

*Wisam N. HUSSEIN*  
*Jamal H. MOHAMMED*  
*Ibrahim A. KURDI*

### **3.8. REASONS OF TAX EVASION IN IRAQ AND HUNGARY**

#### **Summary**

The taxes were known the only financial source for the state or the governing body since ancient times. The taxes are considered as a source that combines the necessary funds to meet the public expenditure to provide services of education, health, security, etc., With the development of the modern concept of the state the tax has become beside the financial goals, other different purposes such as political, social and economic goals that the state is seeking to achieve through the taxes.

The main reasons for tax evasion in Iraq with 84,91% is the “Tax Awareness” and in Hungary with 80,65% is the “High Tax Rate”. The main technique (84,91%) used in tax evasion in Iraq is “Hiding Activity” and in Hungary (51,61%) is the “Distribution of Dividends to Ghost's Partners” and “Hiding Activity”.

**Keywords:** Tax, Tax evasion, Tax evasion techniques

#### **Introduction**

Tax in modern times cannot be deducted without raising impact on consumption, saving, production and investment. Moreover, the taxpayers are working hard to get rid of the tax in different ways. Throughout this study, the researchers will examine to show the reason's effect that taxpayers follow to evade taxes and the correlation with the culture society. Furthermore, the researchers will show the impact of the economic and political climate on tax evasion and to what extent the views of convergence (or divergence) are correlated with the research sample.

The study will use a questionnaire distributed to a sample of taxpayers in both Hungary and Iraq. The questions of the questionnaire will focus on the causes that effect on the tax evasion. This study will also study the variables such as experience, certificate and specialist.

#### **Objectives and Methodology**

##### ***Problem statement***

The tax evasion will be reflected directly on the treasury of state and therefore it affects negatively on the level of services provided to its citizens. The tax evasion has significant effects on the social and economic goals that the state is seeking to achieve

throughout the tax. In general, these taxes effects on the national economy and on the society; therefore the problem statement will be as follows:

- What is the effect of each reason on tax evasion?
- What is the most common reason effect on the tax evasion in Iraq and Hungary?
- What is the most common technique used in tax evasion in Iraq and Hungary?

The main objectives of the research were to identify the most common reasons on the tax evasion in Iraq and Hungary, and to identify the most common technique used in tax evasion in Iraq and Hungary.

### ***Hypotheses***

The study assumes that there is variation in the causes of tax evasion, and it is divided to the sub following sub- assumptions:

- The main reasons for tax evasion in Iraq are all of the state policy expenditure, tax awareness, in addition to administrative and organizational reasons.
- The main reasons for tax evasion in Hungary are the high tax rates in addition to punishment evasion of tax evasion.
- The main techniques used in tax evasion in Iraq are the unreal documents and hiding activity.
- The main techniques which are used in tax evasion in Hungary are the distribution of dividends to ghost's partners and the change the invoices.

### **Literature**

Neck, Wachter and Schneider (2011) investigated how the possibility of tax avoidance affects the extent of tax evasion and hence the shadow economy. Using comparative statistics the study revealed that the complexity of the tax system affects participation in the shadow economy negatively. Furthermore, the study demonstrated that a decrease in the maximum acceptable number of working hours in the official economy increases the labour supply in the shadow economy.

Mughal and Akram (2012) examined the relationship between variables of reasons/causes of tax avoidance and evasion. They analysed the situation by using percentages arithmetic mean standard deviation variance analysis central limit theorem cumulative normal distribution calculator factor analysis and correlation technique. The results indicate that all variables of reasons/causes of tax avoidance and evasion in Pakistan are correct. Furthermore, there exists a highly significant positive relationship between individual variables of reasons/causes of tax avoidance and evasion in Pakistan at 100% significance level.

Akinyomi and Okpala (2013) examined the factors that are influencing tax evasion and tax avoidance in Nigeria. The results of the analysis revealed that the low quality of the service in return for tax does significantly influence tax avoidance and evasion in Nigeria. Furthermore, tax system and perception of fairness, low transparency and accountability of public institutions, and high level of corruption do significantly influence tax avoidance and evasion in Nigeria. The study recommends that urgent

steps should be taken by public office holders to live up to expectation when it comes to transparency, accountability and the war against corruption.

Tax evasion is the main problem of Pakistan (Khan and Ahmad, 2014) which needs to be eliminated by following of recommendations that tax system must base on the ground of realities, tax rates should be low. There should be proper check and balance of government, tax awareness in public should arise by different channels.

## **Tax evasion**

### ***Definition of tax evasion***

Modern tax legislation did not provide a definition of tax evasion but was confined to census forms and manifestations, leaving the definition of jurists and commentators, because any definition cannot include all techniques evasion. Tax evasion is a high-risk lesion, the taxpayer considered evading from pay the tax if resorted to some techniques of cheating or fraud to hide the fact that the taxable amount.

William (2010) defined tax evasion: its core involves an element of fraud perpetrated upon the treasury and typically carried out through some form of concealment or deceit with the intent to evade or defeat a tax or payment of the tax.

Manea and Manea (2015) define as “Fiscal Fraud, appoints most often a crime to law, so this concept is always used in a negative way and is different from that designates a legal tax avoidance possibilities offered by clever use to mitigate or even circumvent the law to tax”. Researchers argue that tax evasion is the not paying tax to financial authorities deliberately, in fully or partially, for any reason whatsoever.

### ***Reasons behind tax evasion***

There are many reasons of evasion, and can't be identified in this research, because they are depending on the financial legislation economic, social and political conditions, the level of public awareness the efficiency of appliances and the effectiveness of the procedures, but the researchers try to highlight the most important of these reasons as follows (Olimat, 2013)

1. High tax rate: It considers that taxpayer pays to state more than it deserves, in addition to the sense that the amount paid will effect on his business activity.
2. State policy in expenditure: Means the state directed tax revenue in the intended destination, and the taxpayer touch it themselves of community, and public services and providing them with security and stability in their lives.
3. Tax awareness: It is the taxpayer's awareness of the importance to pay the tax and benefits that would accrue to him and to the community.
4. Criminal reasons: Tax evasion is a crime which is punishable by law, if there were a deterrent punishment on the evader paid Him/Her/It to pay the tax on time, and vice versa.
5. Economic reasons: The evasion rate is lower in times of thrive and prosper than times of economic crisis.

6. Administrative and organizational reasons: This is reflected in the complexity of administrative procedures for assessing and collecting tax.

### ***Tax evasion techniques***

Usually tax evasion technique limited of hiding income in fully or partially for the financial authority. It would be fully hide by not recognizing the existence of activity originally or activity that has achieved a net loss during the past financial period. The hidden part of income shall be one of two ways as well, either through increasing the amount of expenses through fake employment contracts or bring fake receipts for expenses etc., and the second by decreasing the sales amount through the hide some receipts or not to prove some deals in the accounting records, and both methods are used one (not limited to) the following evasion technique:

1. Offer the taxpayer's annual tax declaration based on unreal documents.
2. Offer the taxpayer's annual tax declaration on the basis of the absence of documents.
3. Distribution of dividends to the partner or partners ghost with the intention of reducing the share of his profits.
4. Change the purchase or sale invoices with the intention of reduce the profit or increase losses.
5. Hiding activity or more activities subject to tax.

### **Results**

The research was conducted in Iraq and Hungary among selected taxpayers. The general information about the sample is summarized by Table 1, where the respondents are distinguished based on their education level, their specialization or fields of work and their experiences in years.

As Table 1 shows the bulk of the research sample has BSc degree in both countries, and the ratio of BSc in Iraq's sample 67.9%, while 77.4% in Hungary. While the large ratio in Specialist found in management, the ratio in Iraq 39.6% and in Hungary 54.8%. A relatively high group of economists was in the Iraqi sample, and people with specialization in accounting represented roughly the same rate in both countries (near 20%). Finally, from experience axis found that 45.3% from sample have 6-10 years experiences in Iraq, while in Hungary 51.6%.

*Table 1: The sample data*

<i>Certificate</i>	<i>Iraq</i>		<i>Hungary</i>	
	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Secondary school	9	17.00	2	6.50
BSc	36	67.90	24	77.40
MSc	4	7.50	3	9.70
Other	4	7.50	2	6.50
Total	53	100.00	31	100.00
<i>Specialist</i>	<i>Iraq</i>		<i>Hungary</i>	
	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Accounting	11	20.80	6	19.40
Management	21	39.60	17	54.80
Economic	18	34.00	7	22.60
Other	3	5.70	1	3.20
Total	53	100.00	31	100.00
<i>Experience (years)</i>	<i>Iraq</i>		<i>Hungary</i>	
	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Less 5	12	22.60	7	22.60
6 - 10	24	45.30	16	51.60
More than 10	17	32.10	8	25.80
Total	53	100.00	31	100.00

Source: own research

***Reasons of tax evasion***

There are many reasons in tax evasion but we focus on the main six reasons. In the Table 2 we found that the samples full agreed only in “High Tax Rate” with “Strongly Agree” 28.30% and 80.65% respectively in Iraq and Hungary, while simple agreement in “State Policy in Expenditure” with Strongly Agree (60.38%) and Agree (32.26%) respectively in Iraq and Hungary. Finally, there is no agreement in Tax Awareness, Criminal Reasons, Economic Reasons and Administrative and Organizational Reasons.

*Table 2: Reasons of tax evasion ratios*

	<i>Iraq</i>		<i>Hungary</i>	
		<b>%</b>		<b>%</b>
<b>High Tax Rate</b>	Strongly agree	28.30	Strongly agree	80.65
<b>State Policy in Expenditure</b>	Strongly agree	60.38	Agree	32.26
<b>Tax Awareness</b>	Strongly agree	84.91	Disagree	51.61
<b>Criminal Reasons</b>	Strongly agree	75.47	Strongly disagree	54.84
<b>Economic Reasons</b>	Disagree	84.91	Agree	29.03
<b>Administrative and Organizational Reasons</b>	Agree	54.72	Disagree	32.26

Source: own research

By reference to the first hypothesis we find that they agree to a certain extent with the results, but we find that among the reasons of tax evasion in Iraq (and that have been added through the results) are both of “High Tax Rate” and “Administrative and Organizational Reasons”.

While by reference to the second hypothesis we find that they agree only with “High Tax Rate”, and not agreed with “Criminal Reasons”, in the same time we find that among the reasons of tax evasion in Hungary (and that have been added through the results) are both of “State Policy in Expenditure” and “Economic Reasons”.

### *Tax evasion techniques*

Table 3 shows that the samples full agreed in “Absence Of Documents” with “Disagree” 81.13% and 41.94% respectively in Iraq and Hungary, and “Hiding Activity” with “Strongly Agree” 84.91% and 51.61% respectively in Iraq and Hungary, while simple agreement in “Unreal Documents” with Strongly Agree (66.04%) and Agree (35.48%) respectively in Iraq and Hungary. Finally, there is no agreement in Distribution of Dividends to Ghost's Partners and Change the invoices.

**Table 3: Tax evasion techniques**

	Iraq		Hungary	
		%		%
<b>Unreal documents</b>	Strongly agree	66.04	Agree	35.48
<b>Absence of documents</b>	Disagree	81.13	Disagree	41.94
<b>Distribution of dividends to ghost's partners</b>	Disagree	60.38	Strongly agree	51.61
<b>Change invoices</b>	Strongly agree	73.58	Strongly disagree	41.94
<b>Hiding activity</b>	Strongly agree	84.91	Strongly agree	51.61

Source: own

By reference to third hypothesis, we find that they agree to a certain extent with the results, in addition to change “Invoices”.

While by reference to fourth hypothesis, we find that they agree only with “Distribution of Dividends to Ghost's Partners”, and not agreed with “Change the Purchase or Sale Invoices”, in the same time we find that among the reasons of tax evasion in Hungary (and that have been added through the results) are both of “Unreal Documents” and “of Hiding Activity”.

## References

1. Akinyomi, O. John, Okpala, K. Enoch (2013): Appraisal of factors influencing tax avoidance and evasion in Nigeria, *International Journal of Research in Commerce and Management*, Vol. 4, No. 5
2. Innes, W. (2010): *Tax Evasion*, Toronto: Carswell
3. Khan, W. Ahmad, Ahmad, Prince Fawad (2014): Causes of Tax Evasion in Pakistan: A case study on southern Punjab, *International Journal of Accounting and Financial Reporting*, Vol. 4, No. 2
4. Manea A.C., Manea, L. (2015): Cooperation between EU Member States to prevent international tax evasion and fraud, Brasov
5. Mughal, M. M., and Muhammad, A. (2012): Reasons of Tax Avoidance and Tax Evasion: Reflections from Pakistan, *Journal of Economics and Behavioral Studies* Vol. 4, No. 4
6. Neck, R., Wachter, J. U., Schneider, F.( 2011): "Tax avoidance versus tax evasion: on some determinants of the shadow economy," Springer Science Business Media
7. Olimat, K. (2013):Tax evasion, Causes, Forms and Ways to reduce it, *Al-Manara Journal*, Volume 19, No 2