Investigating and identifying obstacles to the integration of social assistance system and tax system in Iran based on refundable tax credit

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Abstract

The social welfare system and the tax system, due to their redistributive role, have an important place in the issue of social justice and are one of the pillars of the movement towards a social and economic system based on justice. In Iran, based on the teachings of the Islamic Revolution, social protection policies have always been part of the concern of the governing system, but still, the current state of the support system and inequality indicators in the country are far from the desired point. The implementation of the personal income tax system and its connection with the welfare system in the form of a comprehensive social assistance model such as a refundable tax credit can significantly help to reduce inequalities and improve poverty indicators in the society. The main issue of this research is to investigate and identify the obstacles to consolidation and integration of the social assistance system and the tax system based on the Refundable Tax Credit (RTC) scheme. For this purpose, the required qualitative data was collected through semi-structured interviews with experts, and then, thematic analysis method was used to analyze, evaluate and classify the collected information. The findings show that there are several challenges for the implementation of an integrated support-tax system based on a refundable tax credit. The policy recommendation of this research includes the formation of the governance of Iran's social assistance system based on refundable tax credit and the creation of coordinated and aligned procedures and processes between the social assistance system and the tax system under the supervision of a sovereign trustee institution. Of course, there are technical and structural obstacles and challenges for the establishment of such a system, and the requirement of implementing an integrated support and tax system is to remove these obstacles as much as possible and meet its requirements and prerequisites.

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1. Introduction

One of the most important aspects and fields of attention in the social justice is the income redistribution system. The support and subsidy system on one hand and the tax system on the other hand can help reduce and eliminate inequalities and improve social welfare indicators in the society.

Today the welfare and social security system have a special place as a means of establishing security and social justice in many countries of the world. The economic, political and civil development of any country has a direct relationship with the quantity and quality of social welfare services. (Saeidi, 2008) In another dimension, besides being the most important source of government revenue in most countries of the world, taxes also have a strong redistributive function; The basic question is, what mechanisms should be taken to reduce economic inequalities and promote social welfare in the society in such a way that it is possible to receive and collect the fraud tax from the privileged classes and place those people who are in the lower income deciles, under the umbrella of support.

2. Theoretical framework

Integration of the welfare system and the tax system have many advantages compared to the situation where each of these departments operate independently of each other. Establishing an integrated tax and welfare system, in addition to providing financial resources, can also provide the information and data required for cash and non-cash payments. As a result, the scope of coverage of poor and low-income people will be wider and it will make support payments fairer by reducing the inclusion error (giving support payments to non-poor people) and the exclusion error (not paying support aid to poor people) in social assistance policies

In Iran, based on the teachings of the Islamic Revolution, social protection policies have always been part of the concern of the government. However, the country's current social protection system suffers from problems and challenges such as lack of comprehensive information about the poor people, parallelism and overlap of duties and functions of responsible institutions in the field of social welfare, incoherence in the policy making of the social welfare sector, and of course the lack and insufficiency of budgetary resources. (Sobahanian, 2016) It is expected that with the establishment of the total income tax system, firstly, the tax revenue and as a result, the government's financial ability to support the poor will increase, and secondly, the information infrastructure provided for the implementation of the total income tax will make this possible. That the government can spend its subsidies and cash transfers in a means-tested way. In addition, one of the best methods for the correct and targeted distribution of support payments to the target groups is to convert them into tax-based cash support schemes such as negative income tax or refundable tax

credits (Sharifzadeh, 2021). One of the most famous models of connecting the tax and social assistance system is the refundable tax credit. Refundable tax credit is an amount that is deducted from the individual's tax liability after applying tax rates, and if this liability is less than the tax credit, the difference is paid to the taxpayer in cash. This amount can be implemented in the form of universal or means-tested programs or even help to special groups (such as the disabled, sacrificers, etc.) in the form of the total income tax system.

3. Methods

The present study seeks to find the obstacles to the implementation of the consolidation of the social assistance system and the tax system based on refundable tax credits in the Iranian economy. In the current research, firstly, with a descriptive-analytical approach and based on theoretical and library studies, by referring to related articles and reports, we identified the problems and challenges of the current social welfare system of Iran. In the following, the theoretical literature on consolidation and integration of the tax system and social assistance system and the reasons for its necessity in Iran's economy were collected and written. Finally, in order to identify and extract obstacles to the implementation and integration of the tax system and the social assistance system, the necessary information is collected through interviews with knowledgeable and expert people, and then the method of coding and thematic analysis is used to examine, analyze and evaluate the information collected and present a policy model. We pay according to the conditions of Iran's economy. The statistical population of the research was experts, opinion leaders and officials in the field of public finance, provincial taxation and social welfare, who had comprehensive and appropriate information about the subject of the research. The process of interviewing experts continued until identifying and recommending the full dimensions of the challenges and obstacles to the realization of an integrated support and tax system and achieving theoretical saturation.

4. Findings

The findings show that the integrated tax and social assistance system has many benefits and advantages over the direct payment system. Reducing executive and structural costs, helping the recognition system and increasing justice in support payments, creating stable financial resources, improving public satisfaction with the political system, increasing the participation rate and not harming the social status of people are among them (less stigmatization); refundable tax credits can also be considered as a guarantee for the implementation of the total income tax system. However, for the implementation of an integrated social assistance-tax system (based on refundable tax credits) in Iran, we face many challenges, such as the annual accounting period,

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lack of complete information on income and expenses, especially for the poor, lack of information provided by governing institutions, lack of The desire of supporting institutions and organizations to consolidate and integrate, the inertia in the body of the country's tax and executive system, technical and operational complexities, and finally the weakness of the tax culture are the most important.

In Iran's social assistance system, support for the needy and vulnerable groups is carried out by numerous public and private institutions, mostly in an isolated form, and despite the allocation of significant financial resources, the effectiveness of these measures is far from the desired point; The objective manifestation of this issue is the unfavorable situation of income distribution indicators in Iran. These numerous support institutions lack coordination and communication mechanisms and each pursues its plans based on its organizational goals.

5. Conclusion and Suggestions

The policy recommendation of this research includes the formation of the governance of Iran's support system based on refundable tax credit and the creation of coordinated and aligned procedures and processes between the support system and the tax system under the supervision of a sovereign trustee institution. Of course, there are technical and structural obstacles and challenges for the establishment of such a system, and the requirement of implementing an integrated support and tax system is to remove these obstacles as much as possible and meet its requirements and prerequisites.

6. Ethical Considerations

6.1. Conflict of interest

The authors declare that there are no conflicts of interest.

6.2. Acknowledgments