Any obstacles against complete implementation of Value Added Tax (VAT) in Iran through Decision Making Procedure with multiple Fuzzy criteria

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Abstract. Value Added Tax (VAT) is an indirect tax which is paid by buyer along with purchasing of goods and services. Then the seller is obliged to transfer it to treasury of state. In comparison with other common taxes, Value Added Tax (VAT) is a new tax system with efforts of economists for remove / reduction of any disorder or shortages in traditional taxes and also income increase of the state. We intend, in this research, to find out any obstacles for complete implementation of VAT system in Iran. For this purpose we used a standard and confirmed questionnaire with Chronbach's alpha (reliability coefficient: 0.899) submitted to 80 persons of tax experts. According to the results of one sample t-test, some minor external factors, major external factors and internal factors prevented from complete implementation of tax system on value added in Iran. Furthermore according to the results out of fuzzy network analysis it is obvious that from among all these factors we have traditional payment methods of commercial interactions by tax payers, imposing of administrative/financial costs for tax payers for respecting legal necessities of VAT system and also lack of a compatible accounting system with VAT system for tax payers had the most obvious roles in lack of complete implementation of VAT system in Iran.

Keywords: Value Added Tax, Minor external factors, Major external factors, Internal factors, Fuzzy Network analysis

1. INTRODUCTİON

At present, Value Added Tax (Economic turn over tax) which is known as an indirect tax and imposed on general products and services is applied in more than 150 countries. Implementation of such a tax system is assumed as an important part of state's tax system. Value Added Tax is a form of consumption tax for various steps of import chain, production, distribution and consumption which is applied gradually by economic agencies at different steps of mentioned chains. It is accumulated in accordance with a percentage of value added in each step and transferred from one agency to another in order to be paid to final consumers as well.

Value Added Tax (VAT) is a self-measured tax system in which tax payers are responsible for relevant tax. Therefore major tax officer of Tax Organization are just responsible for inspection and supervision on tax affairs whether it is possible to calculate relevant tax or return it as well. Private sector, in today world, is really a growth motor of economic development. Governmental sector is responsible for providing a suitable field for activities of private sector. All states need to have continuous and ensured financial resources for ensuring about speed and continuity of the mentioned fields. Tax incomes and resources are the important income resources of a state. Also they are center of attention in our own country, Iran. Therefore there is an increase in state's tax income of general budget, but there is a long distance up to acceptable

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point along with lots of gaps between current and suitable points. The rate of income tax to national gross production is known as a gap between current and suitable points. The mentioned rate was equal to %7.9 in Iran in 2007. Meanwhile it is very little in comparison with other countries like Kenya %21, Morocco %21.9, U.S.A %26.8, Switzerland %30, Denmark %49.7 and even third world countries (Tax Affairs Organization, 2008). We will study any obstacles against complete implementation of value added tax (VAT) in Iran with a decision making procedure with fuzzy multiple criteria.

2. THEORETİCAL BASİCS & RESEARCH HİSTORY

According to the mentioned definition of VAT, here we will enter into research records by pointing out to various factors which may prevent from complete implementation of VAT system as follows:

Major external factors including: Inflation expectations resulted from complete implementation of system, non-suitable tax culture level in society, it means failure in on-time payment of tax as a part of citizenship duties of society, current level of underground economy and smuggling, personal expectations about unequal social level after complete implementation of VAT system, lack of complete implementation of welfare & social security system in parallel with complete implementation of VAT system.

Minor external factors: They include lack of a compatible accounting system with VAT system for occupied people as tax payers, imposing any additional administrative/ financial costs for tax payers in order to respect legal requirements of VAT system, traditional system of payments in commercial transactions by tax payers, cash problems of tax payers within a 3-month period for settlement of tax account and required time for return back of additional payments to tax payers.

Internal factors: They include lack of enough information to tax payers by responsible organization to perform VAT system, Lack of a data back for tax payers in responsible organization for VAT system, non-enough number of expert human force at responsible organization for performing of VAT system, complexity of implementation process & VAT system control, low level of IT by responsible organization of VAT, non-suitable time for implementation of VAT system with regard to current economic situation of country, determining the relevant tax limit of annually 3 billion Rials for tax payers.

Followings are some of the latest domestic & foreign researches in this field:

Naderan & Ranjabarki (2008) made a research under the title of any consequences of VAT and preparing the case for successful implementation of which in Iran. According to the results, since VAT system is based upon consumption and also its implementation may cause any price jumping of products / services subject to tax and also an increase in inflation rate from one side and since real consumption of families with low-income than high-income families may reduce on the other, it may cause an increase in any injustice conditions.

Saeidi and Nahtani (2011) could extract fixed income tax of 67 sample companies and then relevant value added of them in a paper titled as "Replacement of VAT instead of tax income of producing companies" and then obtained the value added of each company by the use of integrated method and also relevant rates of four folded scenarios of 5.1, 3, 7 and 10 percent. Upon making abnormal data out of non-parameter Wilcoxon tests and Freedman auxiliary test, the results show that any replacement of VAT with lower rates of 1.5 and 3 percent instead of income tax on producing companies, it may cause a reduction in tax incomes of province. In

addition, they found out that VAT with rates of 7 & 10 percent instead of income tax of companies may cause an increase in tax income of the province.

Faridzad , Parvin and Banouei (2011) prepared a paper titled as " Value effects of VAT by the use of Giving / Receiving (Case study: Iran)" with a parallel table of product- product and based upon absorption matrixes of based prices in 2009 of Central Bank of Iran and also by the use of IO-SAM software, they concluded that in case of implementation of VAT of %3, there is an increase in general indexes of prices up to %0.8. Then the highest rate of price increase among 119 economic products is equal to %99.2 which is related to real estate services.

In his paper under the title of "Fighting with tax fraudulent (Case study: Bulgaria), *Pashev* (2006) has explained relevant experience at Bulgaria in recognition of various fraudulent in VAT by focusing on misuses of tax credits. This paper concluded that some possible solutions should be discovered in linear scope of line management and optimized responsibility and not through harder controls through the business.

In his paper in 2008 and titled as VAT at Ethiopia, *Yesgat* studied any implementation of VAT at Ethiopia and also some key problems such as lack of enough number of expert personnel and also any gaps for implementation of it and also any needs to enrichment of the case and focusing on tax auditing programs.

In their paper in 2010 under title of "Golden Tax Project of China (A strategic technology for reducing of tax frauds) at China, *Kevin & Jang* used a project of tax deformation named as Golden Tax Project through special complex information and promotion of VAT rules and an electronic factor for focusing on central compliance system in tax control scope. They concluded that it is applicable in under-developing countries but not in developed ones.

In his paper in 2010 under title of Tax Fraud, *Hashem Zadeh et al.* evaluated any tax frauds at China. One of the major frauds in this regard includes any claims for reduction of VAT on exported goods. They concluded that frauds have no more effects on real decisions for exit of company and state's tax policies. Then auditing resources may recognize any companies involved with fraud and not through intermediates who provide fake documents.

In his paper under the title of "*Whether VAT is a useful tool for stability of major economy?*" *Iris Claus* found out that VAT rate should not be far from other rates of taxes which of course depends upon consumption rate at present and future. It also depends upon relevant decisions of saving and investment and increasing of economic costs. VAT rate is randomly a useful tool in major economy.

3. THEORİES & VARİANTS OF RESEARCH

According to all experimental studies and pursuant to the research question, followings are the hypotheses of this research:

✓*Major external factors have prevented from complete implementation of VAT in Iran.*

✓*Minor external factors have prevented from complete implementation of VAT in Iran.*

✓*Internal factors have prevented from complete implementation of VAT in Iran.*

3.1. Independent variant

Major external factors: It means any factors out of the organizational control which may be created at major (national) level.

Inflated expectations of people, tax culture, underground economy & smuggling, expectations of injustice increase, Welfare integrated system & social security of people.

Minor external factors: It means any factors out of the organizational control which may be created at minor (organizational) level.

VAT accounting system, Administrative/ Financial Costs of tax payers, Traditional payment method of tax payers, return back

Internal factors: It means any factors in the scope of authority and power of the organization.

Weak Information of VAT organization, Lack of an integrated data bank of VAT, Non-enough number of human force at VAT organization, Complexity in performance & VAT system control, Low level of benefiting from IT at VAT organization, Non-suitable time for VAT implementation, Tax limit

3.2. Dependent variant

Value added tax system: It means any tax system for all suppliers of goods and services known as tax payers of this system who should pay the price of goods and/or services through a percentage of relevant price at the time of selling and transfer the same on periodic basis (seasonal) to State's Tax Affairs Organization.

4. RESEARCH & DATA COLLECTİON METHOD

The research method is a descriptive-comparative one. All variants are defined in considered statistical population in present study. As a result, it is included in the group of descriptive researches. It is also a form of survey and comparative one due to benefiting from questionnaire tools in a field method for measuring of research variants.

Statistical population of this research include 100 experts including: University professors in the special financial / economic fields with good knowledge of VAT and familiar with responsible organization and required executive processes, occupied personnel at responsible organization for tax affairs, general auditors, managers at different operational levels with more than 10 years of tax records and also VAT and its implementation method. The sample volume was equal to 80 persons by the use of Cochran formula.

Validity: Since we used standard questionnaires in this study, it is in fact valid due to the content of questionnaires. Validity of the questionnaire has been approved not only through a primary study based upon experts' ideas but also through theoretical basics in definition of operative variants. As a result, the used measuring tools in this research have suitable validity for classified criterion. In such a case, weakness and strength points are specified as well. The mentioned weakness or strength points are specified as progress and delayed basis. We used *Likert* Scope (Total) in this study as follows:

General form: Completely agree, Agree, No idea, Disagree, Completely disagree

Rating: 5   4   3   2   1

Reliability: Before & after tests were applied for evaluation of reliability. Also the Chronbach's alpha is equal to 0.899 which is greater than 0.7. Therefore the reliability of this study is confirmed accordingly. Also we used decision making method with multiple criterion and statistical methods for necessary data analysis. For this purpose both SPSS and Super Decision software were applied as well.

5. DATA ANALYSİS

Demography characteristics: Data analysis of academic records, service records and age.

The first question of this part is related to academic level of respondents including 5 options of high school diploma, associate degree, Bachelor of Science, Master of Science and Ph.D. According to the findings out of statistical analysis of academic records of respondents as mentioned in table 1, it is obvious that %30 of them bear Bachelor of Science degree, %41 bear Master of Science degree, %28 of them bear Ph.D. degrees. The second question of this part is related to the service records of people out of which about 4 options including below 5 years, between 5 to 10 years, between 10 to 15 years, more than 15 years for it. According to the findings of table 2, it is obvious that %10 of respondents had below 5 years of experience, %26.3 of them had 5-10 years of experience, %43 had between 10-15 years and %20 of them had more than 15 years of services. The third question of this part is related to the age of respondents with six options of 25 and lower, 26 to 30, 31 to 35, 25 to 40, 41 years and more. According to the findings out of statistical analysis of the age of respondents as mentioned in table 3, it is obvious that %17.5 of respondents were lower than 30 years old, %28.7 were 30 to 40 years old, %31 were 40 to 50 years and %22.5 of them were more than 50 years old.

Table 1. Relevant findings of academic records of statistical population.

Academic records	Qty	Percentage
High School Diploma	-	-
Associate Degree	-	-
Bachelor of Science	24	30.0
Master of Science	33	41.3
Ph.D.	23	28.7
Total	80	100

Table 2. Relevant findings of service records of statistical population.

Academic records	Qty	Percentage
Below 5 years	8	10
5-10	21	26.3
10-15	35	43.8
Over 15 years	16	20
Total	80	100

Table 3. Relevant findings of age in statistical population.

Academic records	Qty	Percentage
Below year	14	17.5
30-40	23	28.7
40-50	25	31.3
Over 50 years	18	22.5
Total	80	100

6. CONCEPTUAL STATİSTİCS

First hypothesis: *Major external factors have prevented from complete implementation of VAT in Iran.*

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

Null hypothesis: The average of major external factors is lower or equal to the mean.

Hypothesis I: The average of major external factors is more than mean.

Therefore both hypotheses were defined with minor external factors and internal factors the results of which were inserted in tables 4, 5 and 6.

Table 4. One sample t-test.

Criterion	Average level = 3				
	T distribution	Freedom degree	Significant level	Insurance level of %95	
				Lower level	Higher level
Major internal factors	6.238	79	0.000	0.1714	0.3321

Table 5. One sample t-test.

Criterion	Average level = 3				
	T distribution	Freedom degree	Significant level	Insurance level of %95	
				Lower level	Higher level
Minor external factors	4.564	79	0.000	0.1833	0.4667

Table 6. One sample t-test.

Criterion	Average level = 3				
	T distribution	Freedom degree	Significant level	Insurance level of %95	
				Lower level	Higher level
Internal factors	3.932	79	0.000	0.1036	0.3159

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Tables 4, 5 and 6 illustrate the findings out of *One sample t-test* according which null hypothesis will be rejected. It is decided to accept hypothesis one. As a result major and minor external factors have prevented from complete implementation of VAT in Iran.

6.1. Fuzzy network analysis

Network analysis method is the only hierarchy structure without considering any issues just applying a system for feedback modeling. A system with a feedback is illustrated as a network in which nodes show the levels or different parts.

6.2. What is the matrix of paired comparisons?

In order to answer to the above-mentioned question, we collected the ideas of 80 university professors in the special financial / economic fields and good knowledge about value added tax and familiar with responsible organization and relevant procedures, all occupied personnel at concerned tax organization, general auditors, managers at different operational levels with more than 10 years of tax records and also value added tax law and its complete process. Then a network analysis method was applied for determining relevant weights of recognized dimensions and sub-parameters.

6.3. Combined matrix of paired comparisons of major external factors

Followings are relevant combined tables about paired comparisons and non-compliance rates of all criteria: Table 7 shows the combined matrix of paired comparisons as the sub-group of major external factors with non-compliance rate of 0.02 as well:

Table 7. Combined matrix of paired comparisons of major external factors.

Major external factors	Expectations for incompliance increase		Inflation expectations of people		Tax culture	Integrated system of welfare and social security of society
Underground economy & smuggling	↑	1,0309	↑	1,004	1.005	1.003
Injustice increase expectations				1,027	1.030	1.034
Inflation expectations of people					1.004	1.007
Tax culture						1.003

This is necessary to mention that those digits with an upward flash-sign (↑) show that the relevant criterion in column has priority to mentioned criterion in line while those with the concerned sign mean the current factor in line is prior than the same in column.

6.4. Combined matrix of paired comparisons of minor external factors

Table 8 illustrates the combined matrix of paired comparisons of minor external factors sub-group in which the incompliance rate is equal to 0.01:

Table 8. Synthesis matrix of paired comparisons of minor external factors.

Minor external factors	Traditional payment manner of tax payers	Accounting system	Administrative / financial costs of tax payers
Return back	↑ 1,098	↑ 1,008	↑ 1,083
Traditional system of payment		1,09	1,01
Accounting system			↑ 1,074

6.5. Synthesis matrix of paired comparisons of internal factors

Table 9 illustrates the synthesis matrix of paired comparisons of internal factors sub-group with a non-compatibility rate of 0.02:

Table 9. Synthesis matrix of paired comparisons of internal factors.

Internal factors	Non-suitable performance time	Tax limit	Low level of benefits from IT	Weak information	Lack of an integrated data bank	Complex performance
Lack of enough human force	1,004	↑ 1,106	↑ 1,025	↑ 1,163	↑ 1,160	1,095
Non-suitable time of performance		↑ 1,111	↑ 1,027	↑ 1,024	↑ 1,019	1,091
Tax limit			1,080	1,089	1,088	1,211
Benefiting level of IT				1,008	1,007	1,121
Weak information system					↑ 1,001	2,111
Lack of integrated data bank						1,112

6.6. Paired comparison of internal dependencies in major criteria

Criteria	Major external factors	Minor external factors	Internal factors
Major external factors			✓
Minor external factors			✓
Internal factors	✓	✓	

6.7. Calculation of weight and rate of criteria

The final weight of all parameters are calculated by multiplying of the weight of major dimensions in weight of parameters. Total weight of parameters is equal to 1. Then we made classification of criteria. Table 10 illustrates the concerned information.

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Table 10. Final weight of effective factors & their classification.

Grade	List of factors	Weight
1	Traditional payments of commercial trades by tax payers	0.089
2	Imposing of additional administrative / financial costs to tax payers for respecting of legal necessities of VAT system	0.087
3	Lack of a compatible accounting system with VAT system for tax payers	0.082
4	Lack of enough cash by tax payers within a 3-months settlement of tax account and necessary time for return back of additional paid amounts to government	0.081
5	Expectations of people for increasing any injustice social levels in state after complete implementation of VAT system	0.068
6	Inflation expectations of people	0.066
7	Lack of complete implementation of welfare integrated system & social security in country in parallel with complete implementation of VAT system	0.065
8	Current level of underground economy and smuggling in country	0.064
9	Non-suitable cultural tax level that means lack of on-time payment of tax as a part of citizenship duties	0.063
10	Determining of annual tax limit level of 3 billion Rials for tax payers (subject to first step of enrolment) in VAT system	0.051
11	Lack of organizational information	0.047
12	Lack of an integrated data bank	0.046
13	Non-enough special human forces in responsible organizations for VAT system	0.046
14	Low level of IT used by responsible organizations in VAT system	0.045
15	Non-suitable time for performing of VAT system with regard to current economic situation of country	0.045
16	Complexity of performance & control process of VAT system	0.043

7. FİNDİNGS & DİSCUSSİONS

1- According to the data analysis, it is obvious that major external factors have prevented from complete implementation of VAT system. Also it is approved through the relevant t-test that first hypothesis of this study is accepted accordingly. It is in compliance with the findings out of previous studies by Noorbakhsh Langroodi in 2009.

2- Furthermore, the results of one sample t-test for 2nd hypothesis of research illustrate that minor external factors have prevented from complete implementation of VAT system in Iran. Therefore the second hypothesis of research is accepted accordingly. It is in compliance with findings by previous studies by Javadi Nik Goo in 2009.

3- The results of one sample t-test for third hypothesis of research illustrate that internal factors have prevented from complete implementation of VAT system in Iran. Therefore the 3rd hypothesis of research is accepted accordingly.

4- The results of fuzzy network analysis process illustrate that following cases are the most important obstacles against complete implementation of VAT in Iran respectively as: traditional payment manner of commercial interactions by tax payer, imposing of additional administrative/ financial costs for tax payers to respect legal necessities of VAT system, Lack of a compatible accounting system with VAT system for tax payers, cash problem of tax payers within 3-months of tax settlement and required time for return back of additional paid amounts to the state. Also there are some other factors with minimum importance in any lack of complete implementation of VAT system in Iran such as: Non-enough number of special human force in tax affairs in responsible organization for performing of VAT system, Low level of benefiting from IT by responsible organization of VAT system, Non-suitable time for implementing of VAT system with regard to current economic situation of country, complexity of

implementation and control of VAT system. The other factors are defined in the mentioned scope of importance.

8. EXTRACTED PROPOSALS OUT OF THE RESULTS

Regarding all previous studies, it is proposed that:

1-Regarding any problem with traditional payment method of commercial interactions by tax payers: 1-Maximum control of tax payers at upper level of VAT chain. 2-In case of applying any anti-smuggling functions and underground economy, the negative effects of this problem will be kept at minimum scale. 3-All tax services are applied on electronic basis for tax payers. Therefore it is possible to benefit from tax services and tax payment by electronic methods and suitable tax discounts.

2-Imposing of additional administrative/ financial costs to tax payers for respecting legal requirements of VAT system: 1-Upon making a closer relation among unions and Official Auditors Councils and also encouraging them to use payment funds at various jobs, it is possible to reduce any costs of tax payers.

3-Lack of an accounting system in compliance with VAT system for tax payers: 1-Due to any probable increase of social gaps and reduction of purchase power of low-income people and inflation expectations of them, the responsible organization of VAT is obliged to consider any necessary situations for reducing the destructive effects of VAT system concurrently with start of its inauguration with more supportive roles.

4-Cash problems of tax payers within a 3-months settlement of tax accounts and required time for return back of additional paid amounts to the state: 1-Tax period is reduced from 3 months to monthly condition. 2-There is a special unit in all VAT administrations for releasing of tax payers' capital involved with VAT along with lower problems for them and more cooperation with responsible organization of VAT.

5-Expectations of people about any increase in injustice social level after complete implementation of VAT system: 1-Enough information to all people (not just those tax payers subject to VAT) through public media. 2-Complete implementation of welfare & social security system as quickly as possible.

6-Inflation expectations of people; 1-Through stable prices of goods & governmental services and lack of any increase in obligations of private sector (such as lack of increase of minimum salary, insurance per capita) and increase in distribution subside goods in first year of implementation of VAT and wide information about its executive process and lack of any needs in price increase. Then it is possible to prevent from any inflation expectations of people.

7- Lack of complete implementation of integrated welfare & social system in parallel with complete implementation of VAT system: 1- Because of any probable increase of level gap and reduction of purchase power of low-income groups and inflation expectation of people, VAT organization is obliged to provide any arrangements to have more supportive roles with regard to applying suitable conditions and reduction of destructive effects of VAT system and simultaneous with beginning of it.

8-Current level of underground economy and smuggling in country: 1-It is possible to fight with underground economy and smuggling by accelerating in allocation of exclusive national codes for domestic and imported products and prevention from selling of any goods without the mentioned codes (Iran Code) in Iran. 2-The other way to fight with underground economy and

smuggling is providing an independent and clear tax system with high executive guarantee. It is possible to increase the effects of the mentioned tax system through upgrading the motivation of tax personnel and promotion of methods and working conditions and through various functions such as separation of duties from other tax & administrative ones, upgrading the social position of tax officers, pay more attention to their life situation and also making a system for minimum face-to-face refer of people to Tax Recognition Personnel.

9-Unsuitable tax cultural level in society means lack of on-time payment of tax as a part of citizenship duties of people: 1- Through distribution of tax statistics and applying them in various magazines and public media in a clear and non-special language and in compliance with public understanding. 2-It is possible to have more effective functions in this way through upgrading the social position of tax payers in country and provide long scope of news about their responsibility in on-time payment of tax.

10-Specifying an annual tax level of 3 billion Rials for tax payers (subject to first step of registration) in VAT system: 1-Enrolment of tax payers in second step of enrolment according to paras A, B and C of Art. 95 of Direct Taxes Law (which has divided tax payers into three groups). It is also with further coordination with unions and assemblies in order to accelerate the case as quickly as possible. It means that remained people subject to tax are obliged to enroll in their own assemblies and submit the required information to Tax Affairs Departments.

11-Weak information system: 1-Since information is one of the most important bases in implementation of VAT, it is recommended to finalize tax payment culture through broadcasting and especially by animation programs and involving more people in this case.

12-Lack of an integrated data bank: 1-It is necessary to change relevant cases of tax payers from paper form into electronic form with better Data Banks relationship of all executive systems, banks and credit institutes with General Departments of Tax Affairs.

13-Non-enough number of special human force in the field of taxes at relevant organization for performing of VAT system: 1-It is possible through benefiting from expert managers with good knowledge of management, modified management methods of current human resources and benefiting from all approved employment capacities in order to create new capacities in order to cover most sectors and economic active people by State's Tax System.

14-Low level of IT by relevant VAT system organizations: 1-It is necessary to upgrade computer systems and installed software in all executive system with further transfer of information among systems and other organizations. Also it is better to consider new software and computer networks for this purpose. 2-All records of tax payers should be provided for tax personnel in an electronic format.

15-Non-suitable time of VAT system performance with regard to current situation of state's economy: 1-It was about 20 years for complete implementation of VAT even in a country like France with lots of experiences in the field of Tax and also implementation of VAT. Therefore it is necessary to prevent from any quick performance of it. Regarding this case and relevant problems in the field of tax, it is mostly a cultural / managerial problem not a technological one and not by making another new problem by quick implementation of VAT system. Then it is better to have enough patience in making suitable cultural and behavioral fields for finalizing tax discussion and also finalizing VAT system accordingly.

16-Complexity in performance & control of VAT system: It is possible to benefit from relevant assemblies and unions at enrollment steps and tax information collection and also classification of information in order to simplify all functions and easy control of tax procedures. 2-It is better

to use expert and smart computer systems for controlling the process. For instance it is better to consider any increase and/or decrease of financial accounts of tax payers with banks and financial institutes in order to register and follow up any replacement of amounts more than standard (which are determined by responsible organization of VAT).

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