Reasons for the Gap between Declared and Assessed Taxable Incomes of Manufacturing Companies Listed on Tehran Stock Exchange

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Submit: 12/07/2021 **Accept:** 16/02/2022

ABSTRACT

The taxable income of legal persons is a critical issue in Iran as this sector plays a dynamic role in economic, social, and cultural activities in the society. The major problem of this study is the gap between the amounts of taxable income calculated by taxpayers and the Tax Administration. Field and bibliography methods besides Pearson Correlation Test were used, and all four hypotheses of research were confirmed. Accordingly, the reasons for the difference or gap between declared taxable income and assessed taxable income include breach of direct tax law by taxpayers, violation of accounting standards by taxpayers, lack of sufficient evidence and documents (including expenses, tax exemptions, and tax incentives) in the hand of taxpayers, ignorance of tax directives, instructions, and regulations by taxpayers.

Keywords:

Tax, Assessed Taxable Income, Law, Declared Taxable Income, Accounting Standards.

1. Introduction

Taxation has been always an inevitable case for governments so that all governments have had to collect tax from people in different ways to meet the needs of society. Now, tax collection and assessment are highly substantial issues for tax authorities (Beikpour, 2007, 1).

Countries in today's world are benefiting from various income sources, which tax income is one of the most important sources that bring revenue for governments (Alimi, 2002, 2).

Taxable income of legal persons is a critical case in Iran as this sector plays a dynamic role in economic, social, and so forth activities in society. The share of taxable income in the annual budget of the country has exceeded the share of other income sources such as the oil sector so that taxable income has become the first source of budget expenses. For example, budget laws 2016-2020 can be named, in which the statistics published by Tax Administration show the priority of taxable income of legal persons among tax revenue sources. In this case, this source has been account for an average 45% share of tax revenue during 2016-2020 that implies the importance and status of this tax source among other ones.

Despite the inherent importance of this tax revenue as one of the options for government financial supply, some constraints and challenges may affect this case and reduce its quality. Reduction in time value of money is one of the challenges that cause irreversible effects on the government body and budgeting mechanism. If taxpayers do not pay their tax timely, their tax case might be caught up in a legal maze, including Articles 216[1], 238[2], 244[3], 247[4], 251[5], 251[6]

[1] The authority for the examination of the complaints arising out of the execution measures taken in connection with the claims of the government against other persons, whether real or legal, which claims are callable and collectible based on the tax execution regulations, shall be the Board of Settlement of Tax Disputes. Such complaints shall be examined and relevant decisions shall be taken immediately and out of turn, and the judgments rendered shall be final and enforceable.

Note (1) As for direct taxes, if the complaint is to the effect that the execution procedure for collection of the tax has been affected before finalization of the tax, and the Board of Settlement of Tax Disputes finds the complaint justified, it shall - in addition to annulling the execution notice - issue a writ for the examination of the case and for taking necessary measures, or it shall examine and render a judgment on the taxable income of the taxpayer, whichever be applicable. The decision of the Board shall be final.

Note (2) In respect of indirect taxes, where the executive complaint is to the effect that the claiming of tax is not lawful, the authority for the examination of this complaint shall also be the Board of Settlement of Tax Disputes, and its decision shall be final and enforceable. This Note shall not apply to the fines related to the smuggling of goods constituting sources of the government's revenue, or to the price of the smuggled goods that are vanished, nor shall it apply to that category of indirect taxes that are to be settled, according to relevant special regulations, by specific authorities.

[2] Where the tax assessment notice is issued and served on the taxpayer, he may, in case of being unsatisfied therewith, apply personally or through a plenipotentiary attorney to the Tax Affairs Office within thirty days from the date of service and request, in writing, for reexamination by providing evidence, documents, and records. The relevant responsible officer shall review the case, after recording it in the respective register, within thirty days from the date of the taxpayer's application. In case of considering the supplied evidence, documents, and records as sufficient for rejection of the assessment notice, the responsible officer shall reject it by recording the matter and signing it on the back of the assessment sheet. If the furnished evidence, documents, and records justify, in the responsible officer's view, the adjustment of the income, and the taxpayer shares this view, the relevant responsible officer shall reflect the matter on the back of the assessment notice, which shall be signed by the officer and the taxpayer. However, if the supplied evidence and documents would not justify, in the view of the responsible officer, the rejection of the assessment notice or adjustment of the income, he shall reflect the matter, together with justification, on the back of the assessment notice, and shall refer the case to the Board of Settlement of Tax Disputes for examination.

[3] The authority for reviewing all tax disputes shall be the Board of Settlement of Tax Disputes, except in cases where other authorities are provided under this Act. Every Board of Settlement of Tax Disputes shall consist of three persons as follows:

(1) One representative from the Iranian National Tax Administration;

(2) One judge, whether active or retired. If qualified retired judges could not be found in centers of provinces and other cities, the head of the Judiciary will introduce an active judge as to the member of the Board, when the Iranian National Tax Administration would request that; and

(3) A representative from the Chamber of Commerce, Industries and Mines, Chamber of Cooperatives, Iranian Association of Certified Public Accountants, professional associations, guild organizations, or Islamic city councils, whichever the taxpayer would choose. In cases, where the Assessment Notice is notified through substituted service, or the taxpayer fails to declare his choice at the time of filing his protest within the legal time limit, the Iranian National Tax Administration shall select one of the said representatives by due regard being had to the type of the taxpayer's activity or the kind of the tax under review.

[4] Decisions of the Boards of Settlement of Tax Disputes of the First Instance shall be finalized and applicable, except if within 20 days of the date of serving the decision notice to the taxpayer in view of Article 203 of this Act and its Notes,

(bis), 256[7], and so on leading to delayed tax payment which causes losses for Tax Administration that is the main tax collection authority. However, why the taxpayer delay in paying the tax? Besides some problems such as inflation, funding, and financial issues, the economic status of Iran in recent years has been one of the undeniable reasons for such postponement. There are also more significant reasons for taxpayers not to pay tax despite their affordability; one of them is the disagreement between taxpayers and Tax Administration regarding the tax amount. Although this dispute is rooted deeply in cultural, social, intellectual aspects, it is scientifically and experimentally used as a means to measure the tax payment of parties.

Therefore, this study was conducted to identify the reasons for the difference between the declared and assessed taxable incomes in order to find the impact factor and share of each type of taxable income in this gap. Finally, a model is proposed to fill the gap between tax administration and taxpayers.

Theoretical Foundations

The difference between reported accounting earnings and taxable profit

Permanent Difference

The permanent difference indicates the total tax payable by the company. For instance, dividends of governmental bonds included in accounting earnings are not taxable rates, and goodwill depreciation deduced from accounting earnings are not considered

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the competent tax officers or the taxpayer makes any written objections against it. Then, the case shall be duly referred to the Board of Appeal of the Settlement of Tax Disputes. The decision of the Board of Appeal of the Settlement of Tax Disputes shall be finalized and applicable.

Note (1) The taxpayer is required to pay the tax-acceptable for the taxpayer, and submit the objections to the surplus amount within the provisioned time limit.

Note (2) Representatives, who are members of the Board of Settlement of Tax Disputes, are required not to have previously expressed any viewpoints or voted in this regard.

Note (3) In case one of the disputing parties, appeals against the decision issued by the Board of First Instance, only the objection made by that party shall be examined in the appeal process and the decision shall be issued.

Note (4) Finalized decision of the Boards of Settlement of Tax Disputes shall be objectionable and examinable in the Supreme Tax Council in view of Article 251, except where the decision of the Board of Settlement of Tax Disputes of the First Instance is finalized, accompanied by the failure of the related taxpayer or tax officer to make any objections.

Note (5) The Iranian National Tax Administration shall be duly authorized to refer the written objection of the taxpayers against the decisions issued by the Boards of Settlement of Disputes before the date of legislation of this Article, which was submitted to the competent tax authority, within the legal time limit to the Boards of Appeal of the Tax Disputes for examination and issuance of the due decision.

Note (6) Where the objection of the taxpayers against the decisions of the Boards of First Instance is rejected by the Board of Appeal of the Settlement of Tax Disputes, and where the objection against the decisions of the Boards of Appeal is rejected by the chambers of the Supreme Tax Council, for each stage, the amount of one percent (1%) of the difference between the tax subject of the decision objected and the tax payable stated by the taxpayer in the tax return submitted, shall be payable by the taxpayer as the examination expenses.

[5] The taxpayer or the Tax Affairs Office can file a complaint with the Supreme Tax Council, within one month from the date of serving the final decision of the Board of Settlement of Tax Disputes, and apply by providing sufficient evidence for a reversal of the decision and reconsideration of the case for the reason of nonobservance of positive laws and regulations or because of the defect in the examination.

[6] In case of final taxes subject to this Act and indirect taxes that are not capable of being reviewed by any other authority, if the taxpayer submits a complaint to the effect that the tax is unfair and provides sufficient documents and evidence to that effect and applies for reconsideration of the case, the Minister of Economic Affairs and Finance may refer the file of the case to a Board composed of three persons, whom he shall nominate personally.

The decision of the Board shall be conclusive and enforceable when rendered by the majority. The rule of this Article shall also apply to the turnovers of the year 1368 (1989) and subsequent years up to the date of approval of this amendment.

[7] If a complaint is filed within the prescribed time limit, either by the taxpayer or the Tax Affairs Office, against the final decision of the Board of Settlement of Tax Disputes, by which a claim is raised alleging, clearly or implicitly, the breach of positive laws and regulations or defect of examination, while evidence is produced or documents and records are presented to that effect, then the Chairperson of the Supreme Tax Council shall refer the complaint to one of its relevant chambers for review.

The relevant chamber shall examine the case for the purposes of observance of procedures and completeness of legal examination and conformity of the case with positive laws and regulations exclusively, without dealing with the substance of the issue, and shall render an appropriate decision, substantiated by legal evidence and considerations, with the effect either to the reversal of the decision of the Board of Settlement of Tax Disputes, or rejection of the submitted complaint. The decision of the chamber shall be valid when issued by the majority, while the opinion of the minority should also be mentioned therein.

as a taxable expense in some industrial countries. The permanent difference only affects the total corporate tax not requiring the inter-period tax allocation. Although permanent differences are not so much important theoretically, they play a vital role as origins for the difference between what individual think that should pay and what is paid as a tax by the company. Hence, the Legislative Assembly of America approved the Tax Reform Law, 1986 to ensure people regarding the minimum tax rate although this law was annulled in 1990 and another single Article called revised current profit was replaced.

Temporary Difference

Temporary differences can be explained by mentioning an example:

Assume that profit before tax of company α equals 100 million Rls, tax payable of the company will equal 25 million Rls based on the tax rate of 25% but there are some financial events included in sale rate of this year that is not supposed to be reported in financial statement until the next year. Company α may use accrual accounting and cash accounting for financial reporting and tax purposes, respectively. Accordingly, the taxable profit will equal 20 million Rls, and tax payable will equal 6.8 million Rls.

Tax expense= 25%*100=25 million Rls
Tax payable= 25%*2=5 million Rls

The difference between calculated rates (20 million Rls) is transferred to the tax debt of the next period. The temporary difference is defined as the difference between reported earnings and taxable profit calculated by the company's manager. A set of these temporary differences should be measured each year, which might seem a complicated process. Fortunately, the nature of temporary difference can be specified theoretically without calculating such differences.

Timing Differences

If a financial event affects the taxable profit in one period while influencing pretax accounting earnings within another period, an account should be created called inter-period tax allocation.

There are four states regarding timing differences:

1) An amount deducted from the profit for tax purposes but transferred to the coming periods in terms of financial reporting. For instance, diminishing depreciation and the straight-line method are used for tax purposes and financial reporting, respectively.
2) Sales revenue was identified in the current financial period but postponed for tax purposes. For example, installment sale is used for tax purposes, and sales revenue recognition is employed for financial reporting.
3) The profit amount that has been included in tax calculation but its recognition has been deferred in financial statements, including the rent received added to taxable profit in collection period but its recognition is postponed to serving period.
4) Expenses deducted from the current earnings that recognition of its taxable profit calculation is transferred to next periods, including product warranty cost included in the current profit-loss statement but its calculation as tax expenses is postponed to its payment financial period.

Differences caused by valuation (appraisal)

1) Reduction in the basis of depreciation calculation regarding depreciable assets owing to tax exemption. According to direct tax law and financial responsibilities, taxpayers can calculate fixed assets using the cost recovery method and reduce tax exemptions or depreciation rates simultaneously to benefit from tax exemptions (industrial exemptions).
2) Increasing the tax base of assets due to inflation-based adjustment: the company has to use some specific indicators for some assets to calculate the tax rate in some of the tax scopes. Therefore, the tax base in this method differs from the cost-based method.
3) A company that purchases another firm and reports is based on the purchase method (business combination based on the purchase method) indicating the difference between the amounts of purchased assets and tax calculation.

Problem Statement

The government must meet the public's basic needs and demands such as job creation, domestic and national security, price stabilization, and so forth in various times and conditions. To this end, they should have access to enough financial sources. As the main revenue source, tax can be used by governments to achieve the abovementioned goals (Ghaderi et al., 2018, 2).

In many countries especially in developed ones, tax is the major financial source for governmental expenses, while tax revenues constitute a minor share of GDP in developing countries due to their inflationary structure and inefficient tax system. As a developing country, Iran also faces a vague and inefficient tax system in identifying the income level of firms and individuals so that there is a minor assessed tax rate, which is considerably different from the real tax rate (Ghaderi et al., 2018, 2). The government usually adjusts the budget bill for the next year to determine income sources and expenditures separately. As one of the main income sources, the tax has exceeded the oil revenues by making up 35% of income sources[8].

As a key beneficiary of companies, the government focuses on the tax statements submitted by taxpayers to recognize the tax rate. Despite the government emphasizes taxpayers' statements, the declared tax is not matched with the assessed tax rate in the majority of cases; this phenomenon is called "Tax Gap." If taxpayers become aware of different aspects of the tax gap and factors affecting it, there will be an increase in knowledge of taxpayers and certified public accountants (CPA) about relevant differences and modifications to narrow the tax gap and to mitigate problems in tax administration (Ghader et al., 2018). The dual reactions of the Tax Administration, as the tax collector, and taxpayers to tax payment and tax collection have been a big challenge in the taxation process.

Besides the substantial subject of tax, collection time, and method are an important mechanism for the Iranian Tax Administration because the levy mechanism and cost of tax collection are significant points for the government. On the other hand, the tax collection time is another critical case for the government as Iran has been dealing with inflation for many years. According to the inflation rate during 1969-2019, the average inflation rate in Iran has been about 17.4%.

It can be stated that the money value or purchasing power has been averagely reduced by about 17.4% per year. As saying goes "the vinegar in cash is better than the borrowed pastry", Tax Administration tends to collect tax immediately and in cash, which is an effective measure for funding governmental income sources and expenditures. The important question here is what can be done to achieve such income sources timely. The most effective measure is taking steps to reduce the challenge between Tax Administration Organization and taxpayers.

The gap between calculated sources of taxable income by taxpayers and tax administration is the main problem of this study because taxpayers use their expressions to prepare financial statements based on the accounting standards. They also employ the regulations, directives, and instructions published by the Tax Administration to prepare and submit their financial statements to the Tax Administration. On the other hand, tax officers calculate the tax rate of taxpayers based on the Direct Taxes Act Amendment on 21 July 2016 and relevant regulations, directives, and instructions.

Why there is a considerable difference between the two calculated rates by using the same measure? Such a difference has made taxpayers write objection against the measured tax rate, which may be a time-consuming case and causes a loss for Tax Administration.

Qualitative Objectives

1) Identifying causal factors affecting the reduction of the gap between taxable income and diagnostic taxable income
2) Identifying the intervening factors affecting the reduction of the gap between taxable income and diagnostic taxable income
3) Identifying the underlying factors affecting the reduction of the gap between taxable income and diagnostic taxable income
4) Identifying strategies for maintaining and continuing to reduce the gap between taxable income and diagnostic taxable income
5) Identifying the consequences (effects and results) of reducing the gap between expressed taxable income and diagnostic taxable income

[8] Adopted from IRNA website

Quantitative goals

Determining causal relationships between the categories of the model of reducing the gap between taxable income and taxable income diagnostic
Evaluation of the model of reducing the gap between expressive taxable income and diagnostic taxable income
Evaluation of tax gap between expressed taxable income and diagnostic taxable income among manufacturing and non-manufacturing companies

Research Questions

Qualitative Questions

1) What are the causal factors affecting the reduction of the gap between taxable income and diagnostic taxable income?
2) What are the intervening factors affecting the reduction of the gap between taxable income and diagnostic taxable income?
3) What are the underlying factors affecting the reduction of the gap between taxable income and diagnostic taxable income?
4) What are the strategies for maintaining and continuing to reduce the gap between expressed taxable income and diagnostic taxable income?
5) What are the consequences (effects and results) of reducing the gap between taxable income and diagnostic taxable income?

Few questions

What are the causal relationships between the categories of reducing the gap between expressed taxable income and diagnostic taxable income?
How much is the validation of the gap between expressive taxable income and diagnostic taxable income?
What is the tax gap between expressed taxable income and diagnostic taxable income among manufacturing and non-manufacturing companies?

Conceptual Model

This model has been developed based on the research findings.
breach of direct tax law by taxpayers, lack of sufficient evidence and documents (including expenses, tax exemptions, and tax incentives) in the hand of taxpayers, not using and following tax directives, instructions, and regulations by taxpayers

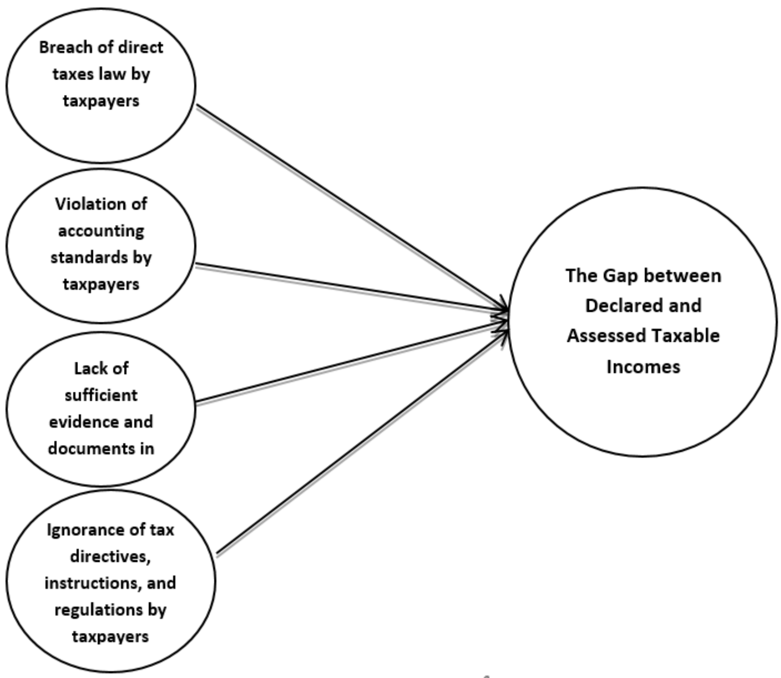

Fig 1. Conceptual Model

Objectives

This study was conducted to identify and examine the reasons for the gap between declared and assessed taxable incomes. It was also aimed at determining the share of these factors based on their percentage rate in this gap. This study pursued the following objectives:
Discovering reasons for the difference between declared and assessed taxable incomes; in other words, it is aimed to:

1) Identify and analyze the major reasons and factors causing the gap between declared profit and taxable profit.
2) To find an appropriate solution for exchange actors and tax managers who tend to reduce the gap.

Hypotheses

Hypothesis 1: there is a significant association between the gap between declared-assessed taxable incomes and breach of direct taxes law by taxpayers.

Hypothesis 2: there is a significant association between the gap between declared-assessed taxable incomes and violation of accounting standards by taxpayers.

Hypothesis 3: there is a significant association between the gap between declared-assessed taxable incomes and the lack of sufficient evidence and documents (including tax expenses, exemptions, and incentives) by taxpayers in the hand of taxpayers.

Hypothesis 3: there is a significant association between the gap between declared-assessed taxable incomes and ignorance of tax directives, instructions, and regulations by taxpayers.

Research Scope

Subject Scope

Presenting a model to reduce the declared and assessed taxable incomes of manufacturing companies listed on the Tehran Stock Exchange

Area

Manufacturing companies listed on the Tehran Stock Exchange

Time

The tax year ended on 19 March 2016 and 19 March 2017 for manufacturing companies listed on Tehran Stock Exchange

Statistical Population

Since the companies listed on the Tehran Stock Exchange were studied, the mentioned firms were screened and classified based on the following criteria. Considering the number of firms listed on Tehran Stock Exchange (N=434) (appendix list) until 19 March 2019, some of the companies that had the following conditions were removed after screening:

1) Companies that their fiscal year did not end on 19 March (since Article 155 of Direct Taxes Law states that the Tax Affairs Office shall examine the tax returns submitted within the legal time limit by taxpayers in respect of the income derived from each source, which one year from the expiry of the time limit stipulated for filing of tax returns, therefore those companies that their fiscal year does not ended on March have longer accounting process and are out of the research timing).
2) Holding companies. As firms listed as holding companies are studied separately, considering them in the research population may cause a duplicate audit. Moreover, holding companies have consolidated financial statements in which some elements such as the earnings between the group of companies are removed; therefore, these companies are removed from the research area to prevent double or wrong calculation.
3) Companies that have not submitted their tax returns and books. As the examination deadline of companies that have failed to file their tax returns or legal books, subject to the Trade Law and Provisions of Articles 95 of Direct Taxes Law, shall be five years, these companies were removed due to exclusion from the time scope of the study.
4) Companies that have entered into the stock market after 2016 or exited the market before 2017. As time scope of this study includes the financial statements of the companies listed on Tehran Stock Exchange during 2016 and 2017, those companies that have been fully active during 2016 and 2017 were chosen, and the other firms- entered or left the market out of this time interval, were removed.
5) Capital companies. As Note 4 of Article 105 of Direct Taxes Law states that the persons, whether real or legal, shall not be subject to

any other taxes on the dividends or partnership profits they may receive from the capital recipient companies, these companies were removed from the study area.

Description	Number of companies excluded	Total
Total number of companies listed on Tehran Stock Exchange on 19 March 2019		434
Companies that their fiscal year does not end on 19 March	115	
Holding companies	4	
Companies that have not submitted their tax returns and books	0	
Capital companies	10	
Companies that have entered into the stock market after 2016 or exited the market before 2017	0	
Sum of companies excluded		(129)
Number of studied companies		305

To collect accurate data for this study, manufacturing companies were studied separately (N=242).

Model

Descriptive and inferential statistics were used for data analysis. Descriptive statistics included the table of descriptive indicators of the main reasons for the gap between declared and assessed taxable incomes. At the inferential level, the Kolmogorov-Smirnov test was applied to test the normal distribution of variables, and regression analysis was used to test and examine the relationship between main factors that create the gap between declared and assessed taxable incomes leading to the difference between these two types of incomes. In regression analysis, the effect of reasons of the gap between declared and assessed taxable incomes (breach of direct taxes law, violation of accounting standards, lack of sufficient evidence, and ignorance of directives) on the difference between declared and assessed taxable incomes were examined by inserting variables into the model simultaneously.

This study was carried out to examine the tax gap that stems from the following factors:

A: the difference between declared taxable income and assessed taxable income caused by the breach of Direct Taxes law by taxpayers (including Articles 147, 148, etc.): in other words, there is a difference between taxable income declared by taxpayer in his/her tax return requiring him/herself for payment and the taxable income measured by the tax administration. This case is subject to a breach of direct taxes law by the taxpayer.

To measure this difference, the tax file of selected companies was examined by collecting the data from an integrated tax software system (ITS). This gap was measured using the data of the tax examination report subjected to Article 219 of Direct Taxes Law and its adaptation with the taxpayer's tax return. The gap rates equaled 28% and 30% for tax years between 2016 and 2017. In other words, the share percentage of this variable in the difference between declared and assessed taxable incomes equaled 28% and 30% in studied years.

B: the difference between declared taxable income and assessed taxable income caused by the violation of accounting standards by taxpayers: in other words, there is a difference between taxable income declared by taxpayer in his/her tax return requiring him/herself for payment and the taxable income measured by the tax administration. This case is subject to violations of accounting standards by taxpayer.

To measure this difference, the tax file of selected companies was examined by collecting the data from the integrated tax software system. This gap was measured using the data of the tax examination report subjected to Article 219 of Direct Taxes Law and its adaptation with the taxpayer's tax return. The gap rates equaled 22% and 15% for tax years between 2016 and 2017. In other words, the share percentage of this variable in the difference between declared and assessed taxable incomes equaled 22% and 15% in studied years.

C: the difference between declared taxable income and assessed taxable income caused by lack of sufficient evidence (including tax expenses, exemptions, and incentives) by taxpayers: in other words, there is a difference between taxable income declared by taxpayer in his/her tax return requiring him/herself for payment and the taxable income measured by the tax administration. This case is subject to a lack of sufficient evidence (including tax expenses, exemptions, and incentives) by the taxpayer.

To measure this difference, the tax file of selected companies was examined by collecting the data from the integrated tax software system. This gap was measured using the data of the tax examination report subjected to Article 219 of Direct Taxes Law and its adaptation with the taxpayer's tax return. The gap rates equaled 19% and 38% for tax years between 2016 and 2017. In other words, the share percentage of this variable in the difference between declared and assessed taxable incomes equaled 19% and 38% in studied years.

D: the difference between declared taxable income and assessed taxable income caused by ignorance of tax directives, instructions, and regulations by taxpayers: in other words, there is a difference between taxable income declared by taxpayer in his/her tax return requiring him/herself for payment and the taxable income measured by the tax administration. This case is subject to ignorance of tax directives, instructions, and regulations by taxpayers by the taxpayer.

To measure this difference, the tax file of selected companies was examined by collecting the data from the integrated tax software system. This gap was measured using the data of the tax examination report subjected to Article 219 of Direct Taxes Law and its adaptation with the taxpayer's tax return. The gap rates equaled 22% and 11% for tax years between 2016 and 2017. In other words, the share percentage of this variable in the difference between declared and assessed taxable incomes equaled 22% and 11% in studied years.

According to the abovementioned points, the model of study can be designed as follows:

TG=TR+AS+TD+TD

Where TG indicates Tax Gap, TR indicates Tax Regulations, AS indicates Accounting Standards, and TD indicates Tax directives.

The table below reports the share percentage of each variable based on the analysis of data collected from ITS.

Row	Description	Year	Breach of direct taxes law	Percent	Violation of accounting standards	Percent	Lack of evidence	Percent	Ignorance of tax directives	Percent
1	Manufacturing	2016	28,602,356,038,720.40	0.28	16,128,643,016,890.80	0.22	14470734026439.20	0.19	16410818508627.90	0.22
2	Manufacturing	2017	23,835,653,298,672.10	0.30	12,475,785,243,824	0.15	26,700,646,806,813	0.38	6,750,351,340,056	0.11

Descriptive statistics indicators of factors causing the gap between declared and assessed taxable incomes

Figure 3 shows the average rate of factors causing the gap between declared and assessed taxable incomes and the difference between them. As seen in this figure, breach of Direct Taxes Law in manufacturing companies had the highest mean value from the respondents' perspective. In manufacturing companies, lack of sufficient evidence, breach of accounting standards, and ignorance o directives are respectively the main factors that cause the gap between declared and assessed taxable income.

Table 1. Descriptive statistics indicators of factors causing the gap between declared and assessed taxable incomes

Group		Mean	Min	Max	SD
Manufacturing	Declared and assessed difference	327444690578	-0.33	12.824.300.000.000	1.038.879.217.258
	Breach of direct taxes law	108342956222	0.00	7.984.120.000.000	509.124.207.082
	Violation of accounting standards	59.100.057.885	-0.10	1.736.480.000.000	171.026.140.401
	Lack of evidence	85.064.838.011	-0.09	4.130.650.000.000	286.755.942.042
	Ignorance of directives	47.853.664.200	-0.10	1.872.350.000.000	149.851.484.082

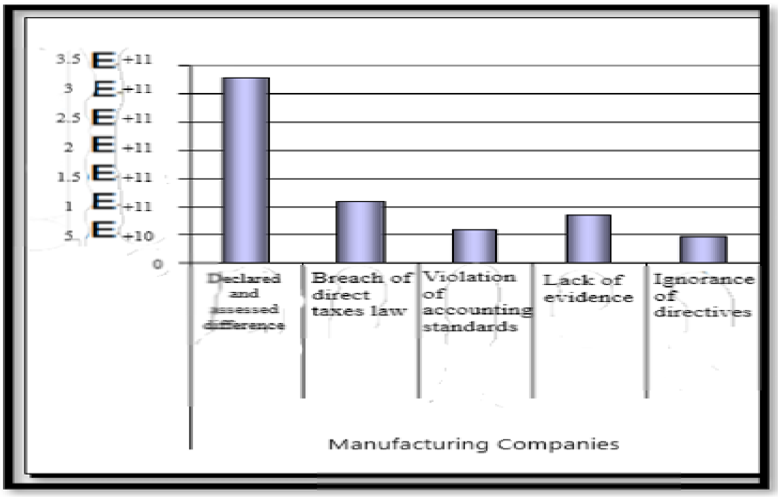

Fig 2. Diagram of factors causing the gap between declared and assessed taxable incomes of manufacturing companies

Testing Normality of Variables

H_0: Variables have been distributed normally.
H_1: Variables have not been distributed normally.

Table 2. Results of Kolmogorov-Smirnov Test of normality of studied variables

Group	Declared and assessed difference	Breach of direct taxes law	Violation of accounting standards	Lack of evidence	Ignorance of directives
Mean	3.45	3.43	3.56	3.31	3.36
SD	0.49	0.37	0.45	0.61	0.37
K-S	1.057	0.947	1.151	1.311	1.236
Sig.	0.214	0.299	0.141	0.064	0.094

According to the significant level of the k-s test that is greater than 0.05 for all studied variables, H_0 (normal distribution of variables) is not rejected. In other words, the distribution of factors causing the gap between declared and assessed taxable incomes is normal. Therefore, parametric tests will be used to test research hypotheses. Accordingly, linear regression has been employed to examine the hypotheses.

Methodology

The research method was correlational regarding nature and applied study regarding the objective. This study was conducted based on the deductive-inductive reasoning method. To this end, theoretical foundations and literature review were done through bibliography methods and reading papers based on the deductive method and data collection to confirm or reject hypotheses within an inductive framework.

Testing Hypotheses

1) **There is a significant association between the gap between declared-assessed taxable incomes and breach of direct taxes law by taxpayers.**

Table 3. Results of the association between the gap between declared-assessed taxable incomes and breach of direct taxes law by taxpayers

Group	Independent variable	Multiple Correlation Coefficient (R)	Multiple Coefficient of Determination (R^2)	F	Sig.	Coefficient (B)	Partial Correlation Coefficient (beta)	t-value	Sig.
Manufacturing	Breach of Direct Taxes Law	0.832	0.692	1081.066	0.000	1.697	0.832	32.880	0.000

According to the significance level of the F test (1081.06) in manufacturing companies, it is concluded that the regression coefficient pertained to the independent variable of breach of Direct Taxes Law in manufacturing firms does not equal zero. Multiple determination coefficient equaled 0.69 indicating that 69% of dependent variable share (the gap between declared and assessed taxable incomes) in manufacturing companies is explained by the independent variable of breach of Direct Taxes Law. On the other hand, the partial correlation coefficient in the manufacturing group equaled 0.83 which implies the positive association between the gap between declared and assessed taxable incomes and breach of Direct Taxes Law by taxpayers. Furthermore, the significance level of the t-value was smaller than 0.05 that indicated the significant association between studied variables. In other words, hypothesis 1 (there is a significant association between the gap between declared-assessed taxable incomes and breach of direct taxes law by taxpayers) was confirmed.

2) There is a significant association between the gap between declared-assessed taxable incomes and violation of accounting standards by taxpayers.

Table 4. Results of the association between the gap between declared-assessed taxable incomes and violation of accounting standards by taxpayers

Group	Independent variable	Multiple Correlation Coefficient (R)	Multiple Coefficient of Determination (R^2)	F	Sig.	Coefficient (B)	Partial Correlation Coefficient (beta)	t-value	Sig.
Manufacturing	Violation of accounting standards	0.889	0.791	1824.378	0.000	5.402	0.889	42.713	0.000

According to the significance level of the F test (1824.378) in manufacturing companies, which is smaller than 0.05, it is concluded that the regression coefficient pertained to the independent variable of violation of accounting standards in manufacturing firms does not equal zero. Multiple determination coefficient equaled 0.79 indicating that 79% of dependent variable share (the gap between declared and assessed taxable incomes) in manufacturing companies is explained by the independent variable of violation of accounting standards. On the other hand, the partial correlation coefficient in the manufacturing group equaled 0.88, which implies the positive association between the gap between declared and assessed taxable incomes and violation of accounting standards. Furthermore, the significance level of the t-value was smaller than 0.05 that indicated the significant association between studied variables. Therefore, hypothesis 2 (there is a significant association between the gap between declared-assessed taxable incomes and violation of accounting standards by taxpayers) was confirmed.

3) There is a significant association between the gap between declared-assessed taxable incomes and the lack of sufficient evidence and documents (including tax expenses, exemptions, and incentives) by taxpayers in the hand of taxpayers.

According to the significance level of the F test (1451.078) in manufacturing companies, which is smaller than 0.05, it is concluded that the regression coefficient pertained to the independent variable of lack of sufficient evidence in studied firms does not equal zero. Multiple determination coefficient equaled 0.75 indicating that 75% of dependent variable share (the gap between declared and assessed taxable incomes) in manufacturing companies is explained by the independent variable of lack of sufficient evidence. The partial correlation coefficient in the manufacturing group equaled 0.83, which implies the positive association between the gap between declared and assessed taxable incomes and lack of sufficient evidence. Furthermore, the significance level of the t-value was smaller than 0.05 that indicated the significant association between studied variables. Therefore, hypothesis 3 was confirmed. Accordingly, there is a significant association between the gap between declared-assessed taxable incomes and the lack of sufficient evidence and documents (including tax expenses, exemptions, and incentives) in the hand of taxpayers.

Table 5. Results of the association between the gap between declared-assessed taxable incomes and lack of sufficient evidence and documents in hand of taxpayers

Group	Independent variable	Multiple Correlation Coefficient (R)	Multiple Coefficient of Determination (R^2)	F	Sig.	Coefficient (B)	Partial Correlation Coefficient (beta)	t-value	Sig.
Manufacturing	Lack of sufficient evidence	0.866	0.751	1451.078	0.000	3.139	0.832	32.880	0.000

4) **There is a significant association between the gap between declared-assessed taxable incomes and ignorance of tax directives, instructions, and regulations.**

According to the significance level of the F test (1091.473) in manufacturing companies, which is smaller than 0.05, it is concluded that the regression coefficients pertained to the independent variable of ignorance of tax directives, instructions, and regulations in studied firms were not equal to zero. Multiple determination coefficient equaled 0.69 indicating that 69% of the dependent variable share is explained by the independent variable. On the other hand, the partial correlation coefficient equaled 0.83 which implies the positive association between the gap between declared and assessed taxable incomes and ignorance of tax directives, instructions, and regulations by taxpayers. Furthermore, the significance level of the t-value was smaller than 0.05 that indicated the significant association between studied variables. Therefore, hypothesis 4 (significant association between the gap between declared-assessed taxable incomes and ignorance of tax directives, instructions, and regulations by taxpayers) was confirmed.

- Regression analysis of the impact of main factors causing the gap between declared and assessed taxable incomes (breach of Direct Taxes Law, violation of accounting standards, lack of evidence, and ignorance of directives) on the difference between declared and assessed taxable incomes using the simultaneous entrance of variables into the model

Table 6. Results of the association between the gap between declared-assessed taxable incomes and ignorance of tax directives, instructions, and regulations by taxpayers

Group	Independent variable	Multiple Correlation Coefficient (R)	Multiple Coefficient of Determination (R^2)	F	Sig.	Coefficient (B)	Partial Correlation Coefficient (beta)	t-value	Sig.
Manufacturing	Ignorance of tax directives, instructions, and regulations	0.832	0.692	1091.473	0.000	5.774	0.833	33.037	0.000

Table 7. Results of the impact of main factors causing the gap between declared-assessed taxable incomes on the difference between declared and assessed taxable incomes

	Independent variable	Dependent variable	Multiple Correlation Coefficient (R)	Multiple Coefficient of Determination (R^2)	F	Sig.	Coefficient (B)	Partial Correlation Coefficient (beta)	t-value	Sig.
Manufacturing	Breach of Direct Taxes Law	Difference between declared and assessed taxable	0.99	0.99	44270.59	0.000	0.978	0.479	169.891	0.000
	Violation of accounting						1.146	0.189	26.283	0.000

	Independent variable	Dependent variable	Multiple Correlation Coefficient (R)	Multiple Coefficient of Determination (R^2)	F	Sig.	Coefficient (B)	Partial Correlation Coefficient (beta)	t-value	Sig.
	standards	incomes								
	Lack of evidence						1.193	0.329	64.868	0.000
	Ignorance of directives						1.212	0.175	33.742	0.000

As seen in Table 7, the significance level of the F test (44270.59) in the studied group is smaller than 0.05. therefore, the regression coefficient pertained to the main factors causing the gap between declared and assessed taxable incomes was opposit to 0. The multiple determination coefficient of the manufacturing group equaled 0.99 indicating that 99% of the share of the dependent variable (the difference between declared and assessed taxable incomes) in manufacturing groups was explained by the main factors causing the gap between declared and assessed taxable incomes. Furthermore, the significance level of the t-test in the manufacturing group was smaller than 0.05 in all main factors causing the gap between declared and assessed taxable incomes. Therefore, there was a positive and significant association between the main factors causing the gap between declared and assessed taxable incomes. On the other hand, partial correlation coefficients indicate that breach of Direct Taxes law (0.479) in the manufacturing group had the highest impact on the difference between declared and assessed taxable incomes. The impact of variables in manufacturing groups was ranked as follows: lack of evidence (including tax expenses, exemptions, and incentives), violation of accounting standards, and ignorance of directives.

Discussion and Conclusion

Results indicated that all hypotheses were confirmed. Hypotheses have been discussed herein.

Hypothesis 1: as hypothesis 1 was confirmed, there was a significant difference between the declared taxable income, assessed taxable income, and breach of direct taxes law by taxpayers.

Accordingly, it is concluded that breach of tax regulations, especially the Direct Taxes Act is one of the main reasons for the gap and difference between declared and assesses taxable incomes.

Hypothesis 2: as hypothesis 2 was confirmed, there was a significant difference between the declared taxable income, assessed taxable income, and violation of accounting standards by taxpayers.

Accordingly, it is concluded that the violation of accounting standards is one of the main reasons for the gap and difference between declared and assesses taxable incomes.

Hypothesis 3: as hypothesis 3 was confirmed, there was a significant difference between the declared taxable income, assessed taxable income, and lack of sufficient evidence (including tax expenses, exemptions, and incentives) in the hand of taxpayers.

Hypothesis 4: as hypothesis 4 was confirmed, there was a significant difference between the declared taxable income, assessed taxable income, and ignorance of tax directives, instructions, and regulations by taxpayers. Therefore, such ignorance is one of the main reasons for the gap and difference between declared and assessed taxable incomes.

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