# Legal Challenges of Good Governance in Iran's Taxation System

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**Abstract**

Good governance is a concept that encompasses the criteria, standards, procedures, and principles through which governments conduct public affairs, manage public resources, and ensure the protection of human rights (World Bank, 1992). On the other hand, taxation represents one of the most important sources of government revenue, enabling the achievement of public objectives. The realization of this revenue is inextricably linked to the presence of good governance. The examination of legal challenges that obstruct the realization of good governance within Iran's tax system leads us to identify criminal enforcement guarantees as the most significant impediment. In addition, other important elements include transparency, accountability, and responsibility. From a structural perspective, legal reform in tax laws and regulations is required to achieve good governance in the taxation system. This includes enhancing transparency, accelerating procedural processes, promoting digitalization, increasing the efficiency of tax exemptions, preventing tax evasion, and drafting comprehensive tax legislation. Naturally, the outcomes of these reforms could manifest in increased citizen satisfaction, greater legitimacy of governing authorities, and progression toward sustainable development.

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## 1. Introduction

Each concept is accompanied by indicators that provide a clearer understanding of it. Under the notion of good governance, numerous indicators have been proposed by organizations, institutions, and scholars, which are addressed in this section. The World Bank, following extensive research conducted in 200 countries between 1996 and 2000, introduced six features and indicators to measure good governance: voice and accountability, political stability and absence of violence, government effectiveness in reducing excessive regulation, rule of law, and the control of corruption. These indicators are among the most cited globally and have served as benchmarks for evaluating governance quality in diverse contexts (Kirchler, 2007; Samati & et al., 2011).

The realization of a good governance model can significantly influence the nature of the governing system and contribute to strengthening and enhancing a democratic system. This approach has been endorsed by international institutions and documents as a mechanism to ensure and respect human rights within a country. Accordingly, the impact of good governance on promoting democracy and, consequently, on increasing individual participation in the administration of a country can be examined through processual and procedural, substantive and value-oriented, and organizational and structural indicators (Hedavand, 2005; Savari et al., 2021). Establishing good governance in a country can lead to decision-making, policy formulation, legal development, and governmental planning through a pluralistic and participatory process.

Today, in light of contemporary financial and economic studies, taxation is considered the principal pillar of government revenue. The stability and sustainability of this revenue type, in contrast to volatile income sources, have made the establishment of an appropriate tax system essential for countries. Iran's tax system, from its inception and particularly during the legislative development period, has continually faced numerous challenges. These challenges have hindered the achievement of the tax system's ultimate objectives and the attainment of a desirable condition (Ameri, 2022; Nazari & Fadaei, 2013). Despite effective measures undertaken in recent years to address previous deficiencies, Iran's tax system still suffers from multiple vulnerabilities and challenges. These have led to abnormal consequences such as the illogically low share of taxes in GDP, a disproportionately low share of taxes in the national budget compared to other countries—especially those with similar economic growth patterns—and the emergence and expansion of regulatory and legal noncompliance in taxation.

Identifying and explaining the legal and legislative deficiencies—such as the lack of quality in substantive and procedural tax regulations that create ambiguity, inefficiency, and complexity in the tax system—and the lack of stability in tax laws that have led to the unjustified removal of certain beneficial tax bases are emphasized. Additionally, the issue of regulatory and legal tax evasion is analyzed alongside other legal and regulatory challenges (Rostami & Ketabi, 2012; Saleh Validi & Najafi Tavana, 2016). Causes of legislative inefficiency include the absence of prioritization or incapacity of the legislature to draft or reform proper tax policies, lack of genuine will to formulate deterrent regulations with appropriate enforcement guarantees, and shortcomings in devising and implementing effective situational and social preventive strategies. Furthermore, the economic, cultural, and legal causes underlying tax noncompliance are also addressed (Adesina Olugoke & Uyioghosa, 2016; Ameri et al., 2021).

## 2. The Existence of Fundamental Deficiencies in Legal Guarantees

The economic, financial, and tax system, along with its performance, is rooted in the foundational policy-making outlined in the Constitution. Accordingly, the absence of explicitly defined economic and tax rules within the Constitution, which serve as the basis for aligning general legislation with constitutional principles, constitutes a serious challenge in implementing tax policies (Karimi Pattanlar et al., 2015). The Constitution of the Islamic Republic of Iran, in its Article 51, establishes the principle of legality of taxation. According to this article: "No type of tax shall be levied except by law. Instances of exemption, remission, and tax reduction shall be specified by law." Thus, the legality of taxation has been formally accepted in the Constitution. However, other principles such as the "principle of non-discrimination in taxation" and the "principle of clarity in tax laws" have not been addressed either in the Constitution or in other legislative texts (Abdollah Nasab et al., 2023). Therefore, it is not unwarranted to argue that ambiguities and inefficiencies in the tax system and its related laws and regulations stem from foundational issues and legislative shortcomings. Whether considered as a social value or a sovereign right and civic obligation, taxation must be supported by fundamental and overarching guarantees enshrined in constitutional law (Ameri & Miri, 2016).

## 3. Absence or Deficiency in the Quality of Tax Laws and Regulations (Ordinary Laws)

The rule of law necessitates the drafting of public, transparent, stable, continuous, and socially responsive legislation. This ensures that the ultimate goal of legislation—organizing social order and guiding citizens—is effectively achieved. In Iran's taxation system, legislation and regulatory frameworks depend on both the legislative body and the executive branch. Thus, binding and enforceable sources in the tax system are produced by these two entities. On one hand, the burden and inflation of tax-related laws and regulations, and on the other hand, the ambiguity and lack of clarity in tax laws, have created a significant legal and normative challenge for Iran's taxation system (Ameri, 2022; Karimi Pattanlar et al., 2015).

Legal inflation, ambiguity, and lack of transparency are two critical factors undermining the quality of tax legislation. Numerous ambiguities exist in both direct tax laws and value-added tax (VAT) regulations. For instance, Article 192 of the

Direct Tax Code is vague regarding undeclared income or unacceptable fictitious expenses, a matter also addressed in Circular No. 17940 dated January 2, 2006. Additional ambiguity is observed in the criminal policies of the tax system, particularly in the criminalization and penal provisions set out in Articles 201 and 231 of the Direct Tax Code. The VAT law also suffers from ambiguities, such as those related to the definition and explanation of VAT in Article 3 and the scope of legal exemptions in Paragraph 4 of Article 12 (Kazemi & Rostami, 2016; Rostami, 2008).

A multitude of tax-related regulations in the form of by-laws, circulars, and decrees—as delegated legislation—further complicates the landscape, making it necessary for all stakeholders to remain informed of such regulations and binding opinions issued by oversight bodies. The excessive volume of laws and regulations has been a marker of legislative complexity, leading to negative outcomes such as non-compliance and tax evasion. The impact of this legal inflation on the complexity of tax legislation is so significant that simplifying tax laws and resolving related ambiguities has become a key objective in tax reform programs across various countries (Saleh Validi & Najafi Tavana, 2016; Zarei, 2004).

In addition, the high volume of ambiguities and the instability of tax laws directly influence the quality of legislation. The primary effect of ambiguity is the emergence of complex tax systems, followed by the proliferation of interpretive or executive rules—particularly circulars. The substantial number of circulars issued across various legislative periods without reduction indicates the inflation of such regulatory instruments. The instability of tax laws and regulations, resulting from shifts in fiscal approaches by the government and financial institutions, represents another core challenge. Foundational changes in tax policy, such as the unwarranted elimination of essential tax bases like the total income tax or the disregard for key tax types like green taxes, coupled with the instability in forecasting and responding to tax non-compliance, exemplify this challenge. Simplifying and stabilizing laws to reduce legal inflation has become a top priority in fundamental tax reform efforts (Ameri, 2017; Ameri et al., 2021).

## 4. Existence of Fundamental Deficiencies in the Current Criminal Tax Policy

Weaknesses and inadequacies, as well as disproportionate penal responses to tax violations—such as tax noncompliance or tax evasion—represent core issues in Iran's current tax legislation. Since the enactment of the tax laws, the Iranian legislature has approached the criminalization of noncompliance with considerable caution. Aside from limited behaviors such as relying on false documents to evade taxes or failing to submit tax returns or withhold taxes by non-governmental legal persons, other harmful behaviors such as income concealment, fabrication of false documents, or misreporting contracts have remained legally vague and under-regulated (Ameri et al., 2019; Khaleghi & Seyfi, 2015).

Moreover, the quality of legal provisions guiding criminal tax policy is insufficient and fails to meet the system's punitive and preventive needs. Dispersed criminal responses, the absence of clear provisions on the criminal responsibility of accomplices and facilitators, and disproportionate sanctions have severely undermined the quality of penal regulations in the tax domain. However, in its most recent amendment (2013), the Iranian legislature has taken important steps to improve the status quo by reinforcing penal provisions in pursuit of tax system objectives and functional expansion. These reforms include the criminalization of violations of tax duties and obligations, strengthening criminal responses, and extending criminal liability to accomplices and those attempting to commit tax offenses.

In the revised Direct Tax Law (Article 274), numerous offenses are introduced for the first time, including creating or relying on false documents, concealing economic activities and income, structuring transactions or contracts under another person's name, and obstructing access of tax officers to one's own or another's tax information. Articles 275 to 277 further address attempted tax offenses, participation in tax crimes, and aiding and abetting. Nonetheless, this new approach is not without flaws and challenges. Neglect of corporate criminal liability despite modern legal developments (Note to Article 274) and ignorance of fault-based liability remain major shortcomings (Ameri et al., 2020; Ameri & Miri, 2016).

Furthermore, the fragmented nature of criminal responses tied to specific obligations and the lack of clarity on disqualification periods from economic activities undermine the effectiveness of penal provisions in tax law (Ameri et al., 2021; Rahmatollahi et al., 2020).

## 5. Challenges of the Tax Litigation System in Iran

Alongside the shortcomings in criminal tax policy, the tax litigation procedure in Iran also suffers from serious flaws. The tax litigation procedure constitutes a distinct form of adjudication, relying on two categories of quasi-judicial administrative and supervisory bodies. The first category addresses the resolution of disputes between taxpayers and the Iranian Tax Administration through both administrative and quasi-judicial approaches. The second category pertains to supervisory bodies responsible for monitoring the conduct of tax litigation agents and personnel. Within the first category, various dispute resolution bodies at both the preliminary and appellate stages are envisioned, including the Supreme Tax Council as the body for judicial unification (Articles 244–260 of the Direct Tax Code). In the second category, the law establishes internal oversight through entities such as the High Tax Disciplinary Board and the Tax Prosecutor's Office (Articles 261–270 of the Direct Tax Code), which are tasked with supervising the behavior of employees and investigating administrative violations.

Thus, the Iranian taxation system is characterized by a distinct and specialized litigation structure. The protection of both parties' rights in tax disputes, building public confidence in the tax system, and ensuring fair tax adjudication guarantees are among the primary duties of these institutions. Despite its significance, the tax litigation procedure lacks proper legal standing. General provisions concerning dispute resolution authorities are briefly mentioned in Articles 203–216 and 244–252 of the Direct Tax Code. However, numerous issues such as objections, representation, scheduling of hearings, procedural orders, and conditions for issuing rulings are addressed in separate procedural guidelines which, from a legal perspective, lack the formal legal status required to ensure litigation safeguards (Ameri, 2022; Kazemi & Rostami, 2016).

Additional challenges in the tax litigation procedure include structural violations due to the dependence of adjudicating authorities on the government and the Tax Administration, as well as the insufficient expertise of tribunal members. The fact that two of the three tribunal members resolving disputes are appointed by the Tax Administration severely undermines impartiality and fairness. Moreover, ambiguity regarding the authority responsible for identifying tax offenses, the lack of specific deadlines in proceedings, and deficiencies in upholding taxpayer rights—such as the absence of a clearly defined legal framework to guarantee taxpayer protections, insufficient taxpayer education, and multiple weaknesses in defending taxpayer rights against administrative and judicial bodies—highlight systemic deficiencies. The right to legal and tax representation also remains a major challenge within the tax litigation system (Ameri et al., 2019; Karbasian & Rostami, 2015).

A number of the existing shortcomings in the Iranian tax litigation system are detailed below:

### *5.1. Multiplicity of Tax Litigation Authorities and Procedures*

The high volume of tax cases, despite the emphasis on tax justice, has caused delays in the resolution of cases and prolonged litigation timelines. This has led to reduced real government revenue due to inflation diminishing the value of money—one of the core systemic challenges of Iran's tax system (Rahmatollahi et al., 2020).

### *5.2. Lack of Experienced and Specialized Personnel*

Many taxpayers have expressed concerns about the insufficient knowledge of tax officials and assessors regarding the nature of their business activities, income recognition standards, and accounting principles. Moreover, during litigation stages, inadequate familiarity with legal and technical issues by adjudicating members in various authorities presents a major obstacle to a fair tax dispute resolution process (Rahmatollahi et al., 2020).

### *5.3. Excessive Delays in Scheduling Hearings at Tax Dispute Resolution Boards*

Expeditious processing of tax files at dispute resolution boards requires strategic planning and sound management by tax departments. However, procedural inefficiencies have been observed in many cases. For instance, significant delays occur in notifying decisions and outcomes of hearings, particularly during expert evaluations, such as the appointment of experts and the preparation of their reports, leading to widespread dissatisfaction among taxpayers (Rahmatollahi et al., 2020).

### *5.4. Lack of Independence in Tax Dispute Resolution Boards*

One of the major challenges is the lack of independence of these boards. The presence of representatives from the Tax Administration in nearly all dispute resolution bodies—except the Administrative Justice Court—has cast serious doubt on the impartiality of verdicts. In practice, the most influential voice and procedural control within these boards is exercised by the Tax Administration's representative. This undermines fairness, as a truly adversarial system would require the Tax Administration to present evidence and argue its case after making an initial decision, not dominate all procedural stages. In the current structure, however, the Tax Administration acts simultaneously as judge, plaintiff, jury, and executor, effectively eliminating the possibility of independent litigation (Ameri et al., 2021; Karbasian & Rostami, 2015).

### *5.5. Obvious Deficiencies in the Tax Litigation Guideline*

Instruction No. 117300 dated February 1, 2009, issued by the Iranian National Tax Administration regarding tax litigation includes six chapters and 37 clauses. Upon close examination, numerous issues concerning the protection of taxpayer rights can be identified within it. Furthermore, the outdated nature of this instruction, despite significant legislative developments in recent years, has contributed to its increasing inefficacy and legal weakness (Rahmatollahi et al., 2020).

### *5.6. Failure to Utilize the Legal Potential of Article 238 of the Direct Tax Code*

According to Article 238 of the Direct Tax Code, the heads of tax departments serve as the first authority for resolving tax disputes. If empowered with sufficient legal authority, many disputes could be resolved at this early stage, preventing them from advancing to formal tax dispute resolution boards. This underutilization results in an unnecessary burden on the judicial tax process (Rostami et al., 2013).

### *5.7. Absence of Deterrent Penalties for Frivolous Tax Appeals*

One contributing factor to the high number of cases forwarded to tax dispute resolution boards is the lack of deterrent penalties for submitting unfounded appeals. Pursuant to Note 6 of Article 247 of the Direct Tax Code, if a taxpayer's objection is rejected by the appellate tax board, and if that objection to an appellate board decision is also dismissed by the Supreme Tax Council, a procedural fee of one percent of the disputed tax amount (the difference between the board's decision and the taxpayer's reported amount) shall be charged. Taxpayers are obligated to pay this fee. Nevertheless, this provision has not been effective in discouraging baseless litigation (Rostami & Tanavor, 2014).

### *5.8. Lack of Skilled Personnel and Adequate Administrative Facilities*

Given the volume of tax cases presented to the tax dispute resolution boards, rendering sound and high-quality rulings necessitates the presence of experienced and skilled personnel and appropriate administrative space. The current shortage of such human and physical resources negatively affects the quality and efficiency of decisions made by these boards (Ameri et al., 2019).

### *5.9. Failure of Tax Units to Timely Execute Remedial Orders*

Court decisions that include remedial orders do not set clear execution deadlines. This omission leads to unnecessary delays in the litigation process before tax dispute resolution boards, extending the overall duration of the adjudication process (Karbasian & Rostami, 2015).

### *5.10. Delayed Execution of Expert Orders by Designated Officers*

Although the tax litigation guideline specifies a deadline for executing expert opinions, in practice, these orders are often not fulfilled within the stipulated time. The reasons lie in both the shortage of personnel and the excessive number of expert assignments issued across cases (Ameri et al., 2021).

### *5.11. Delayed Submission of Files to the Tax Dispute Resolution Boards*

Timely submission of tax cases to dispute resolution boards requires proper planning and management by tax departments. However, in practice, delays in file transfer to these boards create significant obstacles in the tax litigation process and lead to increased taxpayer dissatisfaction (Rostami & Ketabi, 2012).

### *5.12. Absence of Tax Dispute Resolution Board Members in Hearings*

According to procedural requirements, a tax dispute resolution hearing must include all three designated representatives for the session to be valid. If any member is absent for any reason, the issuance of a verdict is postponed, causing further delay and inconvenience to taxpayers (Ameri, 2017).

### *5.13. Inadequate Implementation of Article 248 of the Direct Tax Code Regarding Decision Quality*

In many instances, tax dispute resolution boards use generalized language in issuing their verdicts, despite Article 248 of the Direct Tax Code requiring that such verdicts provide clear and reasoned justification in response to taxpayer objections. Furthermore, if a decision adjusts taxable income, the board must explicitly state the reasoning for such modification. Nonetheless, rulings often resort to ambiguous, customary wording without proper legal grounds, undermining the credibility and transparency of the adjudication process (Rostami & Ghahvechian, 2016).

### *5.14. Lack of Incentives to Attract Experienced Professionals to Boards*

Despite the crucial role of tax dispute resolution boards in mediating between taxpayers and the tax administration, the structure and status of these boards are poorly defined. Positions on these boards are neither managerial nor promotional in nature and are perceived as dead ends in administrative careers. Consequently, there is little motivation or incentive for capable and experienced personnel to join these boards, further exacerbating systemic inefficiencies (Abdollah Nasab et al., 2023).

## 6. Taxpayers' Civil Rights in Their Interactions with the Tax Authority

Observing taxpayers' rights by tax authorities holds such significance that it has become a major principle within the framework of ethical management in public service and is now featured in contemporary theories of public administration. Ensuring these rights plays a key role in fostering trust, which in turn enhances cooperation and voluntary compliance among taxpayers (Abdollah Nasab et al., 2023).

Citizen rights of taxpayers include, but are not limited to: the right to notification, the right to record statements and meetings, the right to have a tax advisor, the right to confidentiality and non-disclosure of tax-related information, the right to fair treatment, the right to avoid double taxation, the right to access information and receive specific explanations, the right to statute of limitations on tax obligations, and the right to reasonable audits. Within the scope of tax litigation, taxpayers also have the right to appeal, the right to access case files, the right to be heard (right to defense), the right to timely hearings, and the right to reasoned and evidence-based decisions. The right to request judicial review is among these procedural protections.

Among all these, the rights to fair treatment and justice in tax administration are paramount. For instance, the British legal system has developed extensive legislation to uphold these principles and ensure taxpayers are not subjected to arbitrary or discriminatory practices (Kazemi & Rostami, 2016).

## 7. Green Tax (Environmental Taxation)

Green tax—or environmental taxation—is one of the essential modern tax bases. As a financial policy tool, green tax has allocative impacts. Green taxes are typically categorized into two types:

- Direct environmental taxes
- Indirect environmental taxes

The Vision Document of the Islamic Republic of Iran emphasizes public health, welfare, food security, social protection, equal opportunity, fair income distribution, a poverty- and corruption-free family structure, and a sustainable environment. Thus, applying green taxes aids the government in achieving the strategic goals set forth in this document (Ameri & Miri, 2016).

**Direct Environmental Taxes (Pigouvian Taxes):**

These taxes are levied at specific rates per unit of pollutant emitted or environmental damage caused. The tax rate is typically aligned with the marginal social cost of pollution at the socially optimal level of pollution. Pigouvian taxes aim to internalize environmental costs by increasing the price of polluting activities, thereby confronting polluters with both private and social costs of their behavior. Although such taxes are rarely implemented, they are used more widely across European nations.

**Indirect Environmental Taxes:**

These taxes rely on incentive-based pricing mechanisms to modify the behavior of both producers and consumers in terms of pollutant emission and waste disposal. Instead of taxing based on pollution volume, these taxes are levied on inputs or consumer goods whose use harms the environment. Indirect environmental taxes are extensively applied in industrialized countries but are rarely adopted by transitional or developing economies. Examples include special energy taxes (e.g., those imposed by European countries), fertilizer duties, and beverage container taxes (Ameri et al., 2020).

## 8. Comprehensive Income Tax for Natural Persons

Since the global adoption of income taxation for individuals, two primary approaches to assessing and collecting taxes have emerged. The first is the segmented method, where taxes are imposed separately on various income sources—such as salaries, dividends, real estate income, and incidental income—each with its own rules and rates. This method, often referred to as the British approach, sometimes includes additional levies like surtaxes for high-income individuals.

The second approach involves a unified tax on the total income of individuals, known today as the comprehensive income tax system. This model, which gained traction in continental Europe in the late 19th century, is now implemented in many countries around the world.

Iran has historically adhered to the segmented approach. Even provisions such as Article 15 of the 1956 Income Tax Law, Article 131 of the 1966 Direct Tax Code, and Article 129 of the 1987 Direct Tax Code, which introduced a form of consolidated taxation for high-income individuals, merely represented surtaxes in line with the British method and cannot be classified as part of the unified model.

Iran's continued use of the outdated segmented approach stands in contrast to most countries, including developing economies at similar stages of growth, which have long adopted the unified model. This current method undermines tax equity—both horizontal and vertical—and squanders significant revenue potential. It also misguides economic actors by failing to create a transparent and fair taxation framework (Rostami et al., 2017).

## 9. Tax Evasion

Diagnosing the vulnerabilities in Iran's tax system through its three main pillars—tax laws and regulations, the executive tax administration, and the taxpayers—reveals systemic weaknesses contributing to widespread evasion and fraud. These issues have significantly impacted the country's banking system and financial institutions (Rostami & Ranjbar, 2015).

In terms of legislation, weaknesses include the complexity and lack of comprehensiveness of tax laws, broad and inefficient exemptions, inadequate enforcement mechanisms, and limited tax bases. The tax administration itself struggles with weak information technology infrastructure, lack of a unified taxpayer database, poor data integration between agencies, and an inefficient modular organizational structure.

Taxpayers, who are the direct subjects of the system, also demonstrate low levels of compliance, which stems not only from the deficiencies of the other two pillars but also from deep-rooted cultural attitudes.

The combined inefficiency of these pillars has resulted in a range of longstanding issues in Iran's tax system, including:

- Low tax-to-GDP ratio,
- Minimal contribution of taxes to public revenues,
- Insufficient coverage of government expenditures through taxation,
- High collection costs,
- Poor tax compliance rates,
- Lack of diversity in tax bases,
- Improper composition of tax revenues,
- Traditional assessment and collection methods,
- Extensive and ineffective exemptions,
- Delays in the tax process,
- Weaknesses in the tax information system (Nazari & Fadaei, 2013; Saleh Validi & Najafi Tavana, 2016).

## 10. Value-Added Tax (VAT)

A major demand of economic stakeholders is reforming the tax system. Through reliance on information systems and infrastructure, expanding tax coverage, and curbing tax evasion—particularly by shifting the burden toward the service sector and non-productive industries—the pressure on production and manufacturing is expected to diminish. Iran's tax system ranks among the lowest globally in terms of tax-to-GDP ratio, reflecting inadequate coverage, discriminatory practices, widespread evasion, and excessive taxation of documented economic activities (Nazari & Fadaei, 2013; Rostami et al., 2017).

The Iranian tax system lacks the flexibility to adapt to conditions of economic boom and recession. Tasks such as return assessment, determination of liabilities and penalties, litigation, enforcement, and collection are centralized within the Iranian National Tax Administration. The emphasis on assessors and continued use of *Alī al-Ra's* (arbitrary estimation)—due to non-implementation of automated sales systems, absence of online tax payment mechanisms, and failure to use electronic invoicing—has led to collusion, increased incentives for evasion, underreporting, and undue pressure on compliant taxpayers. The absence of smart assessment systems and the incomplete implementation of the Comprehensive Tax Plan further facilitate tax evasion. Another critical issue is the lengthy and complex litigation process (Ameri et al., 2021).

In addition to general systemic problems, the VAT process itself is plagued by both legal and operational challenges. Legal issues include the assessor-based approach in audits, inefficient litigation procedures, disruption of the VAT chain in the supply of goods and services, ambiguity regarding VAT in free trade zones, lack of clear definitions for fundamental VAT concepts, policies that favor imported goods over domestic products, inadequate enforcement guarantees, disproportionate penalties for certain violations, absence of a statute of limitations, ineffective exemptions, failure to apply zero-rated VAT to domestic machinery and production equipment under the experimental law, non-refund of VAT on machinery used in VAT-exempt goods production, and confusion over pollution taxes on polluting units (Karimi Pattanlar et al., 2015; Saleh Validi & Najafi Tavana, 2016).

## 11. Fiscal Cash Register Law and the Taxpayer System

In today's world, information and communication technologies are rapidly advancing and significantly impacting economies and societies. One of the areas most affected is the retail industry. With technological progress, taxpayers and point-of-sale (POS) terminals have emerged as key tools in managing payments and sales processes in stores and retail centers. The Fiscal Cash Register Law and the Taxpayer System represent one of the most important legal frameworks governing retailers and taxpayers.

This law was introduced to enhance the sales monitoring system and ensure effective oversight of taxpayers and POS systems. Implementing this law is critically important in the current economy. It was designed to increase transparency and reduce tax evasion across commercial establishments. The execution of the system has yielded numerous benefits, including increased government revenues, reduced need for direct oversight of retail stores, promotion of fair market competition, and improved transparency in sales taxation (Ameri, 2022).

Moreover, the use of POS systems plays a crucial role in simplifying the registration and monitoring of sales and associated taxes. However, implementing this law has encountered several legal, technical, and economic obstacles that can substantially hinder the system's effectiveness. One major barrier is the inability of some countries to provide the necessary infrastructure for such technologies, leading to an inability to collect taxes efficiently and accurately. These challenges include lack of technical infrastructure, limited financial resources and purchasing power in the retail sector, and poor coordination between the tax system and the legal frameworks governing taxpayers and POS systems (Rahmatollahi et al., 2020).

## 12. Conclusion

Tax governance is regarded as one of the fundamental pillars of government administration. A well-functioning tax collection system leads to effective tax governance. Proper tax leadership—achieved through the establishment of fairness and equity in taxation—fosters trust, which in turn enables timely tax collection and facilitates economic development. Factors such as transparency, accountability, political stability, government efficiency and effectiveness, the quality of laws and regulations, rule of law, corruption control, inclusiveness, justice and impartiality, ethical and professional conduct, identification of tax risks, reduction of the tax gap, mitigation of tax evasion, responsibility, consensus-building, comprehensiveness, independence, legitimacy, enhanced efficiency, economic growth, and social and human development all influence the quality of tax governance. Establishing a just and equitable tax system requires eliminating illogical exemptions, adopting tax technologies, reducing unnecessary public expenditures, and ensuring government accountability to taxpayers. This is vital, as there is a strong global link between taxation systems and democracy—if people fund the government through taxes, they must also have a role in how it is governed.

The most critical challenge lies in the misalignment of tax laws and regulations with the principles and necessities of sound legislation. Tax laws in general suffer from numerous issues including ambiguity, lack of clarity, and instability due to frequent and premature legal changes. The ambiguity of tax laws has a further significant consequence, leading to regulatory inflation and administrative overcomplication. The proliferation of such rules—driven by lack of publication, limited public access, and internal organizational will—adds complexity to the tax system and hinders effective interaction between taxpayers and the administration. The primary outcome of such legal disorder is reduced tax compliance and failure to achieve the objectives of the tax system.

In addition to these persistent issues, Iran's tax system lacks a coherent criminal and preventive policy to address the critical problem of non-compliance. Since the inception of tax legislation, no effective efforts have been made to define and criminalize behaviors that undermine tax order and goals, nor to assign proportionate penalties to prevent recurrence. This disarray in tax criminal policy is a key contributor to the persistence of non-compliance. The high rate of tax non-compliance is another major weakness in Iran's tax system, significantly impacting tax revenues and the national economy.

Multiple causes contribute to the formation and continuation of these deficiencies. The most important are neglect or inability in implementing tax policies and drafting or amending related regulations. The failure to revise tax laws is often tied to dominant economic policies or overarching governance strategies. Therefore, the root cause of these challenges lies in the general lack of reform in the legal framework, and more specifically, the absence of reform in the criminal provisions of tax legislation.

## Ethical Considerations

All procedures performed in this study were under the ethical standards.

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**Conflict of Interest**

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