International Academic Institute for Science and Technology

International Academic Journal of Economics
Vol. 3, No. 2, 2016, pp. 42-49.

ISSN 2454-2474

International Academic Journal of Economics

www.iaiest.com

The effects of the implementation of VAT on underground economy

Farhang Sahabi [a], Sajad Azizi [b], Masoud Soleymanzade [c], Azim Bageri [d]

[a] *Department of Management, Mahabad Branch, Islamic Azad University, Mahabad, Iran.*

[b,c] *Department of Management and Accounting , Nagadeh Branch ,Islamic Azad University,Nagadeh , Iran.*

[d] *Department of Information Technology,Qazvin Branch, Islamic Azad University, Qazvin, Iran.*

Abstract

Underground economy on health and economic impacts of major economic indexes including the official GDP, employment, consumption, production and these taxes are recognized and adopted. VAT of the critical nature of the tax, which controls the process of multi-stage production and distribution of goods and services. Furthermore, the possible benefits of the tax credit in the tax transparency of the economy and particularly the discussion would be helpful to prevent tax evasion. Expansion of the informal economy to increase tax evasion and thus reduce tax revenues from the implementation of this type leads. Since the change in the economy and changes in the mode of production and distribution of wealth and income requires review revision of the types of taxes and their collection practices, the implementation of VAT in more than 140 countries acceptability by the government is.

Keywords: VAT, Underground Economy, Tax evasion

Introduction:

Underground economy can grow a variety of reasons, including in response to excessive pressure from the state ... Is the economic factor option "exit code" option "to protest the "preferred.

The most important thing about the underground economy must be considered that there is no comprehensive definition of the underground economy. But in general, both broad and narrow definitions of this section shall be provided. The broad definition of the underground economy, including the household sector, informal, irregular and illegal as it is defined in the informal economy is called Thomas.

The defined limit, the underground economy refers to activities that legal in nature, but due to lack of payment of taxes and government regulations are not reported to authorities. This definition is consistent with the definition of the underground economy Tnzy the informal economy is defined as in Thomas. * If a nation wants the tax system like other countries have a VAT is one of them., In fact, in most of these countries are ready to VAT have and to other countries to join, but in general, the particular circumstances of politics, economy and culture of each country on the implementation of VAT and it will affect outcomes. These conditions, the amount of a country's underground economy In this paper, the definition of the underground economy will be limited, because it is more related taxes.

Theoretical basis of research:

Theoretical VAT
Public funding, such as security, health, education ... Require adequate and sustained resources and major source of income for the state is the steady state for the costs of taxes in the world today.
VAT is a multi-stage tax at different stages of the production chain - distribution based on a percentage of the value of goods produced or services provided will be charged. The definition includes VAT and other indirect taxes on the consumption of a non-cumulative basis on all stages of production and distribution of goods and services is awarded to private. Definition Glimpse of the law is the law of value, the difference between the value of goods and services with value of goods and services are purchased in a given period.
Different stages of the chain, import, production and distribution of economic activity in the chain is transferred to the next active until eventually transferred to the final consumer and shall be paid by him.
So real it has to pay taxes, consumer goods and services and transfer agent of the chain to the final consumer are the tax money as your earnings do not pay the VAT. Periodically (quarterly) shall pay to the State Tax Organization.

Research Background

Achaemenid period, the proportion of income that had accumulated by selling goods sales tax was collected in recent centuries, Europeans called it the VAT
In the twentieth century, in 1918, the first time the German von Siemens came to overcome shortages in the post-World War.
I discussed this proposed tax, and now more than 140 countries run it.
In 1370 the International Monetary Fund policies VAT offer to our country, Parliament was passed in 1387. And then approved by the Guardian Council to trial within five years to be implemented

Consequences of the VAT

Effects of the tax consequences that maybe social or economic activities can be summarized in the context of two premises: of large: of upon the, an investment of and work: Efficiency, justice Examine the overall effects are discussed below:

Neutrality:

The VAT to be levied on all goods, relative prices affect the nature and detail of the sales tax and indirect taxes, mini mum in the functioning of the economic system make sides orders and thus the efficiency of the market system does Strictly, we can say that the effects of tax prices and tax burden of each party to the transaction, A pho to with price elasticity between agree gate supply and demand them is essentially necessary goods and luxury stretch less than normal goods. Therefore, to minimize this problem (the tax burdens of essential consumer goods) products can be classified based on the multi-rate system is used. For example ,a zero tax rate for the commodity so essential percent rate for essential good state of15% for ordinary commodity and higher rates for certain goods, such as cigarettes, oil and Thus, in order to disrupt the lowest prices.

Tax justice

A assuming quall evils of personal income in-equal and assuming the same rate of taxation of general prices of certain commodities, Who came up with in¬ equal pay for equal taxation and horizontal equity on a sustainable basis ,If the pre vanillin grate will be few and consumer goods such modes(normal and deluxe) are subject to a higher rate, the tax is certainly not the only one resignation is not a tax, but the income gaped just mentis well as the registry but ion respectively, can be properly effective.

Failures to meet the tax:

The tax system in the detection of failure is a serious condition and performance. Tax evasion is high, particularly in sectors such as services and in particular, Apr ¬ profit business, a tax burden they bear. Establishment of the special VAT invoice coding method, firstly, the process of forming a value-added product or service for the tax clearly reveals. Second, the size of the GDP equation and businesses and thus determines the tax provides very useful information to other components. Third, the tax system to fit the organization's development process and thus to increase tax revenues through the in ¬ direct effect on the share of value added tax or inducible, the tax provides other correcting. Moreover, tax system self-control, the flow of economic activity is generated.

Reasons for the introduction of the VAT in the country

VAT can increase the tax to GDP ratio in the country. Heavy competition to attract investment, has forced governments to reduce corporate tax rates and the recommendation of the International Monetary Fund, such as the most important sources tax VAT move .. tax Performance few months after the end of the financial period but VAT is collected monthly or every three months only. . In our country due to the lower share of tax in GDP insignificant role in financing government taxes insignificant role in financing government spending and government borrowing from the banking system and the reliance on the inflation tax, VAT implementation is justified The experience of past years shows that reliance on non-tax revenue losses and unstable sectors and the reliance on the income tax is a healthy way to finance government spending. Reliance on oil revenues and foreign credits and loans, although the economy in the short-term fix to the problem But in the long term by increasing foreign and domestic government debt is to be followed. Also borrowing from the banking system in the form of extra money to publish one of the main reasons for the increase in liquidity, price level and inflation has been a steady increase Due to lower purchasing power and transfer it to the government and it has had some very strong destructive effects This effect is magnified when the government reduced the non-tax revenue Some

countries, such as Korea, Indonesia, New Zealand, in practice, that the initial revenue from value-added tax has become much more than a basic income,In addition to the above, numerous tax benefits resulting from it are welcome in our country And if appropriate suggest how many chain rings economic transactions, oversee the tax system is the income tax section Is detected because under this system, all transactions should be done by issuing the invoice and this determines the actual volume per unit of economic activity and trade and real income tax rate will help In our country, in accordance with Note 2 of Article 117 of Act V program which provides tax and VAT rates in the first year, an increase units per year, , The taxpayers requested on all transactions between the first 90 years (goods and services) value-added tax and the rate of four percent (2.2 percent and 1.8 percent duty tax) bills issued on and after exercise buyers are getting. Based on the results and experiences of the international or the tax increase, leading to the emergence or aggravation of inflation is not expected to the rise of prices is more or less. But inflation is not excluded VAT, depending on the state of the global economy and domestic economy, and the policies that are taken to comply with the tax system, the results can be very different. Especially if factors such as government and central bank stimulus measures and the prevalence of inflationary expectations, with time running with VAT returns, inflation may be severe and escalating inflation, the tax levy attributable to Especially if factors such as government and central bank stimulus measures and the prevalence of inflationary expectations, with time running with VAT returns, inflation may be severe.

The necessity of establishing the economic structure of value added tax:

1- VAT methodology and Think in that the positive experience of other countries in the past decades, many scholars emphasize the economic and tax experts, is the World Bank and the International Monetary Fund.

2- The tax justice in most countries more secure than other taxes without eliminating the incentives for investment and production as a new source of income in order to increase revenues, the government applied.

3- Since the VAT system is a control system applicable to all tax payers and tax agent splay the role of cost recon very is low.

4- Due to the tax payers of the tax credit will be required to submit a factor, for recognition one of their own as a result of the transactions, Moody' provides complete information system of deals and trade occurs in addition transparency of transactions and other activities such as income tax and tax on jobs.

5- VAT as source of stable, yet flexible.

6- Because the tax rate is fixed, the final time being so short and long term problems for final income tax and wealth tax and ... Doesn't. Thus, it is possible to delay the collection of tax revenues.

7- Since VAT is a tax on the implementation of modern technologies to improve productivity and office automation through the tax system and tax accountants will help.

Research Findings

Definition of the underground economy:

Any attempt to illegally without paying taxes, such as withhold in gin formational out income and property interests Tax authorities is called tax evasion. Economic studies show that the most important causes of the underground economy, government regulation size, quality public services, labor market conditions, the quality of the social security system an economic corruption. It is. There searchers in the

underground economy can be briefly fined as limited to legal transactions The Government have not been reported or various trades not reported to the government or legal transactions with government inspectors to whale verse as on ignored or legal transactions hat economists Economy Ministry's definition of gross domestic product GDP calculate the mare not, as some Different definitions of activities and transactions may not necessarily be considered as activities underground economy that is deductible in Table1is a summary of the activities given.

Table 1: Types of Underground Economic Activities

Type of active	monetary exchange activities		Non-monetary exchanges	
Illegal activities	Trade in goods, theft, drug trade, gambling, fraud		Barter trade, drugs, theft and second-hand goods, production and development of drugs for personal consumption	
Type of active	Tax evasion	Tax avoidance	Tax evasion	Tax avoidance
Lawful activities	Unreported income from self-employment, wages, income and assets from unreported work related legal activities	Resources employee discount margins	Barter exchanges of legal goods and services	All housework and transfer to households

Weekly News - Analytical Ministry of Economic Affairs and Finance No. 243

Factors that lead people towards the informal and underground transactions:

1 - The heavy pressure of taxation (Tax Burden): In almost all studies, higher taxes and higher social security spending has been one of the most important factors in increasing shadow economy. Select the quality of the taxes on leisure the shadow economy labor or parts that are not taxable leading economists has closed a major concern for some individuals this diversions.
2-bureaucracy and issued the license:
The Government bureaucracy and unnecessary rigor and hard ships for the
Issuance of licenses during long procedures by government agencies and large corporations Sintered, one of the main barriers to legal entry in to the formal economy and the push factors of the economy is underground.
3- And strict law enforcement (Enforcement): irregular increase in the intensity of supervision regulations (often measured in some rules and conditions of the license) is another important factor that freedom People choose to work in the in formal economy is another important factor that reduces freedom A sad can reduce the use of for misrules' governing the labor market, trade barriers, restrictions on the employment off original aborts concerned.

4-Characteristics of the labor force(Labor force Characteristics):Large number of rules and regulations formal wage costs and labor as well as the special characteristics of the expertise and ability to work or commitment to work and of the shadow economy are strong stimulants. Two fact or seduce the unemployment rate, working hours increase the shadow economy have been squeezed on them of ten brief discussions

5 - Ethics and Trust in Government (Confidence & Morality): not enough trust in government and non-adherence to ethical government increased the economy in the light of reduced government is, the reduction of low quality supplying goods and services public arises. Finally, this agent can lead to personal and corporate tax rates are increased.

The often low quality of public goods (such as public infrastructure, economy) combining Ian is a strong incentive to the disposition of the shadow economy and mistrust of government. Of the underground economy and tax in Iran Studies in Iran can be divided into two groups:

The first group, the underground economy in 1995 and early2001 it is estimated to have the second group. This is important in several studies:

1- Researchers from the underground economy estimate server different, but these differences decreased in recent years, all of them from non-Ahmadi (2002) underground economy in recent years (1998-2000) in the range of 12 to 22 percent have estimated.

2- In this study, the role of the underground economy and tax factors not analyzed Been no need to describe the presentation of these variables have been used in the estimation. However, the method Arab mazar (2001) and Nader (2004), this feature can be the basis for the analysis of the factors affecting the underground economy.

3- rather than the exception these studies Patience (2001) the role of institutions of governance and corruption laws and regulations are not in order of their estimates. The follow ingress search studies when estimating external model, more emphasis on the role of direct and indirect taxes have the institutional conditions can be a determining role than taxes and foreign studies recently have focused on the role of these variables.

4- Usually in other countries, extensive studies have estimated the size of the underground economy is a preliminary stage to estimate the size of the underground economy and its subsequent analysis is based. But in the estimation of an object and the researchers did not use it further. Of low tax revenues (about 5 to 6 percent of GDP) could indicate high volume and extensive underground workings of the tax gap in the country. Higher taxes in the countries are divided into two category of direct and indirect taxes. Much of the direct tax corporate tax, individual income tax and wealth tax on the covers. Mainly of two parts: the indirect taxes on consumption taxes and sales tax on imports is made. VAT number of the customer in addition to the purchase price of the goods purchased by multiplying the rate of VAT to the seller to pay the price of the goods. In addition to the sale price of the product when the product end or rate VAT on the cost of goods sold Calculation that takes into account sales, and the customer is the buyer's receiving the item number of the Higher taxes so that the tax should be rotate date different stages of the chain, import, production and distribution of goods A percentage of the value of goods sold or services provided at each stage of production acquisition and the tax Paid **a**t each stage to the next element to be transferred ultimately paid by the final consumer.

Trade transparency

One of the main features of this law, transparency and active economic and trade exchanges between economic actors with the final consumer. The Ministry of Commerce is working in various ways for many years it has been applied, the VAT law enforcement due to the nature of this law lies be practical. Transparency in economic transactions because of the gradual emergence of self-control and traceability of transactions and chains of these taxes, import, distribution, exporting to fully occur. However because of the volume of the underground economy in any country that suffers VAT law tries to fight the trade underground and make them trans parent. Since the transactions recorded in this way both the buyer and the seller both sides are done, as elf-control feature makes it possible to control the trade.
As Table 2also shows that countries with a developed economy and a more transparent economy reduce the underground economy and tax evasion has caused.

Table 2: The shadow economy is based on the percentage of 1998-2000

Country Groups	**Percent of GDP**
Developing	44-35
passing	21-30
high income	14-16

Source: Weekly News - Analytical Ministry of Economic Affairs and Finance No. 243

Conclusion:

Factors influencing the underground economy can be in three areas economic, political, social and examined. Jrks hany study (1999) shows that in developing countries and economies in transition in the area, tax evasion, in the political sphere, government regulations and social areas, National Statistics (GNP) and the main factors influencing the in formal economy have. The study is based on tolerance (2001) ,
the most important reason for the formation of the underground economy, increased tax burden and high degree of regulation and informally changes between the free market and its volatility ”Nader an N” (2004) the effects of time vary in regulatory and tax burden of unemployment on the underground economy and Long-term relations hip between these variables and the underground economy has achieved a significant and positive. The results obtained from the survey include:

1- Increasein the probability (exploration), which is tax compliance.

In some cases it is likely to increase audit risk because people feel they may be less willing to evade taxes, is proposed. Accepted principles, including tax reform should not be about "trust" and "efficiency of taxation" and increasing administrative costs of tax collection was around. Thus, the tax should be

based on systematic and Maud it of tax returns to pay. It is important that audit firms should be that they are more likely to evade tax.

2- An increase in the penalty rate for that tax records are not dealing with tax compliance, increase or decrease tax evasion, will determine the appropriate penalty tax (both automatic and non-criminal (and do the necessary coordination with other relevant institutions to ensure implementation of the provisions specified penalty can be one of the most effective strategies to prevent VAT evasion is VAT evasion in the proposed model, the result is visible in particular.

The content of this form of taxation that can be greater than the tax paid for the purchase of inputs and refund claims will be accepted. So from this perspective, there are more incentives for tax evasion. View this auditing and consider the payment of VAT, the cost is acceptable. Click on the pencil in such a way to combine the costs of tax evasion Also , due to the possibility of lower VAT or non-VAT received from the sale, it is easier to escape.

References:

Arab MazarYazdi, AA (2005), in the black economy, Emissions and Development Research Institute of Humanities Pzhvyan, J.(2001), "Economic Consequences of the Economic Value Added Tax Quarterly Journal of Economics, First Year, First Issue, 34-25

Zia'iBeghdili, Mohammad Taghi and Tahmasby Boldaji, F., Modern VAT, Economic Research Press, second edition, 2005

Faroukhi Reza (2012) investigated the role of VAT in Iran Law on Value Added Tax Act 1387.

Mousavi Jahromi et al (2009) in the VAT tax evasion: a theoretical model, Journal of Taxation, Title V One Number.

Patience, A., (2001), estimates of the informal economy and to analyze its causes (fuzzy approach), Mission PhD, University of Tarbiat Modarres

Rare, Elias, Siddiqui, H., (2008), research on the effects of taxes and the size of the underground economy in Iran(1972-2003),TehranUniversity

Rare, Elias, (2004), the research project "Interaction of underground economy, tax evasion and VAT," Tax Agency, Office of VAT

Syed Noorani, Syed Mohammad and colleagues investigated the interaction of the underground economy and VAT