The Social Sciences 12 (12): 2375-2380, 2017
ISSN: 1818-5800

Effect of Tax Revenues on Government Revenues of the State: Evidence from Iraq for the Period of 1991-2015

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Abstract: The tax revenues as a study and its effect on the government revenues on a state is of importance especially at the present time when the decline in the level of oil revenues is manifested all over the country. The tax system reform is part of the financial reforms which has become an important element in the economic and political adjustment programs that aims to get resources due to the low level of overall revenues of the state. The main objective of this research is to study the tax revenues in Iraq, basically its influence on tax revenues as well as any of those taxes less impact on tax revenue. This is to determine the development of tax revenues and the extent of the impact of total tax revenues on the government revenues. This research has come to set a conclusion on the weakness of the tax representation for tax revenues to total government revenues and the fact that tax revenues is unable to finance such revenue. Therefore, this research recommends that there is need to reform the tax system and activate the existing types to tax and the introduction of other neglected types of tax under the current tax revenues.

Key words: Tax, government revenues, tax revenues, influence, determine, period

INTRODUCTION

A major source of income for financing in many countries and a major means of influencing economic and social life is taxation through its impact on the level economic growth, economic stability and development in periods of inflation and deflation. Taxation is also an investment to making changes in savings and consumption. In the Arab world, the Iraqi tax service is one of the oldest tax institutions. As a country, Iraq started its first income tax law after the formation of the national government in 1920. However, the dependence on oil revenues is a key element in light of the deterioration in the various economic sectors in the country during the successive periods of governments and various political regimes that ruled the Iraqi state until today. This occurred in the period after the change of regime in 2003 even though tax is an important element in the financing general budget. There is a decrease in the proportion of tax revenues in financing of government revenues in the budget of Iraq during the period of this research which shows the importance of the role of taxation in Iraq without a role in a free economy.

A part of the financial reform includes the reform of the tax system which has become an important element in the economic and political reform programs. The aim is to obtain resources under a low level of government revenues of the state and that the process of tax reform should be conducted by studying the revenue structure (Talab *et al*., 2017). Also, to study the contribution of each type of revenue and the extent to which it contributes to the financing of government revenues of the state.

Literature review

The concept of taxation and the principles of imposition

The concept of taxation: The emergence of the first forms of tax was associated with primitive societies (Aljjawi and Anbaki, 2014). The role of the tax in fulfilling certain obligations has increased with the emergence of the concept of the state and the increase in its general duties and obligations (Yassin, 2013). The Roman civilization was the first civilization to adopt the tax in financing public expenditure. It required taxpayers to prepare the financial statements and their municipal rights for tax purposes (Ani, 2014). There is power of sovereignty by the state to raise the funds necessary to spend on public services in order to achieve social well-being. As revenues are estimated to cover public expenditures, the executive authority collects these revenues by law which affirms the principle of authority and sovereignty of the state (Nur *et al*., 2008). Thus, the role of tax revenues in financing government revenues had to be studied.

Notably, the tax is a compulsory financial obligation imposed by the state on its beneficiaries whether individuals (natural persons) or companies (moral figures) under a law that is legislated by the legislative authority without directly offsetting this benefit in order to achieve social, economic and political goals (Butler and Macey, 1996). On this basis, the objectives of the taxation can be set to the following (Hamid, 2007).

Social objectives: This is a withdrawal of part of the funds found in some individuals and then redistributed in the form of public services or social benefits or public facilities.

Economic objectives: This refers to the achievement of economic objectives during the period of inflation or deflation.

Political objectives: This is aimed to confront some of the situations that are confronting the governments due to certain political circumstances such as war.

At the present age, the study of tax revenues and their impact on government revenues are one of the most important issues due to the low level of oil revenues to cover public expenditure. Several studies have indicated that there are different results between the effect of taxes on the budgets of countries, corporate capital and tax and debt rates regarding the role the role of taxation in the financing of government revenues (Mackie-Mason, 1990). There is a positive and significant relationship between tax rate estimates and the debt policy of the state (Graham, 1996a, b). According to Rajan and Zingales (1995), debt-dependent countries have high tax rates. In a study conducted in seventeen countries by Booth *et al*. (2001), it was found that there is a positive relationship between tax rates at the level of per capita income.

The tax revenues of many countries are closely linked to the economic changes that these countries face. In periods of growth, revenues increase while the economy shrinks when revenues fall on this basis, the economic downturn affects tax revenues (Felix, 2008; Al-Taie *et al*., 2017). There is requirement for expenditure of the government to increase as the economic resources available to the society are limited. The role of taxation is the main means by which the government can increase government revenues to meet its expenses. Taxes can also be used by the government as a means of influencing economic decisions or controlling the economy. In this way, taxes will also reflect the prevailing social values and priorities in the country. This standard explains better why tax systems are different among countries. There is a need for tax revenues to finance government expenses on items like education, government borrowing, health services, pensions, unemployment benefits and other social benefits while governments continue to change their tax systems from time to time.

The principles of taxation: With no negative effect on the society, the imposition of tax should comply with certain principles and should achieve its objectives. In the book titled: "The Wealth of Nations" by Adam Smith written in 1776, it is pointed out that taxation should have the following characteristics (Rolfe, 2006).

The rule of justice or equality: The tax should be fair to various individuals and should reflect a person's ability to pay.

The rule of certainty: Tax should not be imposed arbitrarily but should provide certainty among its payers on the benefits of taxation.

Rule of appropriateness: Tax should be appropriated in terms of timing of imposition and repayment.

The rule of efficiency: Tax should be administratively effective at a relatively small cost as a proportion of the revenue earned and the tax should not cause economic distortion by influencing taxpayer's behaviour.

Presently, there are three principles in the current tax systems in spite that the above principles are still under enforcement today (Rolfe, 2006).

The rule of efficiency: A tax should be properly appropriated; it must contribute to the principle employed to obtain taxes significantly by deducting from the part of the income when it arises such as tax on salaries and wages.

The rule of equity: There must be uniformity in the way the tax is leveled from each individual. Tax avoidance will be reduced when there is motivation for people and promotion of equity among the people.

The rule of economy: Within the community, the amounts of money collected from taxes can have economic effects. Therefore, formulation of tax policy should be taken into account. Taxes can be used to imposing large taxes on another sector or stimulate growth in an economic sector. The will reduce the negative effects of goods obtained. For instance, imposition of large taxes on alcoholic beverages and cigarettes refrain the effective circulation of these products.

Types of Tax: There are many types of taxes and variation in their operation based on to time and place. Each tax has its own advantages and disadvantages. Each country tries to choose an integrated mix of tax types as modern tax systems are not limited to any type of tax (Gordon, 1983; Tanzi and Davoodi, 2000). Each tax includes a taxable material and the identity to be taxed is either a person or money, so taxes are divided on either it is levied on people or on money (Zubaidi, 2008). Tax is classified into two types regardless of the tax base.

Direct tax: The income tax is the ideal form of direct taxes that are taken from the income. If we refer to the amended Law of Income Tax No. 13 of 1982 with regards to the importance of this tax as all countries paid special attention to it. According to the law, the Iraqi legislator did not give a clear definition of the concept of taxable income, rather it is mentioned in the second paragraph of the first article of the above law that "the concept of income represents net income from business profits and allowances and benefits and the rent of agricultural land and real estate and salaries, wages and pensions and rewards for non-employees in the public sector". Although, each state has its own type of tax, direct taxes can be classified as follows (Aasness *et al.*, 2002; Williams, 2009).

Direct deduction tax: This is paid by individuals on the basis of taxable income in the fiscal year. Taxable income refers to gross income minus the summation of applicable allowances and exemptions.

Corporate tax: Companies and businesses pay corporate tax aiming to achieve profits and this is imposed on income generated in every fiscal year.

Wealth tax: This includes non-productive assets such as: gold jewelry or alloy, boats, aircraft or urban land, cash in the fund, residential real estate or cars. Those assets do not include productive assets such as commercial real estate, stocks, bonds, fixed deposits or investment funds.

Capital gain tax: This is the profit from the sale of taxable property under the capital profits. Properties in this category includes: shares, bonds and residential properties.

Indirect tax: This is indirectly linked to the manufacture or sale of goods and services. Through an intermediary party, these taxes are paid to the government which they indirectly bear by addition of tax paid value of the goods and services. Examples of these indirect taxes are sales tax, service tax and consumption charges (Rolfe, 2006). There are many types of indirect taxes.

Sales tax: Sales tax is imposed on goods or services and their rates vary depending on the type of product.

The Service Tax (GST): This taxes only in this countries (Australi, Singapore, Canada, Hong Kong, India, Malaysia and New Zealand for more information https://en.wikipedia.org/wiki/Goods_and_Services_Tax). This tax is known as goods and service tax imposed on goods and services provided by the State. This tax is imposed in a few countries and the rates imposed vary from one country to another.

Production tax: It is also called consumption tax or VAT. The tax is applied to goods manufactured in a country and is paid originally by the manufacturer directly to the central government. Also, the tax is added by the manufacturer together with the cost of good production.

Gift tax: This tax is levied on anyone who voluntarily gives any of their movable or immovable properties to another person as a gift.

Customs taxes: These taxes are levied by the government on goods taking across the custom's border; it is usually imposed on importation of goods. Custom duties on the tax to be levied are either based on the value of the goods or on other factors such as: weight, quantity or a combination of the value of the goods.

Evolution of the structure of tax revenues in Iraq: The tax department data on the following website http://tax.mof.gov.iq/. In Iraq, the first law is the Income Tax Law which was enacted a day after the establishment of the national government in 1920. The law of income tax was promulgated in 1927. Both the Directorate of Real Estate Tax and Directorate of the Income Tax were formed in 1923. The General Organization for Taxation was established in 1982 in accordance with the law of the Ministry of Finance in 1981 which is the most important tax law in Iraq. The following types of tax are charged in Singapore, Australia, Canada, Hong Kong, India, Malaysia and New Zealand:

- Income Tax Law No. 113 of 1983 as amended
- Real Estate Tax Law No. 163 of 1959 as amended
- The Land Tax Law No. 36 of 1997 (Hotels and Restaurants)
- The Inheritance Tax Law No. 64 of 1985
- The decision to transfer property ownership (Resolution 120 of 2002)
- Direct Deduction Tax Regulations No. 1 of 2007

The types of taxes imposed by the commission are:

- Land tax
- Property tax and shares

- Corporate tax
- Direct deduction tax
- Sales tax
- Profession tax
- Draw a stamp tax

In many countries, tax revenues are the main pillar of the public budget. As the Iraqi economy is an oil-based economy on the basis of financing revenue which is the least resources in the state budget it was affected by the decline in oil prices during the financial crisis that took place in 2008-2009 and the decline in oil prices in 2003. This necessitated the state to focus on tax revenues to meet the shortfall in revenue. That led to the research question: is there a role of tax revenues in financing government revenues of the state in Iraq?

Research objective: The main significance of this research is the importance attached to studying the role of tax revenues as one of the main pillars of government revenues in the development of these revenues. According to the research problem and its importance, this study aims to study the tax revenues in Iraq and to indicate which of these structures are more influential in tax revenues in order to focus on them. Also, to indicate those taxes that are less influential in tax revenues for the purpose of development and to show the impact of this total revenue tax in government revenue.

Research hypothesis: This study is based on two main assumptions:

- H_1: there are significant differences between tax revenues and government revenues
- H_2: there is statistical significance correlation and effect for the tax revenues in government revenues

MATERIALS AND METHODS

This research is based on the deductive approach. The research started with general observations that the level of tax revenues is lower than the government revenuess of the state. This is the amounts of tax revenues, total revenues and government revenues of the State for a period of 10 years (1991-2015).

RESULTS AND DISCUSSION

Analysis of tax revenue growth rates: Considering the fact that 1991 was a base year for tax revenue to increase and decrease, the growth rate of tax revenue from 1991-2015 is taken into account. This means Iraq has no tax policy that explains the fact that Iraq depends on oil revenues mainly during the period preceding the change of government system in 2003. This revenue constitutes 95% of the government's government revenues. The growth rate of tax revenues are shown in Appendix 1 and Fig. 1.

The significant differences between tax revenues and government revenues: This study represents the test of hypothesis on the first research of the data obtained from 1991-2015. Table 1 shows the results obtained from that data analysis; the p value is reported to be 0.000 and 0.011 while 0.05 at the level of morale. The values show that the results are significant. Thus, there is significant difference between the data of government and tax revenues and therefore, the first hypothesis is accepted from the first result Table 1.

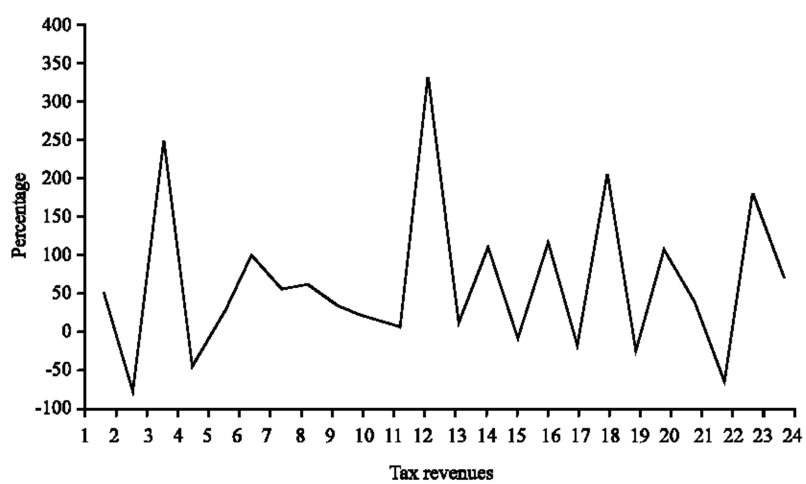

Fig. 1: The growth rate of tax revenue

Table 1: The significant differences between tax revenues and government revenues

Samples	T	N	Sig. (2-tailed)	Mean difference
Tax revenues	4.285	24	0.000	37635932.59200
Government revenue	2.755	24	0.011	2072206.06800

Table 2: Correlation coefficient and regression between search variables

	Statistical indexes					
	Regression				Correlation	
Variable	p-value	β	R^2	F-value	p-value	R
Government revenue	0.99	0.15	0.09	3.24	0.1	0.2

SPSS result

Measurement of the relationship correlation and effect between tax revenues and government revenue: The objective of this measurement is to study the correlation effect of tax revenues on the government revenues of the Iraq.

There are just two variables: the tax revenues (independent) this variable is a determinant and an explanatory variable. The dependent variable is the government revenue. Correlation coefficients were used to determine the nature and level of the relationship between the research variables in order to determine the validity of the research hypothesis. According to the simple regression equation ($Y = a+BX$), the effects of the relationships were investigated. Table 2 shows the results of correlation coefficient values and the effect of statistical indicators related to the relationship. Table 2 coefficient of correlation and regression between the variables.

At a level of significance of 0.05, the correlation coefficient between the tax revenues and the government revenues were (0.2). The correlation is positive though weak while the p-value of (0.1) shows is insignificant as the value was greater than the moral level of 0.05 indicating that there is no correlation of government revenues on the government revenue.

The value of F calculated for the model is (3.24). This value is less than the value of F on the scale (4.19) at the level of significance (0.05). Therefore, the hypothesis is rejected, this implies that there is statistical significance in the effect of government revenues at a level of significance (5%) of confidence limit (95%) of the revenues generally.

The coefficient of determination ($R^2 = 0.09$) shows that government revenues account for (0.9%) of the changes in the government revenue while the other (99.1%) is due to the contribution of other variables not included in the regression model. Any increase in the level of government revenues in one unit will increase the level of government revenues by (15%) as shown by the coefficient of the slope angle of ($\beta = 0.15$).

The p-value of (0.99) shows that the parameter of the model is insignificant as the value was greater than the moral level of (0.05) indicating that there is no effect of tax revenues on the government revenue. The result shows why there is rejection as in the hypothesis; there is no statistical significant relationship correlation and effect for the tax revenues in government revenue.

CONCLUSION

Weak representation of tax revenues to government revenues and tax revenues are unable to finance those revenues. The weakness in the Iraqi economic system as a rental economy was due to imbalance in production and sales of oil. It can be noted in the proportion of government revenues in the financial crisis for 2009 and the fluctuation of oil prices in 2013 and 2014. There are small tax revenues generated due to the weak effect of the tax revenues. While there are lack of attention to other aspect of taxation, taxation is concentrated on a specific part of the tax represented by direct taxes such as: corporate tax and direct deduction tax. This constituted the highest ratio of the total taxes achieved in the period of this research. The low income generated from tax is due to the weakness in activities involved during tax collection that cause the tax revenues these challenge generally.

RECOMMENDATIONS

- There is a need to increase the adoption of financing government revenues in the budget from other sources while the existing resources are also financed
- Attention must be paid to the role of taxes in financing government revenues and must be seen as an important source of revenue
- Reformation of the tax system, activation of the existing tax system that are going into extinction and introduction of other types within the current tax revenues should be effected
- Finally, there is an urgent need to conduct more researches on the reason why there is low rate of response to taxes in general

APPENDIX

Appendix 1: Growth rates of tax revenues

Years	The growth of tax revenues (%)
1992	53
1993	-74
1994	256
1995	-44
1996	18
1997	103
1998	62
1999	64
2000	34
2001	20
2002	9
2003	341
2004	15
2005	111
2006	-5
2007	119
2008	-13
2009	212
2010	-23
2011	113
2012	42
2013	-62
2014	185
2015	75

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