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Research Article

RANKING SUBSECTIONS OF ARTICLE 148 OF DIRECT TAXES ACT TO IDENTIFY THE DIFFERENCES BETWEEN DECLARED TAXABLE INCOME OF FIRMS AND THE TAXABLE INCOME IMPOSED BY THE TAX ORGANIZATION

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ABSTRACT
Taxes are one of the main tools of government policy and provide an important source of income and related expenses. In developed countries, the tax is an important factor in developing financial and economic policies, social activities and in financing state expenditures. The objective of the study is to rate subsections of Article 148 of Direct Taxes Act to identify the differences between declared taxable income of firms and the taxable income imposed by the tax organization. The study being applied has adopted a cross-sectional methodology. The population of the study consists of all non-governmental people of Khouzestan province whose tax records of 2009, 2010 and 2011 existed in the tax administration office. 96 cases which were submitted before the tax constitutional deadline were selected. These cases belonged to the firms whose tax was imposed by tax agents during the process of assessment of the legal tax offices. The descriptive survey method has been employed in this study. After collecting the information about tax payers and tax agents through questionnaires and collecting data on cases, the data was analyzed using SPSS 21 Software. The results showed that, according to Friedman test, the most important factor is allowance for doubtful accounts having an average rate of 57.4 and an importance of 56.5%. Also the tenth factor (1.31%) is the least important one, therefore, the authorities have to consider allowances which are doubtful, so that they would meet the deficit by proposing bills.

Keywords: *Subsections of Article 148, Direct Taxes Act, Taxable Income, Declared Taxable Income of Firms, Imposed Taxable Income*

INTRODUCTION

Two differences have been extracted by reviewing costs and significant differences, and also by distinguishing between them:

Differences from the perspective of firms:

- differences between the tax rules generally accepted accounting principles
- deference to other government regulations regarding the payment of duties and legal funds
- economic conditions
- tax evasion

The difference from the perspective of the tax system

- exemptions provided in the Tax Code

Quorums prescribed in tax laws: the Basis for determining the taxable income is the accounting profit, however, due to differences between financial accounting and tax accounting, there exist differences between these two. And therefore, accounting profit is turned into taxable profit by some adjustments. From the perspective of accounting theories, there are major differences between taxable profit and reported accounting profit. These differences can be classified under two main headings:

Permanent differences: These types of differences caused by the implementation of specific regulations and limitations are considered due to economic, political or administrative reasons. These differences are reflections of the total calculated tax that the unit has to pay over the years. Example of such differences are bank deposit interest or profit participation bonds, profit participations and the exemptions in Article

133, 132 and 134 of the Direct Tax Act which are considered in the calculation of accounting profits but due to legal exemptions are not taxable. Examples of such cases according to the Direct Taxation Act of Iran are stated below:

Exemption Caused by Articles 132, 133, and 134 of Direct Tax Act

Article 132 of Direct Tax Act: The taxable income resulting from industrial and mining activities of industrial and mining production units in the private and cooperative sectors for which an exploitation license has been issued or extraction and sale contracts have been concluded, as of the beginning of the Iranian year 1381 (21 March 2002), by the ministries concerned, shall be tax exempt at the amount of 80% for a period of four (4) years, and in less-developed regions 100% of the tax prescribed shall be exempted for a period of ten (10) years.

Article 133 of Direct Tax Act: 100% of the income earned by rural, tribal, agricultural, fishermen, labor, employees, university, and school students, cooperatives, and unions shall be exempt from taxation.

Article 134 of Direct Tax Act: The income earned through training and education given by non-profit schools, including primary, guidance, secondary, technical and vocational schools, non-profit universities and higher education institutes, as well as the income earned by the rehabilitation centers and institutes in charge of the mentally-handicapped and physically-disabled individuals, to which the relevant permits and authorizations have already been issued by the forums and authorities concerned, as the case may be, According to national accounting standards (17) Amortization expense of intangible fixed assets such as goodwill is deducted from accounting earnings but not financially measurable for taxes. Staff years of service costs as well as adjustments under paragraph 4 and 5 of accounting standards (4) equivalent to one month salary belongs to the acceptable tax costs and the surplus is unacceptable (Iranian committee of standards, 2006).

- Temporary differences: that result from the timing differences between the two groups and differences caused by evaluation principles.

1. Differences arising from timing: This difference is caused by timing differences between creditor and debtor in conditions of profit or loss, and is commonly referred to as tax differences between periods. These events influence the taxable income in one period and then have an impact on accounting profit in the next period (before tax). Based on the accounting standards in different countries, four possible situations are confirmed: A.: The amount of interest deducted for tax purposes but in terms of financial reporting is transmitted to later periods. One common example of this situation is to implement the declining method of depreciation for tax purposes and the straight-line method for financial reporting. B: sales revenue is identified for the current financial period but in terms of tax purposes, the identification of sales revenue is adjourned to later periods; Such as the application of installment sales method for tax purposes and the application of sales revenue identification method for financial reporting. (C) Benefits are included in calculating the tax, but their identification in the financial statements has been postponed. Such as the advance received rent in the collection period which is added to the taxable income, but its identification is postponed to the offering period services. (D) expenses that are deducted from the profit of the current period, but in terms of calculating the taxable income, but their identification is adjourned to later periods. Such as the cost of the guarantee (warranty) of goods which are considered in the profit or loss statements of the current period but its calculation as an acceptable tax cost is adjourned to the real financial period.

2. The assessment differences: This difference is arises from the difference in the measurements of financial accounting and tax accounting. Assessment principles as temporary differences in accounting standards have been discussed below:

A. reduction in the tax of assets due to tax breaks

B. (B) Operations in foreign countries in which operating currency and the reporting currency are the same. According to the standards of some countries, after the change of the exchange rate, the tax base of assets and liabilities of foreign operations may be different from their corresponding issues which are based on historical values and currency of the country of origin.

C. Increase in the tax bases of assets due to the modifications resulted from the inflation. These modifications cause the difference between these bases and assessment bases of historical values.
D. The combination of business units with purchase methods in which, values attributed to combined assets can be different from corresponding tax bases (Haji Ismail, 2003).
Investigating problems in the successful implementation of Article 272 of Direct Tax Act (implementation of tax audit by official accountant), Beik Pour said in the Journal of the audit: "Dual Behavior of taxation in the implementation of direct tax law and accounting standards audited by certified accountants is one of problems of auditory. Because the financial audit report must comply with accounting standards and the auditor's report must be on compliance with tax laws and regulations, two solutions are proposed for this problem."
First solution: the first solution is to develop accounting standards which are in accordance with the provisions of the direct taxes and other related laws in a way that there is no conflicts. This solution seems impossible because each country's accounting standards somehow follow international standards and the separation of national standards and international accounting standards and complying them with the old rules of trade and economic relations is not rational.
The second solution: The second solution concerns the reformation of direct taxation and other related laws with respect to accounting standards. This solution, if approved by the legislature, is a reasonable solution. For example if the commercial law on forcing the economic enterprises to have sealed offices be eliminated, and the information in computers be accepted as evidences, then the problems of registering offices and the unnecessary rules of offices will be resolved (Babajani and Moradmand, 2007).

MATERIALS AND METHODS

Methodology

The population of the study consists of all non-governmental people whose tax records of 2009, 2010 and 2011 existed in the tax administration office. 96 cases which were submitted before the tax constitutional deadline were chosen. These cases belonged to the firms whose tax was imposed by tax agents during the process of assessment of the legal tax offices. Also all people working in this administration, managers, financial and tax experts, auditors and other persons involved in the preparation of documents and financial statements form the population of the study. According to the calculations for the three populations consisted of tax records, reviewers of financial statements and financial statement preparers, 96 people were selected. Different questionnaires were distributed to tax payers, reviewers and users who were 96 people to assure the accuracy of declared income. As noted above, the random sampling was used in the study, in which some elements or members of the community are considered and selected. Then obtained information is extend to the whole community. This method is called the inductive method.

Hypothesis

1.There is a significant gap between declared taxable income of firms and the taxable income imposed by Taxation Affairs Organization.
2.Political factors influence the gap between declared taxable income of firms and the taxable income imposed by Taxation Affairs Organization.
3.Cultural factors influence the gap between declared taxable income of firms and the taxable income imposed by Taxation Affairs Organization.
4.Economic factors influence the gap between declared taxable income of firms and the taxable income imposed by Taxation Affairs Organization.

RESULTS AND DISCUSSION

Findings

Reviewing Tax Records

There are some subsections which are not among the 28 subsections stated in article 148 of Direct Tax Law on cost recovery. These subsections are not stated explicitly among the 28 subsections of article 148 of Direct Tax Law. So the added subsections are called others. We want to consider all differences of declared income aspects which are not stated in the items of article 148, the item 29 is consisted of 9 items.

Friedman Test

To determine which variables and sub-sections of Article 148 of direct taxes is more important or in other words, which obstacle is more preventive in the declared income difference, the Friedman test was used.

Ranking subsections of Article 148 using the Friedman test

To determine which subsection of Article 148 of direct taxes is more important, the Friedman test was used.

Question: how is the ranking of triple factors from the perspective of respondents?

Hypotheses

The null hypothesis: rating the 29 subsections are the same from the perspective of the respondents.

Hypothesis one: rating the 29 subsections are not the same from the perspective of the respondents.

Conducted Tests

The following table shows the rating of the 29 subsections from the perspective of the respondents

Variable	Average Rating	Importance percentage%
11	4.57	5.56513974
22	4.48	5.4555418
12	4.32	5.26070102
21	4.21	5.1226888
26	4.08	4.97046944
20	3.96	4.81825009
19	3.83	4.66603073
18	3.71	4.51381137
28	3.58	4.36159201
5	3.46	4.20937265
6	3.33	4.0571533
17	3.21	3.90493394
2	3.08	3.75271458
29	2.96	3.60049522
27	2.83	3.44827586
7	2.71	3.2960565
1	2.58	3.14383715
4	2.46	2.99161779
23	2.33	2.83939843
16	2.21	2.68717907
25	2.08	2.53495971
15	1.96	2.38274035
14	1.83	2.230521
9	1.71	2.07830164
8	1.58	1.92608228
3	1.48	1.77386292
13	1.33	1.62164356
24	1.21	1.4694242
10	1.08	1.31720485

According to the results of the Friedman test and as stated in the above table, the most important factor is allowance for doubtful accounts having an average rate of 57.4 and an importance of 56.5%. %. Also the tenth factor (1.31%) is the least important one, therefore, the authorities have to consider allowances which are doubtful, so that they would meet the deficit by proposing bills.

Conclusion

According to the results of the Friedman test and as stated in the above table, the most important factor is allowance for doubtful accounts having an average rate of 57.4 and an importance of 56.5%. %. Also the tenth factor (1.31%) is the least important one, therefore, the authorities have to consider allowances which are doubtful, so that they would meet the deficit by proposing bills.

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