

Reasons for Not Properly Execution of Article 272 of DTA in Iran

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Abstract: The problems is that although it is 8 years after execution of this act, tax officers have repeatedly adjusted income subject to tax provided by official accountants during settlement of tax reports issued by official accountants and they have issued confliction notes; so this conflicts with the above mentioned law, In addition, not properly execution of article 272 has produced many problems and discontent among official accountants, tax officers and taxpayers In this paper, Review of reasons for not properly execution of regarding article 272 of Direct Taxes Act. Statistical society of this research includes two groups of official accountant occupied in Tehran and tax officers of General Administration of Taxpayers (GAT) of Tehran, which 110 persons from the first group and 170 persons from the second group were selected. Data gathering tool of this research was questionnaires with Lickert's 5 options spectrum. Assumptions were tested by t test in 5% error level. The findings shows that there is significant relation between "unfamiliarity of tax officers with tax and accounting rules" and between "lack of familiarity of official accountants with tax rules" with not properly execution of article 272 of DTA.

Key words: DTA • Tax officers • Diagnostic tax

INTRODUCTION

Now, one of the effective tools to determine income subject to tax is using services of official accountants, a member of Iran Official Accountants Society, toward execution of article 272 of DTA. One of the most important steps of tax collection process is determination of income subject to tax, which is accomplished through the following groups according to terms of Direct Taxes Act (DTA) and its executive bylaws [1]:

- Officers of The State Tax Affairs Organization (STAO)
- Official accountants and institutions members of Iran Official Accountants Society (IOAS) and Audit Organization (AO) (subject of article 272)

After approval of the act of using specialty services of qualified accountants in 1993, regarding all important goals followed by this act, it was delayed up to 2001 because of non-cooperation between the dominant tax structures in country. [2]

However, this act was added to the text of The State tax laws on 16/2/2002 subject to article 132 of amendments of Direct Taxes Act.

The complete text of article 272 of DTA is [3]: "Iran Audit Organization, official accountants and audit institutions members of IOAS and in charge of audit affairs or legal supervision are obliged, if requested, to provide a tax audit report according to the sample provided by STAO and submit it to taxpayers for submission to the related tax affairs administration. This report may include the following items:

- Remarks on sufficiency of accounting documents for audit according to the related law and rules;
- Determination of income subject to tax according to laws and rules;
- Remarks on taxed that a taxpayer is legally obliged to pay to Ministry of Economics and Finance (imperative tax);
- Other items mentioned in the sample.

Note 1: Tax affairs administration accepts the tax audit report without settlement and according to the rules of Tax Diagnosis Note (TDN). This is subjected to this that a taxpayer affixes financial audit report provided by the same official auditor or audit institution, or submits it during 3 months after expiration of the manifest.

Note 2: STAO can assign audit of financial statements and preparing tax reports of real persons to official accountants or audit institutions. In this case, fee is paid by STAO according to the related rules [4].

Not properly execution of article 272 has produced many problems and discontent among official accountants, tax officers and taxpayers [5].

Official accountants know themselves rightful according to the law and they know this distrust a kind of indifference to audit profession [6].

On the other hand, this caused displeasures among taxpayers, because they incur expensive costs during provision of tax reports subject of article 272 [7].

Extension and importance of this subject is obvious by printed papers in the newspapers, sites, journals and meetings [8].

However, tax officers certainly have special reasons for this decision. But this subject was so broadly extended that convinced us to fulfill this research to investigate the existing problems from the view of tax officers and accountants.

Attraction of trust of taxpayers is one of the most effective solutions for success of The State Tax Affairs Organization to diagnose and collect of taxes. But, accomplishment of this problem requires existence of sufficient rules and laws to fulfillment of them [9].

Lack of transparent rules and laws caused personal palates in the area of diagnose and collect taxes and provided provisions to waste people and government rights [10]. Therefore, guiding tax system toward usage of efficient styles to diagnose tax incomes from one hand caused change and promotion of qualitative level of settlement and determination of real income subject to tax [11]. On the other hand, it provides necessary base for

settlement of financial discipline and transparency in real and legal person activities and producing a trust space between tax system and taxpayers [12].

History of Research: In 2005, Nikkhah Bahrami comparatively studied tax report efficiency before and after execution of article 272 of DTA. He found the following results:

- Execution of article 272 does not increase tax incomes.
- Execution of article 272 accelerates tax certainty.
- Execution of article 272 accelerates tax claim [13].

Morteza Derang found the following results in 2002 by “study of effects of report of auditors on tax reports of tax officers”:

- Tax audit by independent auditors decreases application of personally diagnosis procedure.
- Tax audit saves the time of tax certainty.
- Tax audit decreases tax claim costs.

So, he emphasized benefit of tax audit report by independent auditors and proposed this as a future research subject [14].

Finally, in 2007, Moradmand from Allameh Tabatabayi University evaluated performance of execution of article 272 during 2002 to 2004. The main question of his research was:

“Is there any significant difference between income subject to tax determined by official accountants and tax officers?”

Table 1: difference reasons between official accountants and tax officers

Row	Reason	Frequency	Percentage
1	Items 147 and 148 of DTA for unaccepted costs	146	31.8
2	Disagreement for yearly adjustments	29	6.3
3	Allotment of costs to waived and non-waived incomes	28	6.1
4	Exempts subject of note 5 of article 105 of DTA, like 3 in thousands share of Commerce Chamber	27	5.8
5	Exempts subject of article 145 of DTA, like bank deposit profit	26	5.6
6	Fixed taxes subject of articles 59, 77 and 143 of DTA	19	4.1
7	Rent income subject of article 53 of DTA	14	3
8	Encounter with yearly loss and its deterioration	10	2.2
9	Exempts subject of article 4 of Act of Facilitate and Renovation of Industries	6	1.3
10	Exempt of income from exports subject of article 141 of DTA	6	1.3
11	Excess income by reevaluation of assets	6	1.3
12	Exempt of development plans subject of article 138 of DTA	5	1.1
13	Exempt subject of article 132 of DTA	4	0.9
14	Others	136	29.2
Total		462	100

In conclusion, it was found that income subject to tax calculated by official accountants was 20% more than the same calculated by taxpayers, so he evaluated article 272 positively [15].

But it is interesting that it was found that there was 20% unsuitable difference between income subject to tax calculated by official accountants and tax officers (income subject to tax calculated by tax officers was more than the same calculated by official accountants) [16].

In the mentioned research, which was held by direct investigation of tax files of 1034 companies in General Tax Administration (GTA) and 508 companies in General Administration of Taxpayers (GAT) area, it was found that in 462 companies (307 in GTA and 155 in GAT) income subject to tax determined by official accountants were not accepted by tax units and TDNs were issued. Finally, tax of those taxpayers in the related years were calculated by agreement.

The following results were obtained by test of 462 companies, which shows difference reasons between official accountants and tax officers.

All previous researches emphasize on benefit and effectiveness of tax audit and tax auditor's report. They also emphasized on differences between income subject to tax by official accountants and tax officers [17].

However, no research pointed reasons and factors of creation of the conflicts between income subject to tax calculated by tax officers and accountants. This conflict, in fact, is breach of article 272 of DTA.

Research Assumptions:

- There is a significant relationship between unfamiliarity of tax officers with tax and accounting rules and not properly execution of article 272 of DTA.
- There is a significant relationship between unfamiliarity of official accountants with tax rules and not properly execution of article 272 of DTA.
- Research method and data collection:

This is a descriptive and application research. Also, this is a retrospective and post-event one.

In this research, data was collected from library and field, so that theoretical fundamentals were gathered from internet and library sources such as books, papers and economical and accounting journals. Also, in the field section, questionnaires were used to gather data.

Statistical Society and Sampling Method: Statistical society of this research includes two groups:

- All tax officers of GAT of Tehran (according to the approval of this administration, there were 231 tax officers in that place)
- All official accountants of Tehran Province

According to the last statistics from site of IOAS, there were 1173 official accountants in Tehran. Also, only those official accountants occupied in audit organization and audit institutions of Tehran Province included in this research, which were about 1021 persons.

Samples were selected randomly. Also, the following formula was used to select volume of samples [18]:

$$n = \frac{N z_{\alpha/2}^2 PQ}{Nd^2 + z_{\alpha/2}^2 PQ}$$

in which,

- d : Absolute error equal to 0.07
- p : A ratio equal to 0.5 to obtain maximum sample size
- q=1-p : Here equal to 0.5
- $z_{\alpha/2}$: Percentile $(1 - \alpha/2) \times 100$ of standard normal distribution equal to 1.96, namely, 95th percentile of standard normal distribution
- N : Volume of statistical society [19].

Regarding to the volume of statistical society, 110 questionnaires were for tax officers and 170 questionnaires were for official accountants.

Test of Assumptions: Assumptions were tested in four steps by t test.

Test of Assumption 1:

Step 1:

- There is not a significant relationship between unfamiliarity of tax officers with tax and accounting rules and not properly execution of article 272 of DTA.
- There is a significant relationship between unfamiliarity of tax officers with tax and accounting rules and not properly execution of article 272 of DTA.

$$\begin{cases} H_0 : \mu \leq 3 \\ H_1 : \mu > 3 \end{cases}$$

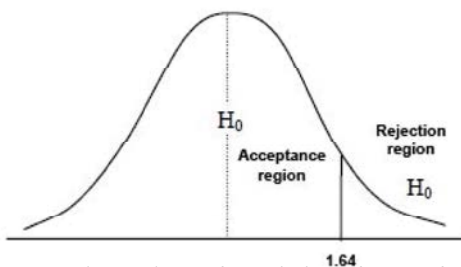
Step 2: It is calculated by the following formulas for official accountants and tax officers:

Respondent	Index	Numbers	Average	SD	t	Freedom	Sig. level
Official accountants	Unfamiliarity of tax officers with tax and accounting rules	170	3.76	0.96	10.27	169	0.0000
Tax officers	Unfamiliarity of tax officers with tax and accounting rules	110	2.56	0.73	-6.33	109	0.0000

$$t = \frac{2.56 - 3}{0.73 / \sqrt{110}} = -6.33, \quad t = \frac{3.76 - 3}{0.96 / \sqrt{170}} = 10.27$$

Step 3: Acceptance and rejection regions of zero assumption are similar to assumption 1.

Statistic value of test in level of confidence of 95% as one-way



Step 4: The value of statistic of test for official accountants is $t=10.27$ and for tax officers is $t=-6.33$. Thus, official accountants reject assumption zero, but

taxofficers do not reject it. Therefore, assumption 1 is confirmed by official accountants, while it is rejected by tax officers.

Test of assumption 2:

Step 1:

- There is not a significant relationship between unfamiliarity of official accountants with tax rules and not properly execution of article 272 of DTA.
- There is a significant relationship between unfamiliarity of official accountants with tax rules and not properly execution of article 272 of DTA.

$$\begin{cases} H_0 : \mu \leq 3 \\ H_1 : \mu > 3 \end{cases}$$

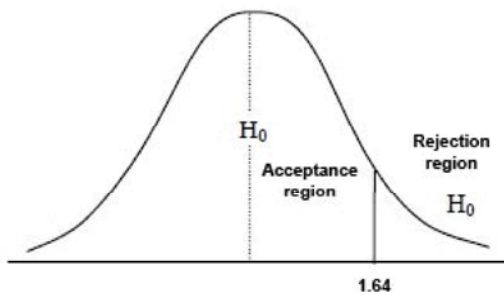
Step 2: It is calculated by the following formulas for official accountants and tax officers:

Respondent	Index	Numbers	Average	SD	t	Freedom	Sig. level
Official accountants	Unfamiliarity of official accountants with tax rules	170	2.35	0.66	-12.67	169	0.0000
Tax officers	Unfamiliarity of official accountants with tax rules	110	3.59	0.38	16.29	109	0.0000

$$t = \frac{3.59 - 3}{0.38 / \sqrt{110}} = 16.29, \quad t = \frac{2.35 - 3}{0.66 / \sqrt{170}} = -12.67$$

Step 3: Acceptance and rejection regions of zero assumption are similar to assumption 1.

Statistic value of test in level of confidence of 95% as one-way



Step 4: The value of statistic of test for official accountants is $t=12.67$ and for tax officers is $t=16.29$. Thus, official accountants do not reject assumption zero, but tax officers reject it.

Therefore, in view of official accountants, there is not a significant relationship between unfamiliarity of official accountants with tax rules and not properly execution of article 272 of DTA, but these two sections relate significantly from view of tax officers.

Thus, assumption 4 is rejected by official accountants and is confirmed by tax officers.

CONCLUSION

The results This research showed, official accountants believe that there is a significant relationship between unfamiliarity of tax officers with tax and accounting rules and not properly execution of article 272 of DTA, while tax officers disagree with this assumption. In contrast, tax officers believe that there is a significant relationship between unfamiliarity of official accountants with tax rules and not properly execution of article 272 of DTA, while official accountants disagree with this assumption.

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