A Review of the Infrastructures of Proper Implementation of Value-added Tax (VAT) in Ilam

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Abstract

The present study is an applied research, and in terms of research method, it is classified as an analytic and descriptive research. The statistical population of research that was examined in 2014includes: employees, auditors, tax experts and senior managements of Ilam province. A questionnaire was used for data collection. Normality test was applied to test the hypotheses of statistical tests of non-parametric T-test.

The results show that the necessary infrastructures to collect VAT in Ilamare ideal. The transparencies of economic transactions, accurate and timely notices, the responsible participation of distributors of goods and services have an influence on the implementation of VAT law in Ilam. Overall, the tax administration system of Ilam has the adequate potentiality to implement the VAT law.

Keywords: VAT (value-added tax), final chain of distribution, infrastructures, transparency of economic transactions, accurate and timely notices, responsible contribution of distributors of goods and services

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Introduction

The government, besides its traditional role of providing internal and external security, has the crucial roles of helping to achieve social welfare. Taxes are the main source of financing public needs and they are also the main resources used by government to implement fiscal policies and social justice. (Economic Journal 2007, 71)

In the past, the role of government was limited to provide security and protect of its geographical boundaries. Thus their expenses were low. But over time with changing in the roles of the state, taxes became the main source of income to cover the costs and the financial tools proposed to implement policies and governance.(Pazhoyan, 2005)

Since, the government collects taxes and employs them in investments; it has a significant role in the economic development and growth. (Robert[4] 2007)

According to the national budget and planning law in the last 20-year vision, the exhaustible oil revenue must be replaced by the tax revenue. In other words, according to the visions of the national's 20-year, the government should be able to cover the current expenses from the tax revenue till the end of the fifth development plan and to decrease its dependence on the oil revenue. The full implementation of VAT provides fixed income for the government.(Langeroodi, 2006, p 115)

VAT model as one of the pillars of the tax system has been used in many countries for a long time. In china, the effect of VAT has been reviewed and they concluded that VAT reformation in 2005-2010 has significantly increased the investment in fixed assets. (HuihuaNie[5]et al 2010).Ebril(2002) in a research

paper titled " the charm of VAT" has reviewed the VAT implementation in different countries, and has concluded that most countries with different economic conditions implemented value added tax system, it indicates that, while we do not deny the necessity of the preparation program for the tax system implementation , we provide the necessary preparations and make the tax system consistent with the situation of countries, so that the tax system can be implemented successfully.

In many developing countries, the value added tax has transcended from income tax, which is the main source of the state's revenue. Since the current structure of the economy is not efficient, so reforming this structure is the main priority of the government of the Islamic republic of Iran. To achieve this goal, it is necessary to reform the tax system. One of the main priorities of the country's five-year development plans and economic organization plan is the country's tax system reformation. (Khajavi, 2010)

One of the main parts of the value added tax system law is its full and proper implementation. So the proper implementation of the law is one of the concerns of the ministry of economy and finance and the state tax. In this regard, the responsible participation of all economic sectors and the provinces is essential. Ilam, is a major province in economic and income of the country. Since the implementation of VAT law in the final chain of distribution is the most difficult part of it, thus the present study sought to identify and determine appropriate ways to properly implement the VAT in the final chain of distribution in Ilam.

The present study seeks to answer the following question:

Do we have the necessary infrastructure to collect taxes in Ilam?

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Research hypotheses

The primary hypothesis

Ilam tax administration system has the necessary potentiality for full implementation of VAT law.

Secondary hypothesis

1. The necessary infrastructure for the process of tax collection influencesthe implementation of VAT law in Ilam.

2. The transparency of economic exchanges influences the implementation of the VAT in Ilam.

3. Accurate and timely notices influence the implementation of VAT lawin Ilam.

4. Responsible participation inthe distribution of goods and services influences the implementation of VAT law in the final chain of distribution.

Materials and methods

The present study is an applied research and in terms of research method, it is classified as an analytic and descriptive research. To collect the required information, we used a library and field method. A questionnaire was used to collect the necessary data for the research sample.

Validity and reliability of the questionnaire

Validity

"Validity" term is derived from "valid" meaning proved to be true. Reliable means something recognized as true.(khaki 2004, 299)

The experts' comments were used to assess the research validity. The questionnaires were given to the professionals (experts, including the officials of the tax administration and a number of academics). Then some questions and indexes were eliminated and reformed. The final version was investigated as the research sample.

Reliability

The reliability is one of the technical features of the questionnaire. Reliability deals with the question of to what extent the questionnaire gives the same results in the same condition. (Alm and George, 2001)

The Ability of the tool to maintain their reliability over time suggests that there is little variability. (ShahsavarKhojasteh and Jafari 2008) Cronbach alpha coefficient was used to determine the reliability of the questionnaire.

The questionnaire was based on the theoretical research questions in order to ensure its validity and reliability. They were distributed to the experts to be answered and to write their opinions.

The questionnaires were first reformed and then distributed among 30 experts and managers in order to test the hypothesis. The reliability was calculated by SPSS/version 19. Cronbachalpha was used to ensure the reliability of the test, some of the questions were removed and then the value of cronbach alpha was calculated as shown in the table below: cronbach alpha value is calculated using a statistical consultant)

Table 1: Cronbachalpha coefficient of the questionnaire

dimensions	The number of questions	The redundant sample questions	The number of final questions	Cronbachalpha
Infrastructures	7	-	7	78%
transparency	9	-	9	81%

notices	7	-	7	84%
Responsible participation	10	1	9	86%
total	33	1	32	90%

As seen in table 1, the infrastructures, transparency and notices of Cronbach alpha were ideal. In the dimension of responsible participation, a question that was not consistent with the research sample was found using the reduced Cronbach alpha,and later it was deleted so that all the dimensions became appropriate. The total Cronbach alpha of the questionnaire was 90%, which shows how good the correlation is.

Methodology

To analyze the findings of the questionnaires, descriptive statistics (frequency, percentage, cumulative frequency and percentage, tables and diagrams) and inferential statistics (non-parametric statistical T test, normality test) are used.

Results

Descriptive statistics

Table2. Frequency and percentage distribution of sample

organization	frequency	percentage
Tax organization	56	%56
Deputy general of taxation and finance	31	%31
Professors	13	%13
total	100	%100

According to the table2, the sample was chosen as a relative class of population, employees participating in the proportion of each organization are different. The questionnaires were distributed among 100 people.Unfortunately, due to the lack of employees' participation and also because of the different limitations of organizations, 85questionnaireshave been filled.

Table3. Distribution of sample by sex

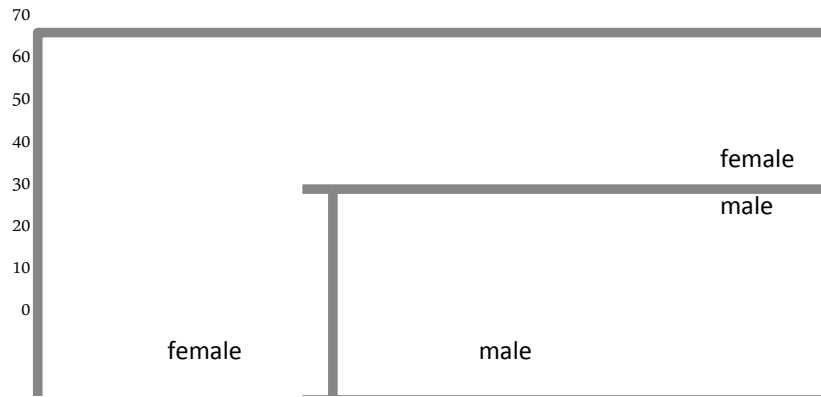| sex	frequency	percentage
male	61	71%
female	24	29%
total	85	100%

Figure1. Frequency distribution of sample by sex

According to table 3, 61 of the participants were male and 24 of them were female, it shows that there are almost 2.5 times more men than women participating in this study.

Table 4.Frequency and percentage distribution of the sample by marital status

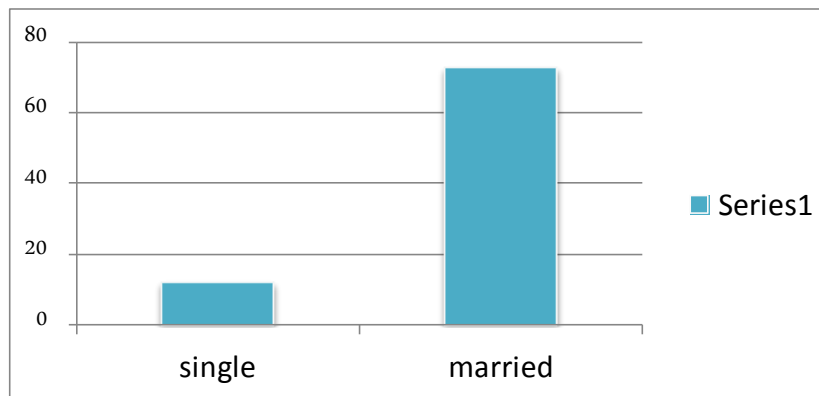| Marital status	frequency	percentage
Single	12	14%
Married	73	86%
total	85	100%

Figure2. Frequency distribution of the sample by marital status

According to table 4, 12 of the participants were single and 73 of them are married and only 14% were unmarried.

Table5. Frequency and percentage distribution by organizational posts

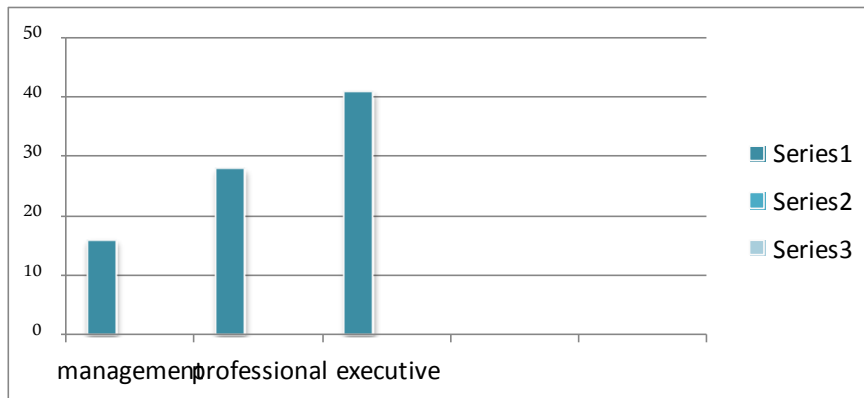| Organizational posts	frequency	percentage
management	16	19%
professional	28	32%
executive	41	49%
total	85	100%

Figure3. Frequency distribution of sample by organizational posts

According to table5, the organizational positions of the employees participating in executive groups are 49%, management groups are 19% and the professional groups are 32%. According to the human source structure of state organizations of Ilam, a high percentage of human sources belong tothe executive group. Therefore the numbers of executive groups of the sample are high.

Table6. Frequency distribution of sample by educational level

education	frequency	percentage
Low literacy	0	0
Diploma	3	03%
AS	18	21%
BA	46	54%
MA	18	22%
total	85	100%

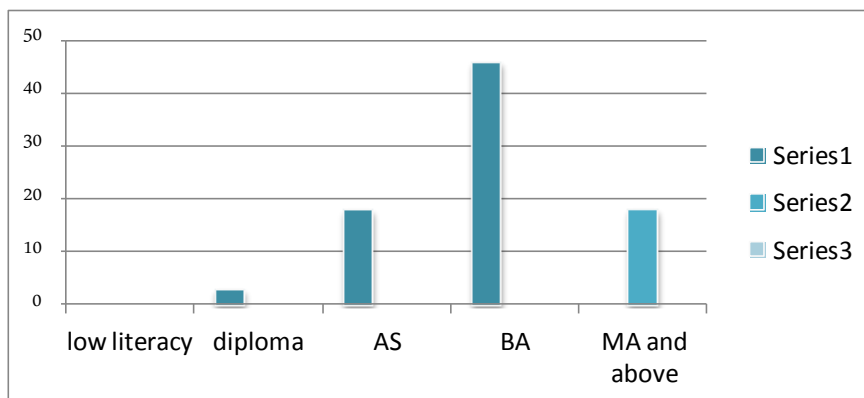Figure4. Frequency distribution of sample by education level

According to table 6, 46 of the participants (54%)have bachelor's degrees, 22% have master's degrees, 21% have associate degrees, 03% have diploma and 0% are below the diploma. Therefore, 97% of the employees have higher education and the others are at the average level of education.

Table 7, distribution of sample mean and standard deviation by age and years of service

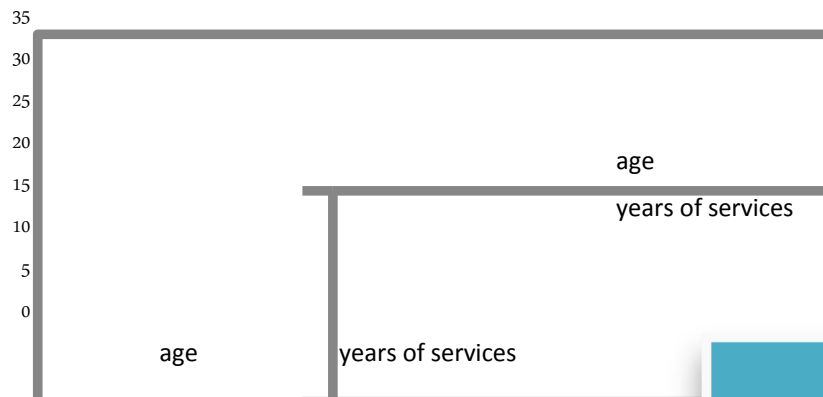| variable		frequency	mean	Standard deviation	Min	max
age		85	31.5	6.02	25	43
year service	of	85	9.92	6.31	1	26

Figure5. Distribution of sample by age and years of services

Table 7 shows that the average age of the participants in this study is 31.5, SD= 6.02. In terms of work experience, the mean is 9.92, SD=6. 31 which indicates the appropriate years of job experience.

Inferential statistics

The first sub-hypothesis: the necessary infrastructure in the process of tax collection influences the enforcement of the law on VAT in Ilam.

Table8: results of T test for the scale of infrastructure by SPSS

	T-test value	Degree of freedom	Significance(sig-2tailed)	average
Infrastructure	7.507	6	000%	3.22

H_0: the necessary infrastructures in the process of tax collection do not influence the implementation of the VAT law in Ilam.

H_1: the necessary infrastructures in the process of tax collection influence the implementation of VAT law in Ilam.

The answers in the Likert scalerange from 1 to 5 points and the mean was considered as =3M. According to table8, T-test statistics=507.7 and the average number of answers to the infrastructures

are 22.3 M. Therefore the T value is much more than the average =3. One can say that the necessary infrastructures to collect VAT in Ilam are ideal. Since the significance level is very good, so the null hypothesis is rejected. We concluded that the necessary infrastructures influence the implementation of VAT in Ilam.

The second sub-hypothesis: the transparency of economic exchanges influences the implementation of VAT law in Ilam.

Table8: results of T test for the scale of transparency by SPSS

	T-test value	Degree of freedom	Significance(sig-2tailed)	average
Transparency	14.117	8	000%	3.99

H_0: the transparency of economic exchange of goods does not influence the implementation of the VAT law in Ilam.

H_1: the transparency of economic exchange of goods influences the implementation of VAT law in Ilam.

According to table8, T-test statistics=14.117. Theaveragenumber of answers in the field of transparency is 3.99 M. Therefore the T valueis much more than the average 3. One can say that there is a high level of transparency in financial transactions. Since the significance level is very good, so the null hypothesis is rejected and our hypothesis would be accepted, which means that the transparency in financial transactions influences the implementation of VAT lawIlam.

The third sub-hypothesis: appropriate and timely notices influence the VAT law in Ilam.

Table9: results of T test for the scale of notices by SPSS

	T value	Degree of freedom	Significance(sig-2tailed)	average
notices	7.97	6	0.00	3.99

H_0: the accurate and timely notices do not influence the implementation of the VAT law in Ilam.

H_1: the accurate and timely notices influence the implementation of VAT law in Ilam.

According to table10, T-test statistics=7. 97 and the averagenumber of answers in the field of notices are 3.99 M. Therefore the T value is much more than the average 3. One can say that there is a high level of notices on financial transactions. Since the significance level is very good, so the null hypothesis is rejected and our hypothesis would be accepted which means that the accurate and timely notices in financial transactions influence the implementation of VAT law in Ilam.

The fourth sub-hypothesis: responsible participation of distributors of goods and services has impacted the implementation of VAT in the final chain of distribution.

Table11. Results of T-test for the scale of participation

	T value	Degree of freedom	Significance(sig-2tailed)	average
informing	8.822	8	0.000	3.82

H_0: responsible participation of the distributors of goods and services does not influence the implementation of VAT in the final chain of distribution.

H_1: responsible participation of the distributors of goods and services influences the implementation of VAT law in the final chain of distribution.

According to table11, T-test statistics=8.822 and the average number ofanswers in the field of participation are 3.99 M. Therefore the T value is much more than the average 3. One can say that the impact of responsible participation was high. Since the significance level is below 5%, so the null hypothesis is rejected and responsible participation of distributors of goods and services influences the implementation of VAT law in the final chain of distribution.

The main hypothesis: Ilam tax administration systems have the adequate capability for the full implementation of VAT law.

Table11. Results of T-test for the questionnaire

	T value	Degree of freedom	Significance(sig-2tailed)	average
The main hypothesis	9.452	31	0.000	3.78

H_0: Ilam tax administration systems have not the adequate capability for the full implementation of VAT law.

H_1.Ilam tax administration systems have the adequate capability for the full implementation of VAT law.

According to table12, T-test statistics=9.452 and the average number of answers to the questionnaire are 3.78 M. Therefore the T value is much more than the average 3. One can say that Ilam tax administration systems have the sufficient capability for the full implementation of VAT law. Since the significance level is below 5%, so the null hypothesis is rejected. Therefore Ilam tax administration system has the necessary capability for the full implementation of VAT.

Conclusion

Unfortunately, we will face the fact that oil, as a God-given wealth will someday be finished. A point that is important and must be considered is the matter of payment by people and the country's economic system. Full implementation of the tax system leads people to participate in the economic development and ensure the government's economic plan.

VAT is a taxation model that has been used widely in the last decades. Besides The traditional tax that has been prevalent among

countries, no tax, but VAT has been welcomed among countries in the recent years. In almost all of the tax system reformations undertaken in most countries, the introduction of VAT has been reviewed.

The results show that the VAT infrastructures in Iran require far and wide study. This paper studies a small part of taxation system. To achieve optimal and efficient systems for the collection of VAT, many researches are required. Below are some suggestions that are important results of this study:

Suggestions for improving the collection of VAT:

> *Coordination of tax agencies' information with other organizations such as banks, customs and etc.
> * equipping all retailers to POS machine
> *creation and promotion of academic fields of study (tax law, tax, accounting, and census)
> *government informing on the culture of taxation for the full implementation of VAT and applying it to the final chain of distribution
> *informing through educational advertising brochures and national media.
> * Informing and attending to low literacy people and retailers.
> *informing the statistics of VAT in each province
> *inform the public about the sources and uses of VAT
> * informing about positive work done by VAT
> *enhance the audit taxpayers system
> *create a system for matching the buying and selling information of payers.
> *promotion of the encouraging plan for the good payers

*grouping of payers according to the amount of VAT and income
*transfer of the government economy to the private sector
*schedule and prioritize the implementation of VAT in the final chain of distribution in association with the groups that have abroad base.
*enhance the level of accountability and respect to the employees and tax administrations.

Recommendations for the future research:
* To study the fact that less dependency of the government on oil revenues play a significant role in the full implementation of VAT and in the extension of it in the final chain of distribution.
*More flexibility and more efficient VAT system and coordinate it with subsidies.
*Better andmore effective development and implementation of VAT in the current structure of the tax system.
*How to monitor, evaluate and improve the effectiveness of performance, units, managers and employees in the current system of VAT in the country
*Creating systems and enhancing technologies for the communication between the unions and classes to collect information and statistics about the tax payers.

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