

EXPLORING THE PHENOMENA OF INCOME TAX JUSTICE AND TAX EVASION THROUGH UNDERSTANDING THE BASIC RELATIONSHIP BETWEEN INCOME TAX DEPARTMENTS AND THE PRIVATE COMPANIES.

Shadi Emad. A. Alhaleh

ABSTRACT

This study is about exploring the phenomena of income tax justice and tax evasion through understanding the basic relationship between Income Tax Departments and the Private Companies in Palestine. It aimed at achieving and spreading tax values and tax justice among taxpayers. It examined specific factors for rising tax evasion phenomena and establishing mechanism to curb the problem. It provided insights into the problem and helped developing ideas on eliminating the phenomena of tax evasion, and achieving the desirable tax justice purposes. The study was conducted in State of Palestine. This study has used Qualitative paper with phenomenology approach. Data were collected through documentation, observation and online interviews. Qualitative data were subjected to content analysis. The findings showed that the phenomena of tax evasion were extensively found in the middle-small sized companies and free professions, not in big corporations. The middle-small sized companies did not meet the target of achieving the phenomena of tax justice as it was expected. Many factors were associated with tax evasion problem in Palestine namely high tax rate, complexity of tax laws systems and procedures, no public enlightenment campaign, lack of adequate tax incentives, poor relationship of tax payers with tax administrations, proliferation of taxes, illiteracy of tax calculation by some private companies, taxpayer's perception towards government ability to utilize tax collection for social welfare, and limited resources and capacity of tax administration. The study recommended to work on enhancing the coordination between the income tax department and the private companies in modern methods and developing an electronic tax system and increasing and the taxation awareness to limit the phenomena of taxes evasion by conducting awareness campaigns through the mass media and different publication methods.

Keywords: Income, the Phenomena of Tax Justice, the Phenomena of Tax Evasion, and Tax-Companies Relations.

I. INTRODUCTION

Tax concepts have evolved as a result of the political, economic and social development of countries. Where the principles that have evolved to collect taxes, include the principle of abundant tax revenue, the principle of cost justice and the principle of State intervention in the economic activities of individuals. In Palestine, there are two theories that have been developed, namely traditional theory used to cover public expenditures without the existence of economic and social objectives, where the modern tax theory is considered as a political tool used to achieve state policy in economic and social fields without neglecting its financial function, and a tool to achieve guidelines for economic goals and social goals and other goals, Lotfi, (1991). As a result of the historical development the tax is considered as the most important source of state revenue used to finance public expenditure. Through its tax policies, the State also seeks to create the appropriate legal environment to encourage various investments and to establish and expand the economic, industrial, productive and consumer base. Tax in Palestine has issued by Palestinian national Authority (PNA) that has approved the Investment Promotion Act, which exempts new and updated investment projects from income tax for reasonable periods. The Palestinian National Authority has also approved the Income Tax Law and the tax sections. Furthermore, the majority of tax rates and categories are investment friendly, where the highest income tax rate of 20%, which is low in all standards compared with other countries, including third world countries, Khasawneh, (2000).

Moreover, private companies usually impact positively on economic, social and political development of a country. These companies are a primary source of employment creation in the country. It is able to stimulate economic activity and long-term economic growth by expanding the capacity for production of goods and services, Ahuja, (2007). To create and sustain economic growth, developing countries need to maintain private sector at a sizeable proportion of Gross Domestic Product (GDP). Increase in the number of private companies may lead to increase in government revenue as a result of taxes from the earnings of factors of production, United Nations, (1993); Ahuja, (2007). Growth in private companies also lead to public investment that complements private sector efforts. This is motivated by an increase in the demand of essential public services that give impetus to private sector development. Also, foreign direct investment provides an important channel for global integration and technological transfer. According to the Palestinian statistical center (2015), is that the total of the private companies in Palestine with its different types is (160.394). Meanwhile, the number of employees who are working in private companies is (418.022). In addition, the Palestinian company's guide (2017) – has announced that the number of private listed companies in the financial market has arrived to (49) company, in which these companies have divided into different types such as insurance companies, investment companies, service companies, banking sector and industrial companies. However, Bayyoud & Sayyad, (2016) have mentioned that Palestinian private sector is one of the most important financing sources in the state's economy. It is the main contributor to the Gross Domestic Product (GDP) and it employs the majority of the Palestinian labor force. In the light of this reality and in an effort to make use of development experiences in other countries, the Palestinian National Authority (PNA) has adopted a free market philosophy since its inception in 1994. The PNA also committed itself to provide an enabling competitive environment that promotes private sector activities and enhances its role in the development process. At the same time, taxes are

a major source of government revenue. However, if taxes are not well dealt with, they can be a disincentive to the private sector rather than helping generate the much needed revenue for economic development. This is because, if taxes become so high that investors cannot pay, they fold up Norgah, (1998).

Furthermore, to establish the role of Palestinian taxes and to meet the purpose of its existence, the country could collaborate with individuals in order to achieve tax justice, and to achieve the internal, and external stability. But, some tax payers they don't want to pay the legal taxes which make their commitment towards achieving tax justice so poor which leads to harm the governmental budget, and makes it no longer able to offer public services to its citizens, and that resulting in creating tax evasion, Jihad, Ghasawna, (1999). Also, Tax justice is that process that guarantees fair tax laws, and quality among all tax payers and others. In addition, the phenomena of tax justice could be obtained through sensible Tax practices, and ensuring the credibility of managing tax issues. Moreover, tax justice can be achieved by collaborating with tax payers, increasing their awareness of tax system, offering new incentives and encouraging them to launch new businesses with free taxes, and empowering them to participate in setting some tax laws and regulations, Firas & Jaber, (2017).

Finally, this study has been created in order to provide sufficient understanding of the connection link between income tax department and private companies in Palestine. It has focused on income tax in which Income is considered as the flow of cash or cash equivalents received from work (wage or salary), capital (interest or profit), or land (rent), Mohammed & Juma'a, (2004) have defined income as the consumption and saving opportunity gained by an entity within a specified timeframe, which is generally expressed in monetary terms, and in the field of public economics, the term may refer to the accumulation of both monetary and nonmonetary consumption ability, with the former (monetary) being used as a proxy for Total income.

The reasons for selecting this study were as follows: The study was chosen because of the scarcity of researches in this field and in order to provide clear information on the connection link between private companies and tax Administrations and to enhance the role of taxes. In addition, clarifying its function in providing public services to society. The study focused on private companies in order to enhance the importance of these companies, and its role in generating revenues, their importance to provide the needs of different individuals, and improve the economy of the State of Palestine. Due to the poor economic conditions in Palestine, this study was selected in order to provide an adequate understanding of the effects of taxes systems on Palestinian economic growth and stability.

II. STATEMENT OF PROBLEM

The Palestinian Tax system has faced many obstacles. Therefore, the main obstacle to the tax system in Palestine is tax evasion that might be defined as tax payers (Individuals and entities) who do not comply with paying their legal obligations. Whereas, this obstacle was considered to be the main problem of this study. Tax evasion is a global problem with many negative effects on the economies of the State. These problems are exacerbated in countries experiencing political instability and widespread corruption, preventing real and useful funding for the most important programs such as health, education and social protection programs. This reflects many bad indicators that affect the country's budget. Therefore, taxes are the cornerstone of the country's revenue and the most important source of the Palestinian National Authority. Therefore, the phenomena of tax evasion are not a new thing, and it has become a problem that all countries in the world are still suffering from. Moreover, in many developing countries, a lack of public service provision slows down economic growth and undermines efforts to improve the living standard of the population. In addition, there are a number of reasons for the failure of many governments in developing countries to reinforce the phenomena of Income Tax justice. Therefore, a lack of tax revenue is one of them (Clemens Fuest and Nadine Riedel: June 19th, 2009). Also, poor economic development, continuous crises and quick fluctuations in the state's economy have affected harmfully the income justice and tax policies. Therefore, these factors might limit the development or the establishment of income tax justice in Palestine. Thus, these factors are also included to express the main problem of my study.

III. RESEARCH GAP

Tax gap according to the previous researches and studies that were written by former researchers in Palestine were focused on tax rates and the annual amount of money that should be paid to tax departments. Whereas, this gap was filled by making continuous changes and modifications to the annual amount of money that will be paid by tax payers. Furthermore, tax administrations were modified these rates and amounts constantly (every seven years) in order to control the phenomena of tax evasion. But, the effects of this gap still up to now. In addition, the former researchers, they haven't taken into consideration other factors that might lead to expand or extend the phenomena of tax evasion. Therefore, the existing tax gap estimates that tax incentives and the given tax services have strong impact on both of tax justice and tax evasion. Whereas, if tax incentives and the given tax services are not distributed equally among all tax payers, this will lead to increase the harmful factors of tax evasion. Thus, this phenomenon will be no longer controllable.

Finally, tax gap according to tax payer groups (e.g. corporations versus individuals, different income classes and sectors of activities) and the type of income which is evaded (e.g. income earned from international and national transactions). The latter provides important and valuable guidance for reforms of the tax administration and the tax system in Palestine. In addition to the Legal gaps and judicatory body of the Palestinian Income tax procedures.

IV. RESEARCH FOCUS

This paper has been made to focus on:

1. Understanding the relationship between income tax department and private companies. Where private companies will provide a sense of tax justice and will actually promote the implementation of tax justice. Tax administrations will also provide a sense of tax justice as a result of the reduction of tax evasion factors, the achievement of the

desirable goals of private companies which is (strong economic development and stability), and the achievement of the desirable goals of the tax offices administration which is (strong government budget revenues), in which to provide its public services to its citizens and Society as a whole.

2. Exploring the phenomena of income tax justice and tax evasion through explaining the main components of income tax systems (e.g. income tax laws, legal procedures, policies, regulations, causes, and motives of tax evasion), and the components of private companies as well (e.g. size, activities, type and financial position). In addition to focusing on the management of tax offices and their role in dealing with tax issues in Palestine.

V. Significance of the study

The study is reasonable on the basis that it would serve as good grounds for theory development which would give insight that would be useful in relation to other interventions for tax administration in Palestine and to add to knowledge about the relationship between Tax Departments and Private Companies. This would be a useful resource which would be beneficial to individual tax administrators, the government and the academia.

Additionally, this study is justified on the grounds that it provides recommendation for further studies on the effects of tax evasion in Palestine. The study gives theoretically knowledge to the students and other tax administrative officers on applications of the taxes.

VI. LITERATURE REVIEW

1. Agency theory

Agency theory is concerned with the conflicting interests of principals and agents. Jensen's, and Meckling's, (1976) model on agency and ownership structure holds a central role in the corporate literature. Its predictions relating to agency problems are central to the topic of this thesis. However, as the theory abstracts from all other frictions away except the one between private companies managers and tax offices. This theory was chosen to determine the relationship between private companies and income tax department, and to diagnose the turbulences and the conflict among companies and tax offices in Palestine.

However, gradually the domain of the agency theory was extended to the management area for determining the cooperation between various people with different goals in the organization, Eisenhardt, (1989). The agency theory that relates to this study is to understand one individual (called the tax) is engaged by another individual (called the private company). Since both individuals are assumed to be utility maximizer, and motivated by financial and non-financial items, other problems may arise, particularly under the condition of uncertainty and information asymmetry. That is, the objective function of both individuals may be incompatible, and therefore, the (tax) may take actions which will jeopardize the (private company) benefits. In addition, an agency operates under the condition of risk and uncertainty.

2. Private companies policy theory

As the task of undetermined private companies plans started to become more complex and as heterogeneous systems and distributed applications needed management, two notions made their way into the literature of policy. They were introduced to reduce the complexity of management tasks but their interpretations vary between and within the fields of paper, standardization, and industry. Policy is independent concept which may but need not be combined, policies may be used to define a domain but may also be applied to a domain of objects, and policies are an active concept. Policies can initiate or change the characteristics of ongoing private company's activities. Private companies' policy theory is concerned with clarifying the structural procedures, guidelines and plant that direct the actions taken in a company. Also, it consists of a number of economic theories that explain and predict the nature of the firm, company, or corporation, including its existence, behavior, structure, size, profit and relationship to the market, Kantarelis, Demetri, (2007).

Definitions of private companies vary widely. Most commonly they are defined by number of employees. The World Bank Enterprise Survey (WBES) classifies enterprises with 5-19 employees as small and those with 20-99 as medium, and those with 100- 450 or more as large companies. Small enterprises can also refer to wider categories, for instance, of SMEs, Micro and Small Sized Enterprises (MSEs) and Micro, Small and Medium Sized Enterprises (MSMEs). In a review of 132 economies, around a third defined MSMEs as having up to 250 employees Kuratko, DF, Hornsby JS, Goldsby MG, (2007). According to (business dictionary definition) a voluntary association formed and organized to carry on a business. And the types of it, include sole proprietorship, partnership, limited liability, corporation, and public limited companies. For a private company, is the company that consists of entities that engage in business, and it can be structured in a different manner.

Private Company's Policy Hierarchy

The important issue of a policy Hierarchy or the level of abstraction must be raised. When analyzing policies, we must differentiate between its four levels, René Wies, (2014):

1. Corporate policies or high level policies: this level is concerned with issuing the most decisive plans and decisions, and other aspects such as (management strategies, and principles). Moreover, high level policies are taken or done by top management. Therefore, there is high security and privacy level in order to secure all documents and information of the company from data damage or loss. Finally, this level manages and organizes other levels of the company's hierarchy. Thus, the operations and other actions that are taken by other levels, it will be controlled by high level policies (corporate policies).

2. Task oriented policies: this level is concerned with executing the decisions and plans that were sent by top management in order to accomplish the desirable goals and the desired behavior of the resources.
3. Functional policies: These policies are concerned with defining the main functions of management's operations and transactions to those who deal with the company. In addition, it performs and runs the main process of the company under the supervision of the staff of task oriented policies.
4. Low level policies: They are concerned with giving clear clarifications on the importance of management objects and the way that it works.

Types of companies

The types of private companies that have been included in this paper divided into five classes such as:

1. Service companies.
2. Insurance companies.
3. Manufacturing companies.
4. Banking sector.
5. Investment companies.

Private companies function

It is applicable for enhancing new opportunities for attracting workforce, and to minimize the higher rates of unemployment. Also, to improve the country's economic and infrastructure as well, and to feed or to back up the government's revenues in which to enable it to fulfill the daily public citizen's requirement and to offer its public services to the whole society as well.

3. Taxation theory

Taxation theory is concerned with clarifying the main regulations, laws and policies that belong to the followed and the implemented tax system, and it exists in public economics. Governments at all levels (national, regional and local) need to raise revenue from a variety of sources to finance public-sector expenditures. In economics, taxes fall on whomever pays the burden of the tax, whether this is the entity being taxed, like a business, or the end consumers of the business's good.

Adam Smith, (1776) wrote:

"Such things as defending the country and maintaining the institutions of good government are of general benefit to the public. Thus, it is reasonable that the population as a whole should contribute to the tax costs. It is also reasonable to demand certain other things of a tax system – for example, that the amounts of tax individuals pay should bear some relationship to their abilities to pay... Good taxes meet four major criteria. They are (1) proportionate to incomes or abilities to pay (2) certain rather than arbitrary (3) payable at times and in ways convenient to the taxpayers and (4) cheap to administer and collect."

The concept of tax justice and tax evasion

This paper is about understanding the concept of income tax system which includes identifying the concept of income tax justice and income tax evasion.

A- Tax justice: Tax justice is a judicial body that concerned with achieving justice among tax payers, and whoever that taxpayer is (Individual or Company). In addition, income tax justice means: A) Fair distribution of income. B) Fair tax laws that suit the circumstances and the financial abilities of tax payers. Furthermore, tax justice can be achieved through issuing clear tax instructions, making continuous meetings with tax payers in order to inform them about tax importance and its basic functions, and increasing or updating the quality of used tax systems. Also, it can be defined as a part of a system of taxes that meets the overall objective of tax justice. This means a variety of taxes are required. Taxes are applied to populations made up of different people with a wide variety of incomes, values, and consumption preferences and savings choices. In such real world circumstances governments should not rely on just one or even one or two taxes to meet all or most of their tax objectives. In practice, however good a tax is it cannot be judged in isolation, TUIYC, (2012).

Finally, Tax justice should be focusing on making each one responsible for being committed toward tax burdens regarding to his financial ability. So, the concept of tax justice should be done on ethical, legal, and equality principles in order to make or to treat all society individuals equally, and without taking any arbitrary procedures against them, also the constitutional protection includes how to distribute the tax burden equally in order to achieve the economic stability, Arabsi, (2008).

B- Tax evasion: an illegal act made by individuals (taxpayers) or corporations who wouldn't like to pay the whole taxes or a little part of it during the collection period or before and that's by using illegal ways. Also, it may be defined as the attempts or efforts of taxpayers to get rid of their legal commitments towards paying taxes. Tax evasion is a dangerous thing which affects the tax laws and regulations and the whole system of the government, and it impedes the development of tax justice as well. Taxpayer is considered as a tax evasive if he goes to use tax evasion methods such as hiding his wealth or maximizing the company's expenses, implementing fraud, and cheating and manipulating of the formal documents that it should be used to deduct the tax rate, wahba, (2010). In addition, this phenomenon is extensively found everywhere. So, it could be controlled by making advanced plans and systems to minimize or reduce its negative effects on the development of the state. In addition, there is no clear definition to describe it very well. But, it is still illegal and outrageous. It is harmfully affect different sides of life such as destroying the values and popular beliefs and it makes tax payers act as immoral towards serving the state's development.

Finally, unfortunately, tax evasion is one of the most destructive indicator for economic growth inside the state. It leads to destroy the state's financial budget which is an important source to fund the governmental public services, and cover its expenditures. But, tax evasion is something that can't be controlled sometimes, because there is a lot of ways to evade paying taxes by tax payers such as hiding their real financial statements, records, reports and any other related documents, manipulating in their accounts and profits, enlarging their expenditures and other expenses in order to decrease the amount of tax payments. Eventually, income tax evasion could be reduced by making continuous supervisions over private sector, particularly, middle-small sized companies. In addition, increase the number of Tax offices, and ministries that are responsible for licensing this kind of companies

"According to Clemens Fuest and Nadine Riedel, June 19th, (2009), they explained about components of tax Avoidance and tax Evasion. Tax revenue losses due to tax avoidance and tax evasion can occur for a number of reasons. Existing estimates of these revenue losses distinguish between a domestic and an international component of tax avoidance and tax evasion, A) The domestic component of tax evasion and avoidance would include, for instance, non-declared or under-reported income from work or domestic business activities, and B) The international component of tax avoidance and evasion includes practices like transfer price manipulation by multinational firms or the holding of financial assets in offshore bank accounts by private individuals with the purpose of concealing capital income".

Other tax issues

(1) Tax classes:

- A) Direct Taxes are levies directly on the income of individuals or corporations. This includes income tax, Payroll levy, and other withholding taxes. A tax base for direct taxes therefore is income. In other words, direct taxes are tax based income. The amount of tax revenue (tax yield) from direct taxes will therefore depend on income of individuals and corporations.
- B) Indirect Taxes are levied on goods or services. The tax base for indirect taxes is therefore the goods produced and services rendered in a particular economy. Tax yield from indirect taxes will therefore depend on goods produced and services rendered in the economy. The amount of tax revenue collected from a particular tax will therefore depend on, among other how wide the tax base or coverage of that particular tax is.

(2) Tax functions

- A. Is to achieve the social goals: through redistributing income among all individuals equally, then this would lead to make individual obey the tax regulations and rules. Therefore, they will collaborate with tax administrations in order to achieve the main purposes of tax justice, Sabri, Nidal, (1998).
- B. Is to achieve the economic goals: through granting exemptions, and motives to the private sectors, then this would lead to increase productivity, and efficiency and effectiveness of these sectors to supply the state's economy, Abo Nasar, Mohammad, (1996).
- C. Is to protect the national products: through imposing high taxes on importing products, or reducing it or cancelling it, then this would lead to improve the quality of national products and protect it, Siam, Waleed, (1994).
- D. It is considered as one of economic policy tools in order to make a balance between the financial policies, to encourage investments, and producing national products, Sabri, Nidal, (1998).

(3) Why is taxation important?

Taxation is an essential part of a good government. It has four main goals:

- A) To raise revenues for public spending, which can be used to meet the basic needs of population – food, healthcare, shelter, provide quality public services, for example, health, education, economic development stimulus, maintain institutions and governance structures.
- B) Redistribution of income between high and low income groups.
- C) Representation – an effective taxation system enables citizens to feel that they contribute and own public policies. An ineffective taxation system can lead to social exclusion and increasing levels of inequalities.
- D) Changing behavior of individuals and companies – through taxes that shape or inhibit behaviors, e.g. taxes on alcohol & tobacco, taxes on environmental pollution.

(4) Reasons for tax evasion

There are many reasons for tax evasion such as:

- A) Low level of (voluntary) tax compliance.
- B) Low tax morale.
- C) Low transparency and accountability of public institutions.
- D) High compliance costs.
- E) Weak enforcement of tax law.
- F) Low quality of the service in return for taxes.

4. Relationship between Taxes and Private companies

Taxation being compulsory contributions from individuals, or business entities to the government to defray the public expenditures by the government has some effects in the economy as well as in the social life of the society. The effect might be

constructive to the economy or might damage the economy. In order to avoid/minimize damage to the economy there are criteria/principles for evaluating tax systems. This criteria is also called Canons of Taxations which are:

A) Equity: Equity entails that taxes should be levied in such a way that they promote fairness, B) Simplicity: A tax system ought to be simple. Simplicity of the tax system means the taxpayer should be able to understand the system and the tax base should be known clearly, C) Economy: The administration of tax system should be least expensive in terms of both manpower and material, D) Certain: The imposition of tax should yield the expected revenues in order to assist government forward planning, E) Convenience: This calls for tax to be levied at the time and in the manner in which it is most likely to be convenient to the taxpayer, and F) Elasticity of Tax to changes in the tax base: A good tax system should be elastic to changes in the Tax base; the tax is elastic when the amount of revenue it yields increases as fast as or faster than the growth of income or the economic or the economic activities.

Heavy taxation, especially direct taxes, stifles private companies. Taxes have negative implication on cost of production and on profitability. This is because most of the resources available for private companies are diverted and channeled to public use, thereby crowding-out private companies. Income taxes reduce the disposable income and hence contribute to determining how much profit must be ploughed back into the business if any. It is therefore imperative to determine an optimum level of income tax rate that maximizes tax revenue and ensures maximum private companies. Indirect taxes on imports can be used to protect local infant industries from unhealthy competition posed by cheap imports. This promotes private companies in the industries that produce import substitutes. However, if indirect taxes are imposed on inputs and capital used by local producers, it will increase cost of production, which discourages private companies, (Bhatia, 1998). Lastly, this relation will focus on providing private sector with information about tax systems, risks of tax evasion and retributions, new tax ratios and categories, tax updates and tax calculation techniques, in order to make a balance between the private companies sector and tax requirements.

“The researcher has noticed that, there is a positive relationship between income tax department and private companies. If the given tax laws are clear to meet the purpose of achieving both interests of private companies and tax offices, thus this will result in increasing the possibility of enhancing income tax justice. Meanwhile, there is a negative relationship between income tax department and private companies, when the given tax laws are not clear to accomplish the desirable goals of tax offices and private companies as well, which would lead to increase the possibility of creating income tax evasion. Based on annual tax reports, auditor’s reports, legal company’s cases, and published company’s financial statements, this relation was proved.”

VII. METHODOLOGY

In this study, the researcher used qualitative research with Phenomenology approach. According to Kombo and Tromp, (2006), qualitative research approach has often been used in many cases to obtain methodological triangulation so as to maximize the quality of the collected data. The qualitative approaches were used to provide descriptive forms which involved conducting interviews, observation and questionnaires with open ended questions. The choice for qualitative approach was based on the fact that, interviews, observation and open-ended questionnaires enabled the researcher to gather detailed information on exploring the phenomena of income tax justice and tax evasion in Palestine. Moreover, as proposed by Creswell, (2009) qualitative research is primarily exploratory research. It is used to gain an understanding of underlying reasons, opinions, and motivations. It provides insights into the problem or helps to develop ideas or hypotheses for potential quantitative research. Qualitative Research is also used to uncover trends in thought and opinions, and dive deeper into the problem.

Basically, a research with the qualitative approach aims to know about something in depth. So in this research, the researcher used qualitative research to explore the phenomena of income tax justice and tax evasion through understanding the basic relationship between income tax department and the private listed companies in financial market in Palestine and all related aspect to export research focus. Understanding and interpreting the views and events on the subject of research in order to explore the information needed in the study. The phenomenon that occurs is related to understanding the basic relationship between income tax department and the private listed companies and that’s in order to know how those companies will provide a meaning or sense on the implementation of income tax justice and know how tax offices will provide meaning on the implementation of income tax justice as well, and also understand how to minimize the phenomena of tax evasion among those companies. Based on the updated income tax laws (tax accounting, and its implementations in Palestine, (2017/2018). In addition to any other documents, the researcher will recognize how to obtain useful data to serve the research.

Finally, this methodology was chosen in order to provide new strategies, insights into or techniques that could be used to determine the role of Palestinian tax system in achieving the desirable purposes of tax justice, eliminating or minimizing tax evasion factors, and identifying the nature of relationship between Income Tax Department and private companies. Therefore, this will lead to improve the development of the economy and strengthen the country's growth. Moreover, this methodology was used to analyze the basic relationship between Income Tax Departments and Private Companies. And identify the strengths and weaknesses of this relationship.

In addition, the main justification of this study is to conduct research in understanding Palestinian income tax system, obtain reasonable data in deep responses, and achieve meaningful results with a small sample set. Finally, this methodology was chosen because of its ability to provide meaningful knowledge to those who interest in. In addition, its availability to provide information on the different aspects of tax.

VIII. Research design

This study used questionnaire design. The questionnaire form was adopted because of its flexibility in asking questions and its analysis of the responses. It provides for a comprehensive examination of people's attitudes towards specific issues of taxes. The study administered questionnaires to tax payers and some of Income Tax Departments officials, while the interviews were administered to top experienced informants.

IX. FINDINGS

Based on the analysis, it was indicated that the study was focused on understanding the basic relationship between Income Tax Departments and Private Companies in order to explore the both phenomena of tax justice and evasion. And to achieve objectives set for the study.

1. It was found that there was high tax evasion in the middle-small sized private companies, and free professions sector. Little or zero tax evasion in big corporation (Big Private Companies).
2. It was found that there was reasons for non-achieving the phenomena of income tax justice in the whole private companies which are: no public enlightenment campaign is at first; lack of adequate tax incentives is at second; poor relationship of tax payers with tax administrations is at third; proliferation of taxes is at fourth; and illiteracy of tax calculation is at fifth.
3. It was found that there was absence of the application of tax penalties to all, the ineffectiveness of the judicial system and the large number of workers in the free professions sector will maintain tax evasion.
4. High rate of tax evasion was associated with several factors including lack of education on tax, corruption, distance and high tax rate.
5. It was found that there was lack of tax awareness of taxpayers (Private Companies) of the importance of current tax system. In addition, non-compliance with paying attention to the tax rules, procedures, and tax records is one of the reasons for tax evasion.
6. It turned out that tax evasion had negative impact on revenue collection performance as it caused low revenue collection, lack of social service, budget deficit and failure to meet revenue targets. The low level of cooperation and coordination between tax administrations and some private companies has reduced the governmental tax revenues that these companies provide.

X. CONCLUSIONS and RECOMMENADCTIONS

The phenomenon of tax evasion is extensive, always has been, and almost certainly always will be. The differences in educational level and the capacity to calculate tax returns can explain some of the across private companies of evasion. But the stark differences in compliance rates is the private companies knowledge of the uses of tax revenue by the government, publicity and the education of the general public on their tax obligation and its effects on the national economy and the penalties on the default on non-compliance.

Furthermore, the main conclusions that have been noticed during making this research may regard to the followings:

- 1) Poor, old tax policies, and legal procedures had negatively affected the achievement of the phenomena of tax justice, and the contribution to the improvement of the country's tax systems as well. In addition, it found that there was uneasiness to visit tax officials by tax payers (Private Companies). Therefore, this has a negative impact on the purposes of tax justice. The sense of taxpayers that taxes they will pay will not be spent on the allocated areas. Thus, this will make taxpayers evade paying taxes, and harsh the state's economy.
- 2) The Palestinian economy is a little strong. But, not strong enough, if it is compared to the economies of other countries and even other developing countries, because of poor redistribution of income among some slices of society. In addition, the practices of the occupation and its control over the crossings and borders linking Palestine to the outside world has led to restrict the state's development, and enlarge the phenomena of income tax evasion across the state.
- 3) The role of tax administrations is slightly weak to develop new plans or create new alternatives that lead to the improvement and the development of tax justice and the future of private companies as well. In addition, low number of Income Tax Departments in each city has led to decrease the efficiency and the performance of taxes. Therefore, this has degraded the value, and the importance of tax system.
- 4) Low tax awareness, lack of understanding of tax process, and high level of dissatisfaction with dealing with income tax departments by some private companies (Middle-Small Sized Companies and Free Professions) which has led to impede the establishment of the phenomena of tax justice in the country. In addition, there was unclear structure to determine the process of tax collection by some tax departments.
- 5) Also, there is low number of ministries to license the private companies and trade unions, and regulate their professions, which had a direct impact on creating tax evasion. In addition, there was a defects committed by the Ministry of Finance in terms of the definition of Private Companies and the explanations of tax duties to those who should committed to it. Moreover, if taxpayers lack the necessary information and the capacity to compute tax appropriately, there would be reluctance to comply and motivate evasion.

A. Recommendations

1. Recommendation for Action

Palestinian Income Tax Departments need to continually review its systems, strategies and skills to keep pace with the problems and causes of tax evasion and the problem of violations of tax law, procedures, and regulations. That is why study suggests the following:

1. The study after the findings seeks to recommend that the Palestinian authority and Palestinian Income Tax Departments should ensure an enforcement of penalties for tax default, and these penalties should be made clearer and public. This will create real threat and actual carrying out of audit, inspection, inquiry, penalty and punishment for an errant taxpayer.
2. Pay serious attention to establishing and allocating funds for research and developmental tax administration that are needed to keep the Palestinian companies informed of the latest tax laws, regulations, and procedures, and that's in order to minimize the higher rates of tax evasion in the state.
3. Income Tax Departments should adopt new tax technological systems such as (Deducting Income tax from taxpayers electronically rather than manually, designing utility software that does the calculation of taxes and fines for the taxpayer and validates entries). Therefore, this procedure will enable all taxpayers to be committed to paying their long past due obligation, and not evading paying taxes any more. In addition, taxpayer Registration and De-registration procedure should be improved by the specialist ones in the Income Tax Departments.
4. Income Tax Departments should provide an accurate register cleanup of all taxpayers by identifying active and passive ones. In addition, they should use amnesties in order to encourage taxpayers to come forward and pay their long-past-due obligations.
5. The Taxpayer Service Department should constantly encourage taxpayers register voluntarily. It should do this by conducting seminars, advertising in Newspapers, Television, and Radio on a regular basis.
6. Support and offer tax incentives and exemptions that encourage the private sector to establish export companies or institutions that help small and medium scale companies to export their products and improve the state's economy. In addition, adopt an effective mechanism that ensures the updating of a private company's registration information whenever changes occur in the status of the company particularly in changes in contacts and locations.
7. Develop plans and allocate budgets to assist the private sector in developing its business, size, and its expansion. In addition, work on reducing the imposed tax on the taxpayers according to the economic situation to push them to work and development, and work on enhancing the coordination between the income tax department and the tax payers in modern methods and developing an electronic tax system.
8. Working on increasing the taxation awareness to limit the phenomena of taxes evasion by conducting awareness campaigns through the mass media and different publication methods.

2. Recommendation for further studies

This study was conducted in recognizing income tax in the State of Palestine hence it covered part or small area of this type of taxes. Thus another study is recommended in another part for comparative purposes (For instance compare Income Tax with VAT (Value Added Tax) or with other types of Tax) by depending on the given information of this research.

REFERENCES

- Ahmed Lotfi. (1991). *"The Legislative Aspects and Accounting Practices of Direct Taxes on Business"*, 1, Cairo.
- Jihad Khasawneh. (2000). *"Public Finance and Tax Legislation"*, Dar Wael Publishing & Publishing, Amman.
- Ahuja, H.L. (2007). *"Macroeconomics theory and policy: Advance analysis"*. New Delhi: S. Chand & Co Publishers.
- Bayyoud M., & Sayyad N. (2016). *"Challenges in Financing Small and Medium Enterprises in Palestine"*, Al-Quds University, Jerusalem, Palestine.
- Norga. (1998). *"Taxes and Growth in a Financially Underdeveloped Country: Evidence from the Chilean Investment Boom,"* unpublished Manuscript, Princeton University. Investment Promotion Centre.2000. Kenya Investment guide. Nairobi, Kenya: Author.
- Jihad Muhammad, and Fahed Ghasawna. (1999). *"Efficiency of Tax Information For Palestinian Corporations Listed at PSE Using Computerized AIS"*. Palestine: Al-Najah national university.
- Firas. M & Jaber. S. (2017). *"Tax revenues to implement social development Programs and provide public services for citizens"*.
- Mohammed A. Mohamoud Juma'a. (2004). *"Tax Evasion by the Self-Employed in Jenin (Reasons and Possible Remedies)"*. Palestine: Al-Najah National university.
- Qassem, Salah Mohammad. (2003). *"Tax evasion in Palestinian income"*. Palestine: Al-Najah national university.
- Clemens Fuest and Nadine Riedel. (2009). *"Tax evasion, tax avoidance and tax Expenditures in developing countries: A review of the existing Literature"*, Oxford University Centre for Business Taxation.
- Jensen, M. and Meckling, W. (1976). *"Theory of the firm: managerial behavior, Agency costs and ownership structure"*, Journal of Financial Economics 3, 305–360.
- Eisenhardt. KM. (1989). *"Agency theory: An assessment and review"*. Acad. Manage. Rev. 14(1):57-74.
- Kantarelis, Demetri. (2007). *"Theories of the Firm"*. Geneve: Inderscience. ISBN

- 0-907776-34-5. Description & review.
- Kuratko DF, Hornsby JS, Goldsby MG. (2007). "The relationship of stakeholder Salience, organizational posture, and entrepreneurial intensity to Corporate entrepreneurship". *Journal of Leadership & Organizational Studies* 13: 56-72.
- René Wies. (2014). "Policy Definition and Classification: Aspects, Criteria, and Examples". Proceeding of the IFIP/IEEE International Workshop. Distributed Systems: Operations & Management, Toulouse, France, 10 - 12 October 1994.
- Open Software Foundation. (1992). "OSF Distributed Management Environment (DME) Architecture".
- Adam Smith. (2015). "The Wealth of Nations a Translation into Modern English", ISR/Google Books, Book 5 (Government Finances: Public Expenditure, Taxation and Borrowing), pages 423, 429.
- Richard Murphy, John Christensen. (2012). "Tax us if you can", second edition, (TUIYC-final). (www.taxjustice.net).
- Arabsi, Ziyad Ahmad. (2008). "Tax justice regarding to the owners of Palestinian Industries in the west bank perspective". Palestine: Al-Najah national University.
- Mohammad Salim Wabash.(2010). "The reality and the recommendations of tax Evasion". Sana'a, Yaman.
- Sabri, Nidal Rasheed. (1998). "Accounting of tax income". Palestine: Al-Qudas University.
- Abo Nasar, Mohammad Al-Masha'alah. (1996). "Tax accounting regarding to the Implementation and theory perspective". Amman, Jordan. First Edition.
- Siam, Waleed Zakaria. (1994). "Tax accounting". Amman, Jordan. First edition. Bhatia. H.L. 1998."Public finance". 9th edition. New Delhi, Vikas Publishing House.
- Michael D'Ascenzo AO1. (2009). "Global Trends in Tax Administration: the Relationship between the tax management, tax agents and taxpayers", He is an Adjunct Professor at the University of New South Wales and a Professorial Fellow at the University of Melbourne.
- Kombo, D.K and Tromp, D.L.A (2006). *Proposal and Thesis Writing*. Pauline Publications Africa, Kenya.
- Creswell 11, J. W. (2009). "Research design qualitative, quantitative, and mixed Methods approaches". SAGE Publications, Inc.
- Boyce, C. & Neale, P. (2006) "Conducting in-depth Interviews: A Guide for Designing and Conducting In-Depth Interviews", Pathfinder
- Moleong, Lexy J. (2005). "Qualitative research methodology". Remaja Rosdakarya, Bandung.
- Miles. MB. & Huberman, AM. (1984). "Qualitative data analysis", (2nd edition). Thousand oaks, CA: sage publications.

Shadi Emad. A. Alhaleh
Accounting Department, Faculty of Economy, and Higher Studies
State University of Malang
shadial2050@yahoo.com