

A Study of the Differences of Tax Auditing Terms of Determining Taxable Incomes: Iranian Evidence

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Abstract: In recent years, especially compared to that of taxable income, which has mentioned performed and differences between taxable income to determine tax auditors and diagnostic administration has main research question is whether the difference observed is statistically significant from research questions for answers. All companies selected in four years from 2006-2010 in Khorasan Razavi Province, in Iran. In the study, which is kind of descriptive analysis research, the necessary information throughout the review of tax records and documents in the file is compiled. The results show that the average taxable income between detection by tax administration proceedings without a history of companies through approximate and the average taxable income community members appointed auditors, and CPAs are significantly different.

Key words: Article 272, diagnostic taxable income, tax audit, taxable income determined, taxes

INTRODUCTION

One of the main foundations of community health is fiscal discipline, and accuracy and transparency of economic activities (Namazi and Mahdi, 2010). Progressive economic prosperity of any society depends on financial system transparency and without regular and proper rules the flourished economically in the community cannot be expected, because both financial and economic issues are depending on each other. Separating them from each other intellectually and logically is not acceptable (Newbery and Nicholas, 1987). In other words, in any society cannot be witness the economic prosperity unless its people and community leaders to bind their accounts and accountability (Thirsk, 1995). Taxes due to the effect (increase or decrease) of the returns they have on investment are physical and human. Can focus on economic decisions and ultimately on growth rate. Influence during the twentieth century in most developed countries due to tax reform is correct and acceptable tax level has increased dramatically (Floster and Henrekson, 2000). Average distribution of income before taxes in developing countries from industrialized countries is less unequal. However, unlike industrial countries, developing countries often use the ability to transfer policies to reduce inequality are not effective the position of tax system in any society depends on the status of past, present and future economic development of that society. Financial system transformation requires more than anything does task law does (Moradi and Mahdi, 2011). Of course, this transformation is the need to establish a system, which could assess government performance by the result of its operation and

effectiveness of its activities; perhaps claimed that by the simultaneous formation of the first societies to foot the tax field has emerged (Slemrod, 1992). In Iran, tax audits considered as part of the tax system (Salehi and Vahab, 2010). The law of specialized services and professional accountants' qualified accountant as well as formal law in article 272 of direct taxes as a tax audit of diagnostic tools has been named tax.

By direct taxes law, the country tax affair is reference diagnosis and levy. The mentioned organization shall act on legal persons diagnosed taxes through the tax declaration with offices and documentation reviews (Moradi *et al.*, 2011). Due to vast number of taxpayers for the above operations short time available to detect tax agents; this is especially significant because the amount of tax escaping cause incorrect diagnosis, resulting in taxable income will be tax-change. While independent auditors have enough time to deal with the financial statements and thus the operation of accounts and legal entities; they can also needed by other operations, including the country's affairs to determine unacceptable costs and unrelated operations and thus recognize taxable income (Rostami and Mahdi, 2011). This is whereby the taxable income with their costs to the taxpayer is well-identified. Tax audit report is a kind of special deal. The specific purpose in response to the need for tax is set and the reference form and its content must follow certain rules, but is also essential auditing standards and high report quality. The underlying issue is that this major change in the tax system is a decisive test for the country's accounting society. Such as tax audits as helpful affairs in heavy tasks and responsibilities that is responsible as trustworthy of the government and the nation (Salehi and

Vahab, 2011). Tax audit undoubtedly do the order of direct taxes in article 272 of law following a new issue is anticipated in the beginning and the challenges associated with failure. This article has expressed "Iran audit organization and community members CPAs, CPAs auditing institutions is responsible for conducting the audit and inspection duties of persons are legal. If the parties request the tax audit report in accordance with an example that the state taxation affairs organization is prepared to adjust and to submit the relevant tax affairs office, give it to the taxpayer.

Recent reports have mentioned include the following:

- Comment to the adequacy of accounting records for audit in accordance with the provisions of this act (direct taxes act) and regulations in compliance with the principles and regulations and accounting standards.
- Determining taxable income based on provisions of the act and regulations.
- Comment on taxes than the tasks associated with the taxpayer required by law to deduct and pay the country's affairs.
- Other cases that will be determined by the tax audit report, the desired sample affairs.

Article 272 of direct tax reform legislation approved 16 February 2002, Under article 272, only auditors are allowed to perform audits, including organizations that are tax audit, audit institutions and auditors who are members of the Iranian Society CPAs. In addition, these people should also audit and inspect the taxpayer's audits. Another point is that the tax audit request only if the taxpayer request will be explains. In addition, if requested by the accountant taxpayer it is the accepted legal obligation. Next thing is that the tax audit report for presentation to the tax administration should be provided to taxpayer. Therefore, although not mentioned explicitly in the law but not in terms of the obligation stipulated in the taxpayer's tax return delivered to the tax office concluded that the taxpayer regarding the tax administration report delivered has option. In addition, tax audit report under this article must be in accordance with an example form that produced by affairs to be set and be given. Another issue that deserves mention tax administration tax audit reports will accept without investigation and leaf diagnosis based on the tax regulations will be issued provided that the taxpayer's financial statement audits conducted by the audit that the tax audit is done. He said no tax audits conducted financial audits and providing tax audit report has no legal validity. In other words, perform auditing financial statements are a prerequisite for doing tax audit. It is

noteworthy that a relatively comprehensive regulation in this case has been developed that identify relationships between auditors and will determining officials. It can include instructions to the tax audit issue dated 9 June 2001 35072/3664-211 noted that in practice the kind of reaction auditors regarding the specific tax cases is marked and determined. Can also circular No. 13269 dated 17 October 2003 named according to paragraph 7 of this directive. If the leaves before the issuance of tax recognition than offering tax audit report needs to be CPAs further comment. Head of tax administration should issue an official inquiry in writing to the CPA and accountant is required within one month from the date of receiving Inquiry, further comment to head office to provide tax.

LITERATURE REVIEW

Overall goal of reform and change is increasing quality and improving. Reform of the tax issue is no exception. The purpose of the amendment, the levy increase quality. Tax revenue and ultimately increase the general welfare. Applied research on the tax benefits of prosperity reviewed. His review suggests that any tax imposed by increasing tax revenues led to improved welfare (Ferrira and Caval, 2005). On the hand, Moor's (2005) research on the effect of various tax systems in the country's prosperity Slovakia showed that VAT since the limit fees are due, the best effect will improve the welfare. According to the systematic difference between the tax systems of countries together, and the laws governing the quality of tax audits in each country is unique to the country. In other words, the possibility of using the same methods to study this issue in different countries is reviewed taken based on research, on "differences of tax audits performed by auditors and members of society CPAs in tax administration to determine taxable income" is not a precedent. Of course, experimental research has been done. It is worth noting however, between these years, scholars, and specialists regarding the position of tax audit and review barriers and benefits in the form of comment conferences in Iran deal in this study the level required are applied.

Research hypotheses: The main objective of current study is to reviews different taxable income determined by the members of certified public accountants and auditors affairs in a specific timeframe. However, due to the ongoing collection of information related primarily to research, other information such as income by the moody expression, state corporate tax experience (experience being approximate). Status of companies having corporate exemption and the status of being a public charge, and PJS LLP listed securities will be collected.

Table 1: Statistical society of classification personality

Items	Total	Classification personality		
		Governmental companies	Privately held company	Public company
Being approximation	14	3	9	2
Without approximation	46	12	29	5
Total	60	15	38	7

Table 2: The test results for comparison average taxable income

Research hypotheses	p-value	Results
Aud/gov average taxable income (without approximation-pic1)	0.036	Accepted
Aud/gov average taxable income (being approximation-pic2)	0.129	Rejected

Table 3: The test result for comparison average taxable income

Statement	p-value	Results
Exp/gov average taxable income (being approximation-pic 3)	0.135	Rejected
Exp/aud average taxable income (being approximation-pic 4)	0.141	Rejected
Exp/gov average taxable income (without approximation-pic 5)	00.39	Accepted
Exp/gov average taxable income (without approximation-pic 6)	0.144	Rejected

H₁: There is a significant difference between income included determined tax by CPAs income included determined tax by affair office in non-recorded top-level firms.

H₂: here is a significant difference between income included determined tax of tax affair office and income included determined tax auditor in firms with top-level records.

Statistical society: For achieving the objectives of this study prove the hypothesis and its population of between manufacturing and services companies and commercial contractors and that they were selected with the following conditions:

- In four consecutive years 2006-2010 by CPAs are tax audit.
- In terms of activity, level, income, sales taxes paid, and ceilings are tax component of large taxpayer.
- companies are having the first condition, must be in 4 years by tax experts affairs country are examining tax (are not approximated).

Therefore, based on the existing population numbers 60 companies, which follows on other assumptions, are divided in other hypothesis, because the use of census data extraction methods required, sampling has been done which Table 1 shows the population of the study.

RESEARCH METHODOLOGY

To achieve the objective of the study, data collection methods for extracting information from tax records and for explaining the fundamentals of the method library and check regulations and circulars issued in behalf affairs country has been used. This tax information for all sample companies (including acquired revenues, costs of return determined by the auditor and tax administration and

taxable income determined by the official accountants and tax administration), tax records (the period after tax audit law enforcement) are extracted. The mean average auditor determined taxable income and tax administration for each company is calculated and information processing. For hypotheses testing comparison of diagnostic taxable income and tax administrative average auditor determined taxable income over four years as a place is used. The hypotheses are tested by T-Test paired samples. Normal distribution of observations, hence the normal distribution should be reviewed. Postulate about the validity of the underlying parametric statistical methods reviewed. Test data for normal time testing inferential statistics (such as goodness of fit like Kolmogoroff Smirnoff test) and evaluative descriptive statistics (such as graphical methods or normal probability graph) is used. Results of the tests assumed normal data regarding the sample companies do not reject. However, the number of companies classified according to type of character in society about this postulate is that normal distribution of observations was not established. Therefore, to test hypotheses regarding the corporate income structure LLP PJS and non-parametric statistical methods such as Wilcoxon tests and analyzing variation one-way non-parameter was employed.

RESULTS OF THE STUDY

Test hypotheses raised in companies that bet on the tax audit related to having four consecutive years. Moreover, in one or more of these years, their taxable income by the tax administration through legal reasons approximately has been diagnosed separately were actually tested. According to the division carried out and following separation, hypotheses are tested. The test results of the above assumptions are shown in Table 2.

From two hypotheses above, the second hypothesis was not accepted ($p = 0.129$). These results suggest that

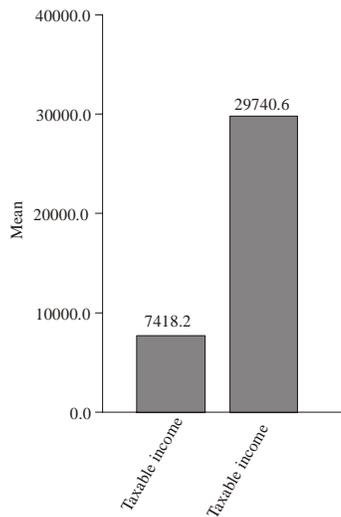


Fig. 1: Comparison average taxable income auditor (left) - average taxable income government (right) - without approximation

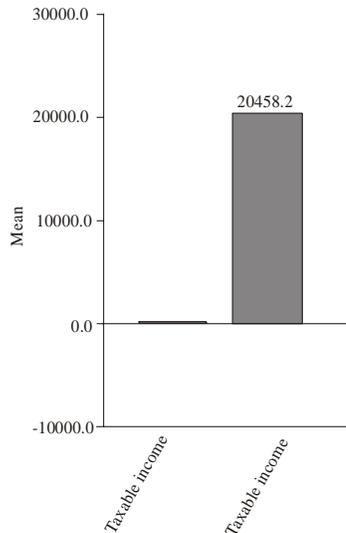


Fig. 2: Comparison average taxable income auditor (left) - average taxable income government (right) - being approximation

between average income and taxable income subject to audit tax governance in companies with a background being approximation there is no significant difference. The first hypothesis ($p = 0.036$) is accepted. These results indicate that pieces of the 46 companies in the community without a history of approximation, between the mean taxable income and taxable income tax administration there is significant difference between auditors. Figure 1, 2, 3, 4, 5 and 6 shows the results of the study.

Other findings: Continually according to data collected, the average taxable income expression means taxable

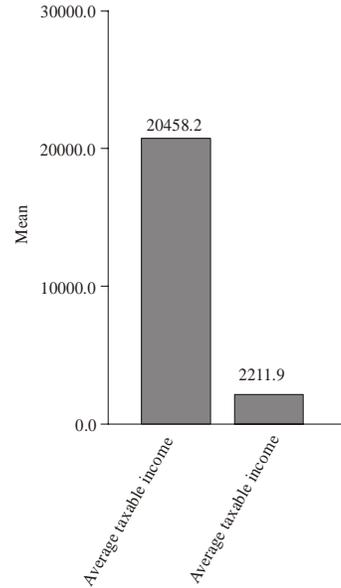


Fig. 3: Comparison average taxable income gov (left) - average taxable income exp (right) -being approximation

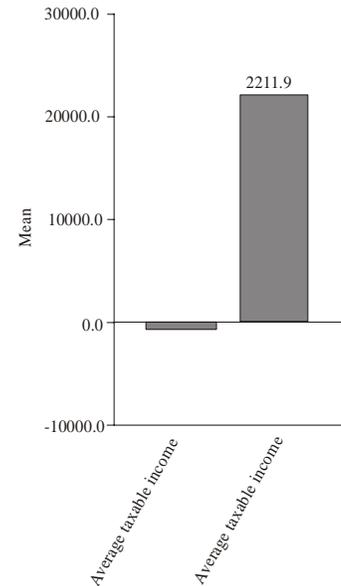


Fig. 4: Comparison average taxable income exp (left) - average taxable income aud (right) - being approximation

income tax administration taxable income and the auditor in two categories of companies were compared to results obtained as follows (Table 3).

According to the information above table, the third hypothesis accepted. In other words, in the Lao community of 14 companies with a history of approximate between the mean expression and average taxable income subject to income tax on corporate governance with a history of approximate there is a

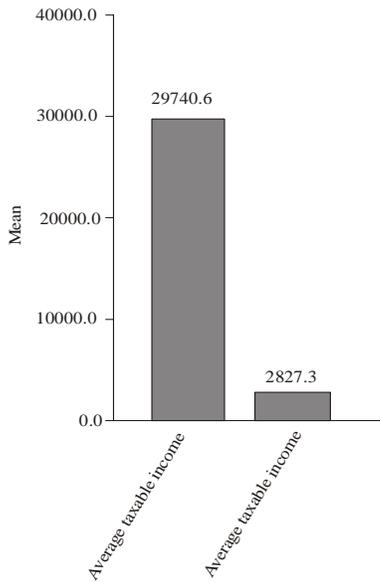


Fig. 5: Comparison average taxable income gov (left) - average taxable income exp (right) - without approximation

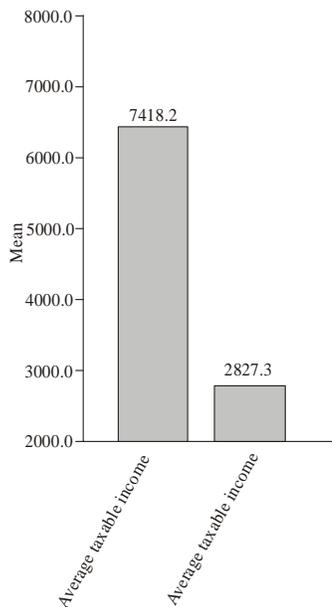


Fig. 6: Comparison average taxable income gov (left) - average taxable income exp (right) - without approximation

significant difference. Average taxable income, and between expression and mean taxable income auditor no significant difference. For further evidence, these assumptions based on information available on the type of character and example of companies (private and public joint stock structure) according to statistical methods and in some cases non-parametric test. Results comparing taxable income related to expression, auditors and corporate governance in the tax aspects of public

management that no significant difference between taxable incomes expression and there is no diagnostic. Results comparing taxable income related to expression, auditors, and corporate governance in the tax structure those aspects of PJS. The significant difference between taxable income and the expression and diagnostic expert auditor was there. Results comparing taxable income related to expression, auditors and corporate governance in the tax structure LLP shows expression between taxable income and taxable income and tax administrative affairs taxable income and taxable income tax audit is a significant difference. Auditor objectivity and taxable income of taxable income in the expression of the corporations are not significantly different. Finally, average tax deductible governance practices and the average deductible for diagnostic auditors' member companies with a history of community and no history of approximate were examined. Results indicate that between the mean and mean tax breaks governance audit exemption in both companies, there is no statistically significant difference.

CONCLUSION

The results of the study indicated that between taxable income and tax administrative diagnostic taxable income auditor determines there is significant difference. In addition, 2006 consecutive years until 2010 mean diagnostic taxable income tax affairs office of the auditor is more taxable income. Moreover, 2006 consecutive years until 2010 mean diagnostic taxable income tax affairs office of the auditor is more taxable income. Considering the test results raised one hand and the difference of tax administration and community members accountants auditors investigation result (e.g., taxable income figure) is indicated. In the above paragraphs in mind that both these important organs in determining the taxable income a specified path and almost the same, they set the overall results suggested that the following: In the process of determining taxable income, according to auditors' community members that the critical task of the law has taken. Acceptable sensitivity and accuracy in their task of incidence are notable. This point should be considered in any profession that started its activities with defects and weaknesses is that with the wisdom and guidance must be timely paid to fix them. Regarding the results of this study is noteworthy. The difference created between the auditors and tax administration law due to sweeping generalizations, weakness in the interpretation of law especially non-compliance with tax laws in the above mentioned basic common accounting standards country. Lack of adequate information and comprehensive audit of the directive and regulations which is to eliminate these discrepancies must be taken into measures.

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