Risk Analysis for Knowledge Sharing in Tax Payment

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ABSTRACT

One way to finance government expenditures is to collect taxes. Regarding to this financial source compared with other sources positive tax knowledge sharing amongst people or tax payers lead to effective investment. Unlike developing countries in developed countries - that taxes have little effects - almost all government expenditures is financed by taxes. One of the main challenges in the tax system is how to collect taxes due to tax evasion. The main reason is the uncertainty surrounding how government uses the taxes paid by the people. A major factor in the outbreak of the sense of failure to pay taxes, is the discussion and sharing the viewpoint of each other. If there is any positive tax effect prevalence of speech among people motivate them to pay more and if not, paying taxes is impaired. Therefore in order to avoid disorderliness in paying taxes that lead to a reduction in the development growth rate of investing taxes in industry and services sectors procedures should be designed so that taxes spread in speech with more quality. In this article five categories that people share their knowledge about them with each other, have been proposed. Defining risk structure and using data from surveying form the risk values of tax payment the results indicate that sharing tax knowledge amongst people have positive effects on tax payments.

KEYWORDS
Knowledge, Risk, Sharing, Tax

1. INTRODUCTION

Tax is defined as ‘a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return’ (Lymer & Oats, 2009). Taxes can be classified into two main types: direct and indirect taxes. Direct taxes mean the burden (incidence) of tax is borne entirely by the entity that pays it, and cannot be passed on to another entity; for example, corporation tax and individual income tax. Indirect taxes are typically the charges that are levied on goods and services (consumptions), for example VAT (Value Added Tax), sales tax, excise tax and stamp duties (Palil, 2010).

For development and growth of any society, the provision of basic infrastructure is quite necessary. This perhaps explains why the government shows great concern for a medium through which funds can be made available to achieve their set goals for the society. Government needs money to be able to execute its social obligations to the public and these social obligations include but not limited to the provision of infrastructure and social services. Meeting the needs of the society calls for huge funds which an individual or society cannot contribute alone and one medium through which fund is derived is through taxation. Tax is a major source of government revenue all over the world.
Government use tax proceeds to render their traditional functions, such as the provision of public goods, maintenance of law and order, defense against external aggression, regulation of trade and business to ensure social and economic maintenance (Bukie & Adejumo, 2013).

Tax morale has been defined as the intrinsic motivation to pay tax and has been linked to “civic duty”. Despite the fact that tax morale is frequently acknowledged as relevant to tax compliance, little is known about how it comes into being and how it is best nurtured. Loss of legitimacy accompanies less moral obligation to comply, in this case reduced tax morale. Individuals who feel personally disadvantaged and regard the tax system as responsible for their experiences of hardship are more likely to have depleted levels of tax morale (Braithwaite & Ahmed, 2005).

A developed economy is one with the ingredient to stimulate investment and create wealth, this by implication offers an atmosphere that is business friendly and has the potentials for the actualization of the vision 2020. The desired outcome requires a lot of money to put the economy in a position that stimulates investment, therefore, tax policies need to attract potential investors, and the revenue from tax should be sufficient enough to meet the infrastructural expenditures of the government (Ihenyen & Mieseigha, 2014).

Tax evasion is the illegal concealment of a taxable activity. Measuring how much economic activity is concealed will always be difficult since those who engage in evasion make every motivation to hide their activities (Hashimzade, Myles, Page & Rablen, 2014). Tax compliance refers to the willingness of people to agree with tax authorities by paying their taxes (Mukasa, 2008).

Tax compliance indicates the practices of reporting income and paying taxes to a tax administration. The practitioners and academics that have traditionally been most interested in tax compliance e.g. tax inspectors, accountants and legal scholars typically describe tax compliance, “as reporting all income and giving all taxes in accordance with the applicable laws, regulations, and court decisions” (Boll, 2013). Research shows that tax compliance is affected by (social and personal) norms such as those regarding procedural justice, trust, belief in the legitimacy of the government, reciprocity, altruism, and identification with the group (Kornhauser, 2007). Tax non-compliance or evasion on the other hand, occurs when taxpayers intentionally or unintentionally fail to comply with their tax obligations. According to Eriksen and Fallan (1996), better tax knowledge accounts, at least in part for the improved perception of fairness and attitudes to other’s tax invasion (Mukasa, 2008). Trust-building actions are the most effective economic policies not only for increasing tax compliance but also for obtaining long term positive macroeconomic effects.

Voluntary compliance depends on trust in tax authorities, whereas enforced compliance depends on the effectiveness of tax authorities to clampdown on tax evaders. Hence, trust (in) and power (of) tax authorities are the major determinants for each form of compliance (Lisi, 2014). Kirchler et al. (2008) claim that trust in authorities is a fundamental determinant of tax compliance which can only be enforced partly by the legitimate power of tax authorities to audit tax files, impose and prosecute penalties on tax evaders (Djawadi & Fahr, 2013). Murphy (2004) shows that using menace and legal coercion “can sometimes be in efficient in obtaining compliance”. Instead a variable such as trust needs to be considered when managing noncompliance. Hence Murphy argues that trust plays an important role in influencing tax compliance within organizations (Boll, 2013).

Self-assessment system (SAS) has become the key administrative approach for both personal and corporate taxation in developed countries including the USA, UK and Australia. This approach emphasizes both the taxpayers’ responsibility to tell their income and the need for them to determine their own tax liability. Loo (2006) also claims that, in general, the reasons for carrying out SAS are to make simple the tax collection system and increase voluntary compliance. The mechanisms of operation of a SAS are significantly different from the direct assessment system, whereby the administrative burden of tax is at least in some degree shifted to taxpayers (Palil, 2010).
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