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Research Article

WHICH GROPE USED EXEMPTION OF VALUE ADDED TAX; MARGINAL CONSUMER OR PRODUCER?

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ABSTRACT
In this study, we survey directiveness of the Value added tax exemptions. To achieve this goal profitability ratios of the pharmaceutical and food companies accepted in the stock exchange, before and after implementation of the law on value added tax are examined to specify whether the implementation of this law cause a change in the relative profitability of these companies or not. Therefore, Data of 42 companies in a course of 10-year-old (5 years before and 5 years after the implementation of VAT law) is investigated by Using paired comparison test. The results of the research indicate value added tax that food companies exempt from VAT pay when they purchase goods and services due to the relatively high food demand elasticity transferred to the manufacturer but this tax in the pharmaceutical companies because the medication is an essential commodity and there is no substitute goods for it, transferred to the final consumer.

***Keywords**: Value added tax, Profitability ratios, Value added tax exemption, Demand elasticity*

The tax is a kind of social cost that citizens pay With regard to the Public services. (Davani, 2008)
The optimal tax system has sufficient income to meet the Government's objectives, optimum allocation of resources and fair distribution of income. This system choice the taxation basis that is efficient, fair & low-cost. (Tayebnia, 2011)
Select the appropriate rate and tax base are the most important duties of the tax system of a country. With regard to the contents of the mentioned, the importance of tax exemption Specified in the tax system. (Nazari, 2011)
High volume as well as numerous cases of tax exemption on the country's economy and on the other hand inefficiencies of this tax exemption creates many challenges in the economy, including:

- Reducing tax revenues for the Government.
- Increase the tax discrimination and to impose more pressure on non-exempt activities.
- Reduce the competitive space.
- The lack of adequate access to financial and economic activities of exempt information.
- Increasing tax avoidance and escape areas.
- Tax exemption, scattering in various laws. (Nazari, 2011)

Considering the mentioned items, Revisions in the tax exemption is important. Value added tax exemption is an important tax exemption that placed in the current years approved and we are at the course of the implementation of the experiment.

THEORICAL AND EXPLANATION
The supplying essential goods and services for the following reasons have been exempted from payment of taxes:

- Reduce the effects of inflation
- Support the low income segments of society

- Reducing the cost of administrative and tax receipt

To invoke article 12 of value added tax law supplying of the following goods and services as well as their exports in the case of tax exempt:

- Agricultural products
- Cattle, sheep, poultry, fish
- Fertilizer, seed and seedlings
- Flour, bread, meat, sugar, rice, beans and soy, milk and cheese
- Book, written press, paper and printing
- Donated goods to ministries, public institutions and non-governmental
- Land and buildings
- Medicine, medical expendable materials
- Salary
- Banking and credit services for banks
- Public passenger transport
- Handmade carpets
- Research and educational services
- Animal food
- Radar and navigational aid equipment
- Items with the Defense merely uses

If a company supplying products or services those are exempt from value added tax or not subject to this low, the tax paid for the purchase of goods or service cannot be given back, but considered as acceptable costs component of the direct tax law.

According to the above content, companies that their income is exempt from value added tax, when buying goods and services must record taxes paid as expense & this will increase their expense and reduce their profitability ratios.

But when the items are exempt from value added tax compared in terms of demand elasticity, we can realize the difference in terms of them. For example the drug is so essential that does not have any successor products but items such as sugar has the successor goods. In this study, the efficiency of VAT tax exemptions on food and medicine industries studied.

METHODOLOGY

In this research, profitability ratios of the pharmaceutical and food companies accepted in the stock exchange, before and after implementation of the law on value added tax are examined to specify whether the implementation of this law will cause a change in the relative profitability of these companies or not. In the event that this ratios decreases, specifies that the value added tax as the expense has been recorded, transferred to the manufacturer. But if this ratios have not changed, we determined that tax are transferred to the final consumer and despite this goods are exempt from of value added tax, the buyer of goods has to pay the price, which includes the VAT too.

As a result of r-type is descriptive. The statistical population consists of all pharmaceutical and food manufacturing industries that their products are exempt from value added tax.

Research hypotheses are as follows:

The first hypothesis: the profit ratio of the food company exempt from VAT after the implementation of this law has decreased.

The second hypothesis: the profit ratio of the pharmaceutical company exempt from VAT after the implementation of this law has decreased.

In this study, the profitability ratios are dependent variables. The profitability ratios show the amount of a company's profitability in a specified period of time. The ability to earn sufficient profits and return on investment is criteria for effective management and financial health of the company. Usually, investors are not willing to invest in the companies that have poor ability to earn profit because weak profitability ratio has a negative impact on the company stock market prices and ability to pay dividends. Credit providers have no interest in these companies because they may be, don't take the quest. (Modares, 2007)

The profitability ratios includes: gross profit margins, operational profit margin and net profit margin.

The gross profit ratio: gross profit divided by net sales volume

The operating profit ratio: operating profit divided by net sales volume (Rahimian, 2010)

The net profit ratio: net profit divided by net sales volume (Akbari, 2005)

In the present study according to the type of data and methods of analysis available, paired comparison test is used. Usually this test used to show the impact of an intervention. This test compares two variables related to a community and both variables must be quantitative. (Momeni, 2007)

CONCLUSION

The first hypothesis test:

Table 1-Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference Lower	Upper			
Pair 1	gross profit ratio – gross profit ratio after	10	13.8	1.45	7.14	12.94	6.89	89	.000
Pair 2	Operating profit ratio - operating profit ratio after	12.3	14.9	1.57	9.22	15.47	7.85	89	.000
Pair 3	return on sales – return on sales after	15.5	28	2.95	9.68	21.43	5.26	89	.000

Output of the first table, shows the t-test results. Given that the sig (2-tailed) for all three variables is less than 5% therefore, at the level of 95% hypotheses H0 not accepted and it can be concluded there is a significant difference between profit ratio of the food company exempt from VAT before and after the implementation of this law.

Table 2-Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	gross profit ratio	18	90	10.26	1.08
	gross profit ratio after	8	90	13.5	1.42
Pair 2	operating profit ratio	14.1	90	10	1.05
	operating profit ratio after	1.8	90	15.5	1.63
Pair 3	return on sales	10	90	8.9	.94
	return on sales after	-5.5	90	30.3	3.11

The output of the second table also indicates that all three profit ratio after implementation of the law on VAT, reduced.

The second hypothesis test:

Table 3-Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 gross profit ratio - gross profit ratio after	-1.16	6.89	.62	-2.4	.085	-1.84	119	.068
Pair 2 operating profit ratio - operating profit ratio after	.15	15.57	1.42	-2.66	2.96	.106	119	.916
Pair 3 return on sales - return on sales after	3.91	27.45	2.5	-1.04	8.87	1.563	119	.121

Output of the first table, shows the t-test results. Given that the sig (2-tailed) for all three variables is more than 5% therefore, at the level of 95% hypotheses H0 accepted and it can be concluded there is no significant difference between profit ratio of the pharmaceutical company exempt from VAT before and after the implementation of this law.
The results of the first hypothesis test indicates the value added tax that food companies exempt from VAT pay when they purchase goods and services due to the relatively high food demand elasticity transferred to the manufacturer. Therefore, the ratio of profit these companies decreased.
As well as the results of the second hypothesis test indicates that this tax in the pharmaceutical companies because the medication is an essential commodity and there is no substitute goods for it, transferred to the final consumer.
According to the results of research it is recommended to get targeted VAT tax exemption, at the time of adoption of the law attention should be also exempt commodities demand elasticity.

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