax Affairs Organization of Kermanshah Province". In her study, effective factors in VAT law were examined from three dimensions of characteristics of the taxpayer, the tax auditors and the tax system. Her investigation was a practical, descriptive-correlation study. The statistical population consisted of all guilds in Kermanshah that were subject to VAT. The required data of the study were collected using questionnaires that were distributed among the taxpayers. Pearson correlation test was employed to test the hypotheses. According to the results of her study, 12 hypotheses out of 12 were confirmed. Therefore, the characteristics the taxpayers, the auditors and the tax system were effective in VAT (Hassani, 2013).

As'adi (2012) has conducted a study entitled, "Examining the success rate of VAT administration in the Tax Affairs General Department, West of Tehran". His study was aimed at investigating the success rate of AT administration in the Tax Affairs General Department, west of Tehran. The study was a practical descriptive investigation. The statistical population consisted of all of the deputies in the Tax Affairs General Department, West of Tehran, who were selected using convenience sampling. The questionnaires were filled out by 14 auditors in general and 32 head auditors. To examine the hypotheses, the questionnaire designed by Shahsavari Khojasteh and Jafari (2010) was employed. The validity of this 51-item questionnaire is proved by the experts and its reliability is 0.94. In the end and after the normality of the data had been checked using Kolmogorov-Smirnov test, one-sample t-test was employed. Data were analyzed using SPSS 18.0. The results indicated that the success rate of VAT administration in the Tax Affairs General

Department, west of Tehran was average (As'adi, 2012). In their study entitled, "Investigating VAT deployment in Iran in comparison to its international status", Tayyebnia and Yazdanpanah (2005) have provided a "value comparison" based on a scientific logic. In so doing, they compared Iran's tax system with a global average and then by investigating the components of the tax system, they analyzed the necessity of moving toward imposing VAT in Iran. The results of analyzing the utilization of this method indicated that in general, deployment of VAT in Iran can reduce Iran's distance from the global average in achieving appropriate tax indices (Tayyebnia and Yazdanpanah, 2005).

**Study hypotheses:** Since all of the collected data were retrieved from the selected sample from among the managers and staff of the Tax Affairs General Department of Bushehr Province to facilitate the study and save space, the term "the organization" is utilized instead of "the managers and staff of the Tax Affairs General Department of Bushehr Province":

- Organizational and managerial factors in VAT development from the perspective of the organization
- Recoding all economic transactions in VAT development from the perspective of the organization
- Culture-building in the community in VAT development from the perspective of the organization
  - Developing electronic payment systems in VAT development from the perspective of the organization
- Reducing dependence of the government on oil revenues in VAT development from the perspective of the organization
- Multi-rate tax in VAT development from the perspective of the organization

## MATERIALS AND METHODS

The present investigation is a descriptive (non-experimental) survey. It is descriptive in that it depicts the present status and it is survey because the required data were collected through questionnaires and deviation from performance was measured using survey methods.

The statistical population of the present study consisted of all of the managers and the staff of the Tax Affairs General Department of Bushehr Province, especially those working in the VAT section. Stratified sampling was employed to select the final study sample. Data were collected using the library-based and field-based method. In so doing, literature review was carried out by referring to libraries and related articles.

The questionnaire was designed and standardized based on a theoretical model. Design the questionnaire and posing the questions were carried out using the methods of evaluating the capital projects, nowadays utilized to evaluate projects, UNID indices to evaluate projects, appropriate indices and the literature review and the experts' views. Cronbach's Alpha Coefficient was employed to measure the reliability of the questionnaire. Cronbach's alpha coefficient is calculated as follow:

$$\alpha = \left(\frac{n}{n-1}\right) \times \left(1 - \frac{\sum s_i^2}{s_t^2}\right)$$

Where, n is the number of the questions,  $S_i^2$  is the variance of question i and  $S_t^2$  is the variance of the whole test. The Cronbach's Alpha Coefficient was 0.67.

**Data analysis:** Descriptive statistics including indices of central tendency and distribution was employed to express the collected data. The results of the study were presented using frequency distribution tables and diagram. Moreover, SPSS 22.0 was utilized for the inferential statistics section. In analyzing the collected data, the questions of the questionnaire were analyzed using frequency, percentage and mean indices. And for the inferential statistics, the study hypotheses were analyzed by relevant methods including t-test.

## RESULTS AND DISCUSSION

**Examining the main hypotheses of the study:** One-sample t-test was employed to test all of the hypotheses of the study and the results have been presented in tables.

**First hypothesis:** Organizational and managerial factors in VAT development from the perspective of the organization.

**H0:** From the perspective of the organization, organizational and managerial factors are not effective in VAT development.

**H1:** From the perspective of the organization, organizational and managerial factors are effective in VAT development.

According to the t-test results of H1 it was determined that since the Sig. value is 0.000 ( $\alpha < 0.05$ ), H0 is rejected and the study hypothesis is confirmed. Therefore, from the perspective of the managers and staff of the Tax Affairs General Department of Bushehr Province, organizational and managerial factors are effective in VAT development.

Table 1: The results of Mean and SD for H1

Test	SD	Mean	Sample size
H1 test	0.207	3.3128	181

Table 2: The results of t-test for H1

95% confidence interval						
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Test	Up.	Low.	Mean difference	Sig.	df	t-value
H1 test	1.3431	1.2825	1.31285	0.000	180	85.488

Table 3: The results of Mean and SD for H1

Test	SD	Mean	Sample size
H1 test	0.37206	3.3227	181

Table 4: The results of t-test for H2

95% confidence interval						
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Test	Up.	Low.	Mean difference	Sig.	df	t-value
H2 test	1.3772	1.2681	1.32265	.000	180	47.827

**Second hypothesis:** Recoding all economic transactions in VAT development from the perspective of the organization.

**H0:** From the perspective of the organization, recoding all economic transactions is not effective in VAT development.

**H1:** From the perspective of the organization, recoding all economic transactions is effective in VAT development.

According to the t-test results of H2, it was concluded that since the Sig. value is 0.000 ( $\alpha < 0.05$ ), H0 is rejected and the study hypothesis is confirmed. Therefore, from the perspective of the managers and staff of the Tax Affairs General Department of Bushehr Province, recording all economic transactions is effective in VAT development (Table 1-4).

**Third hypothesis:** Culture-building in the community in VAT development from the perspective of the organization.

**H0:** From the perspective of the organization, culture-building in the community is not effective in VAT development.

**H1:** From the perspective of the organization, culture-building in the community is effective in VAT development.

According to the t-test results of H3, it was clarified that since the Sig. value is 0.000 ( $\alpha < 0.05$ ), H0 is rejected and the study hypothesis is confirmed. Therefore, from the perspective of the managers and staff of the Tax Affairs General Department of Bushehr Province, culture-building in the community is effective in VAT development (Table 5-6).

Table 5: The results of Mean and SD for H3

Test	SD	Mean	Sample size
H1 test	0.39190	3.5215	181

Table 6: The results of t-test for H3

95% confidence interval						
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Test	Up.	Low.	Mean difference	Sig.	df	t-value
H3 test	1.5790	1.4641	1.52155	0.000	180	52.233

Table 7: The results of Mean and SD for H4

Test	SD	Mean	Sample size
H1 test	.62722	3.0405	181

Table 8: The results of t-test for H4

95% confidence interval						
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Test	Up.	Low.	Mean difference	Sig.	df	t-value
H4 test	1.1325	0.9485	1.04052	0.000	180	22.318

Table 9: The results of Mean and SD for H5

Test	SD	Mean	Sample size
H1 Test	0.73424	3.2007	181

Table 10: The results of t-test for H5

95% confidence interval						
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Test	Up.	Low.	Mean difference	Sig.	df	t-value
H5 test	1.3084	1.0930	1.20074	.000	180	22.001

**Fourth hypothesis:** Developing electronic payment systems in VAT development from the perspective of the organization

**H0:** From the perspective of the organization, developing electronic payment systems is not effective in VAT development.

**H1:** From the perspective of the organization, developing electronic payment systems is effective in VAT development (Table 7 and 8).

According to the t-test results of H4, it was concluded that since the Sig. value is 0.000 ( $\alpha < 0.05$ ), H0 is rejected and the study hypothesis is accepted. Therefore, from the perspective of the managers and staff of the Tax Affairs General Department of Bushehr Province, developing electronic payment systems is effective in VAT development.

**Fifth hypothesis:** Reducing dependence of the government on oil revenues in VAT development from the perspective of the organization

**H0:** From the perspective of the organization, reducing dependence of the government on oil revenues is not effective in VAT development (Table 9 and 10)

Table 11: The results of Mean and SD for H6

Test	SD	Mean	Sample size
H1 test	0.47697	3.3499	181

Table 12: The results of t-test for H5

95% confidence interval						
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		Mean				
Test	Up.	Low.	difference	Sig.	df	t-value
H6 test	1.4199	1.2800	1.34991	.000	180	38.076

Table 13: Descriptive statistics in the first hypothesis

Question	N.	Mean	SD	Rank mean
1	180	3.25	0.539	7.62
2	180	3.36	0.766	8.75
3	180	2.20	0.733	3.09
4	180	3.40	0.861	9.27
5	180	3.38	0.732	8.80
6	180	3.55	0.798	10.18
7	180	3.49	0.742	9.65
8	180	2.75	0.881	5.68
9	180	3.15	0.744	7.21
10	180	3.35	0.574	8.46
11	180	3.46	0.500	9.07
12	180	3.61	0.583	10.20
13	180	3.52	0.563	9.63
14	180	3.45	0.572	9.10
15	180	3.47	0.553	9.14
16	180	3.60	0.574	10.16

Table 14: The results of ranking the study hypotheses using Friedman test

Variable	Sample size	Sig.	df	X <sup>2</sup>
1st hypothesis	181	0.000	15	525.626

**H1:** From the perspective of the organization, reducing dependence of the government on oil revenues is effective in VAT development.

According to the t-test results of H5, it was concluded that since the Sig. value is 0.000 (a <0.05), H0 is rejected and the study hypothesis is accepted. As a result, from the perspective of the managers and staff of the Tax Affairs General Department of Bushehr Province, reducing dependence of the government on oil revenues is effective in VAT development.

**Sixth hypothesis:** Multi-rate tax in VAT development from the perspective of the organization

H0: From the perspective of the organization, multi-rate tax is not effective in VAT development.

H1: From the perspective of the organization, multi-rate tax is effective in VAT development.

According to the t-test results of H6, it was determined that since the Sig. value is 0.000 (a <0.05), H0 is rejected and the study hypothesis is accepted. Therefore, from the perspective of the managers and staff of the Tax Affairs General Department of Bushehr Province, multi-rate tax is effective in VAT development (Table 11 and 12).

Table 15: Descriptive statistics in the second hypothesis

Question	N.	Mean	SD	Rank mean
17	181	3.67	0.567	3.53
18	181	3.75	0.496	3.65
19	181	3.48	0.543	3.09
20	181	2.35	1.003	1.73
21	181	3.37	0.716	3.01

Table 16: The results of ranking the study hypotheses using Friedman Test

Variable	Sample size	Sig.	df	X <sup>2</sup>
2nd hypothesis	181	00.00	4	262.9

Table 17: Descriptive statistics in the third hypothesis

Question	N.	Mean	SD	Rank mean
25	181	3.59	0.623	3.11
26	181	3.36	0.525	2.57
27	181	3.04	0.948	2.24
28	181	3.77	0.528	3.43
29	181	3.85	0.415	3.64

Table 18: The results of ranking the study hypotheses using Friedman test

Variable	Sample size	Sig.	df	X <sup>2</sup>
2nd hypothesis	181	.000	4	182.764

Table 19: Descriptive statistics in the fourth hypothesis

Question	N.	Mean	SD	Rank mean
30	181	3.13	0.846	2.02
31	181	3.20	0.787	2.11
32	181	2.78	1.029	1.86

Table 20: The results of ranking the study hypotheses using Friedman test

Variable	Sample size	Sig.	df	X <sup>2</sup>
2nd hypothesis	181	.004	2	11.115

**Ranking the study indices:** Ranking the indices of the study hypotheses according to the studied individuals:

Table 13 indicates the descriptive characteristics of the first hypothesis. According to Table 14, since Sig. value is 0.000 (a <0.05), it can be concluded that there is a significant difference between the means of the study hypotheses.

Table 15 indicates the descriptive characteristics of the second hypothesis. According to Table 16, since Sig. value is 0.000 (a <0.05), it can be concluded that there is a significant difference between the means of the study hypotheses.

Table 17 indicates the descriptive characteristics of the third hypothesis. According to Table 18, since Sig. value is 0.000 (a <0.05), it can be stated that there is a significant difference between the means of the study hypotheses.

Table 19 indicates the descriptive characteristics of the fourth hypothesis. According to Table 20, since Sig. value is 0.004 (a <0.05), it can be stated that there is a significant difference between the means of the study hypotheses.

Table 21 indicates the descriptive characteristics of the fifth hypothesis. According to Table 22, since Sig.

Table 21: Descriptive statistics in the fifth hypothesis

Question	N.	Mean	SD	Rank mean
33	181	3.15	0.726	1.93
34	181	3.22	0.974	2.00
35	181	3.24	0.826	2.07

Table 22: The results of ranking the study hypotheses using Friedman test

Variable	Sample size	Sig.	df	X <sup>2</sup>
2nd hypothesis	181	0.082	2	5.004

Table 23: Descriptive statistics in the 6th hypothesis

Question	N.	Mean	SD	Rank mean
36	181	3.22	.916	1.95
37	181	3.14	.754	1.73
38	181	3.69	.592	2.32

Table 24: The results of ranking the study hypotheses using Friedman test

Variable	Sample size	Sig.	df	X <sup>2</sup>
2nd hypothesis	181	00.00	2	273/50

Table 25: A summary of ranking the study hypotheses

Study hypotheses	Rank
From the perspective of the organization, organizational and managerial factors are effective in VAT development	3rd
From the perspective of the organization, recoding all economic transactions is effective in VAT development	4th
From the perspective of the organization, culture-building in the community is effective in VAT development	1st
From the perspective of the organization, developing electronic payment systems is effective in VAT development	6th
From the perspective of the organization, reducing dependence of the government on oil revenues is effective in VAT development	5th
From the perspective of the organization, multi-rate tax is effective in VAT development	2nd

value is 0.082 (a >0.05), it can be stated that there is no significant difference between the means of the study hypotheses.

Table 21 indicates the descriptive characteristics of the sixth hypothesis. According to Table 22, since Sig. value is 0.000 (a <0.05), it can be concluded that there is a significant difference between the means of the study hypotheses (Table 24 and 25).

**The results of examining the study hypotheses:** According to the results, it was concluded that all of the study hypotheses were affirmed.

Table 25% the ranking of the study hypotheses. As indicated in Table 25, the 4th hypothesis is placed in the highest rank compared to other hypotheses. Therefore, from the perspective of the organization, culture-building in the community has the highest effect on VAT development.

### SUGGESTIONS

**Culture-building:** It is recommended that different practical, scientific and up-to-date methods should be applied to build the culture, so that other measures can be

conducted. Because in the present study culture-building obtained the highest rank mean, it can be concluded that this issue is more significant than other ones. Taxpaying means reduction of people's income and purchasing power and the quality of goods and services drops with a reduction in their consumption. However, if people are assured that by receiving taxes, the government adds more goods and services to their consumer basket, they develop economic activities and tax revenues increase; therefore, tax pressure on them will decrease which can even lead to voluntary taxpaying.

**It is recommended that the quality of the website of tax officers should be enhanced:** Several forms like the *remission penalty form* and *installments form* should be added to the website of tax officers. In addition, the audition system should be designed in a way that it can automatically calculate the fine of Article 23, VAT law by taking the payment amount into consideration. In this way, hours and even days of the tax officers' time will be saved and accuracy of tax audition will increase.

**It is suggested that economic code must be obligatory and comprehensive:** To quickly receive the economic code and make sure of its correctness, following strategy is recommended:

One of the problems that taxpayers are facing with while receiving their economic code is to give wrong address of their business location, in this condition, the Post Office and Municipality can help because addresses available in the database of the Post Office are not usually accurate and some addresses are quite outdated, here, Tax Affairs Office can adopt following measures:

- All economic codes along with related addresses should be printed
- Every tax field should stick tax classes on the door of all stores and business units.
- The classes should be arranged along with addresses and postal codes in excel forms
- Then, the taxpayers pre-register
- The taxpayers while having their ID cards with them refer to Tax Affairs Office and ask for PIN. In order to save time, they should also know the number of the class stuck on the door of their store
- The Tax Affairs Office should match the person's name with the excel list using the class number and confirms the taxpayer's information and issue the PIN at once
- The taxpayer can register using the PIN

In collecting the taxes, maximum saving should be

made and the expenditures must be reduced as much as possible. However, the Tax Affairs Organization has spends lots on sending text messages and holding up notices, which can remarkably be reduced following our proposed strategy. This strategy can be utilized by the Tax Affairs Organization for many years.

**It is suggested that different ministries and institutions coordinate with the Tax Affairs Organization as much as possible:** For example, there should be more coordination between the banks and the Tax Affairs Organization that are subordinated to the same ministry so that the issuance of unreal invoices in order to receive massive loans can be controlled.

**It is recommended that the bank provide and publish comprehensive information:** Constructing its infrastructures is not much difficult and the only way to make the economic code comprehensive is to follow the method.

**It is suggested that the staff should be provided with periodical training online:** Traditional trainings that are both expensive and time-consuming should be avoided and the quality of the placement test should be improved every year.

**It is recommended that all guilds should make use of mechanized sales fund and issue invoice:** It is suggested that the VAT certificate should be electronic.

By doing so, illegal sale of invoices with tax credit will reduce remarkably.

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