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Designing a Tax Compliance Model for Companies (Taxpayers) from the Perspective of the Role of Government and Social Conditions

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Abstract

Purpose: Social and cultural conditions prevailing in the society in the degree of desire for tax compliance The main purpose of this study is to investigate the role of government on tax compliance and political relations of companies.

Design/methodology/approach: In this research, a survey method and a researcher-made questionnaire have been used. Statistical analysis has been performed for statistical analysis of relationships using LISREL and SPSS software. The target population is all auditors and chief auditors of the General Directorate of Taxation of large taxpayers. In a community of 4830 people according to Cochran's formula, 356 people have been selected and a questionnaire has been distributed among them. Cronbach's alpha statistic was used to evaluate the reliability of the questionnaire. In all cases, the values obtained from this statistic indicate the appropriateness of the reliability of all target items in the questionnaire.

Keywords: Tax Compliance,
Political Relations,
Government Ownership,
Social Conditions

Findings: Finally, after statistical analysis, it was found that designing a tax compliance model for companies is possible due to the role of government. The government, through the country's tax authority as the oversight body, can also improve corporate tax compliance according to social conditions.

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Introduction

The Iranian National Tax Administration (INTA), as a governmental institution, was established in 2002 based on Article 59 of the Third Five-Year Development Plan. Its objective was to enhance the efficiency of the tax system, eliminate organizational barriers, and centralize all tax-related matters within an independent organization. This was done with an emphasis on taxation and reducing reliance on oil revenue. Over time, tax revenues have undergone significant transformations due to governments' need for income to manage the country. Today, there has been considerable progress in terms of the philosophy of taxation, its principles, and collection methods (Nazarian Zad, 2015). In many developed countries, despite the high volume of taxes relative to national income, people have become accustomed to paying them. A crucial factor in the success of a tax system is taxpayers' trust in the government. They should view tax payment as a reciprocal relationship, understanding that they receive privileges and benefits in exchange for their tax contributions. Since taxes represent a portion of individuals' income and assets collected by the government, taxpayers naturally want to minimize their payments. Tax compliance refers to the cooperation of various taxpayer groups with the government. It also serves as a measure of the success of tax systems and organizations. Non-cooperation of taxpayers with the government in paying taxes is measured by the tax gap, which

reflects the difference between the actual tax collected and the true tax liability. Fostering a tax-paying spirit and increasing tax compliance among taxpayers, along with encouraging greater cooperation between individuals and the government regarding tax payments, depend on several factors. These include affordability of taxes, equity in tax payments, proper expenditure and trust in government institutions, and transparency and clarity of tax laws (Khanzadi, 2018).

Even within the most well-established tax systems worldwide, a comprehensive definition of tax compliance remains elusive, and its conditions vary from one period to another. In Iran, the mechanism for tax collection is incomplete and unclear. In Iranian tax literature, compliance is understood as taxpayers' acceptance of and adherence to taxation, their acceptance of tax obligations, and their observance of tax laws (Kamali et al., 2011). However, this definition remains vague, and there is a need to examine the influencing factors, particularly in the social dimension, regarding tax compliance. Since taxes paid by individuals and corporations are spent by the government, taxpayers are highly sensitive to how their tax contributions are utilized. They closely monitor government expenditures, and if they believe that the government exercises due diligence in spending their taxes and allocates them towards legal channels and public interests, they will be more encouraged to fulfill their tax obligations. The more the role of human factors and

face-to-face interactions between tax collectors and taxpayers is reduced in the tax collection process, the lower the possibility of abuse and corruption. In Western countries, a significant portion of taxes is paid through computerized systems, and taxpayers have minimal contact with tax officials. In such cases, it is essential that tax laws and regulations are completely transparent and clear, enabling ordinary individuals to easily understand, calculate, and pay their taxes (Kookbi Arasteh, 2013). The level of tax compliance or non-compliance cannot be influenced solely through the implementation and strict enforcement of regulations. Understanding and influencing social factors are also crucial in this regard. Numerous studies have been conducted in Iran on tax compliance, political connections, and related topics.

Indeed, a review of the literature reveals a wide range of topics addressed. However, it appears that among these studies, there has been no research specifically examining the design of a tax compliance model for companies (taxpayers) from the perspective of the role of government and social conditions. Based on the aforementioned points, this study aims to examine the role of government in taxpayer compliance, as well as political connections within organizations and institutions, under specific social conditions. This constitutes the innovative aspect of the research. To this end, the effects of tax compliance, political connections, government ownership, and social conditions were investigated within the Large Taxpayers Office. This

research, within the framework of the research literature, begins by outlining the concept of tax compliance and its research background, followed by an explanation of political connections, government ownership, and social conditions. Subsequently, the research methodology is presented, and in the final section, the research findings and the proposed compliance model are described, culminating in conclusions and recommendations.

literature Review: Taxpayer behavior towards tax law falls within a broad spectrum ranging from compliance to non-compliance. At one end of the behavioral spectrum lies tax compliance. Tax compliance refers to the extent to which taxpayers adhere to a country's tax laws and regulations. This adherence encompasses registration within the tax system, filing tax returns, maintaining and presenting documents and records, accurately calculating, reporting, and paying tax liabilities within the stipulated deadlines. According to Article 105 of the Direct Taxes Law, the aggregate income of companies and profitable activities of other legal entities, derived from various sources within or outside Iran, after deducting losses from non-exempt sources and applicable exemptions, with the exception of cases subject to separate rates as per this law, is subject to a 25% tax rate. Compliance with tax laws and regulations by a company implies the closest possible alignment between the declared tax (determined based on laws and regulations and reported by the company in the tax return as per Article

110 of the Direct Taxes Law) and the final tax assessment (determined and finalized by tax officials of the Iranian National Tax Administration). This alignment represents tax compliance on the part of the taxpayer (Malanazari et al., 2016).

In general, tax revenues constitute a healthy source for financing government expenditures in countries and are essential for investment in social services, both in developed and developing nations (Bame-Aldred et al., 2013). Furthermore, some studies have shown that the observed differences in tax compliance levels across various countries and cultures are not related to differences in their tax laws and requirements. Therefore, increasing tax compliance is not solely dependent on utilizing legal tools, imposing heavy penalties, or increasing tax audits. This is because severe tax penalties may lead to the creation of an unhealthy environment and promote bribery and corruption, resulting in entirely counterproductive outcomes. In such a situation, not only will taxpayer compliance not increase, but public trust in government institutions will also be eroded. Consequently, alongside tax laws and regulations, other influential factors must contribute to tax compliance. A comprehensive understanding of the differences in taxpayer compliance behavior necessitates comprehending the differences in taxpayers' attitudes towards this behavior and their decision to comply with tax obligations. If we recognize that attitudes towards tax behavior are a function of cultural and

social norms, we will realize the necessity of acknowledging and identifying these norms as desirable tools for increasing tax compliance, in conjunction with mandatory laws and regulations (Cummings et al., 2004).

Moreover, there are several reasons why government effectiveness can influence the reduction of tax evasion and, in other words, enhance tax compliance: Firstly, increased government effectiveness leads to improved returns on public expenditures, which manifests as enhanced social welfare. As social welfare increases and the positive effects of government spending become tangible, public participation in tax payments strengthens. This reflects a decrease in the tendency to evade tax payments. Secondly, increased government effectiveness and the subsequent rise in returns on public expenditures result in a reduced need to expand the tax base and increase tax rates. Consequently, the motivation for evasion stemming from increased tax rates will not be stimulated or reinforced. Thirdly, increased returns on public expenditures reduce the need for financing through inflationary measures. The positive impact of inflation on tax evasion has been confirmed by empirical studies (Karimi Pantalar et al., 2015).

Therefore, this study adopts a comprehensive approach. After conducting exploratory studies and reviewing existing research, while also considering environmental conditions, a model of tax compliance for companies

(taxpayers) is developed from the perspective of the role of government and social conditions:

A. Definition of Tax

The legislator has not provided a specific definition of tax. However, it can be said that: "Tax is a share that, by virtue of the principle of national cooperation and in accordance with the applicable regulations, each resident of the country is obligated to pay to the government from their income or assets, to the best of their ability, in order to cover public expenditures and safeguard the political and social interests of the country" (Asgari, 2016).

Words, like evolving phenomena in existence, are subject to transformation, growth, and change, taking on different meanings over time. The word "tax" shares this fate. It is an Arabic word derived from the root "mal" and has been used to denote various meanings, including reward, zakat (alms), guardianship, shepherding flocks of sheep, a penalty imposed by the government as punishment, tribute, and extortion (Piraiesh et al., 2011).

Tax is a portion of individuals' income or assets that is collected to cover public expenditures and implement fiscal policies aimed at preserving the social and political resources of the country. This collection is mandated by law and carried out through the administrative and executive mechanisms of the government (Piraiesh et al., 2011).

B. Attitudes Towards Tax

Attitude is a combination of beliefs and emotions that predispose a person to view others, objects, and various groups in a positive or negative manner. The study of attitudes is a subject within social psychology and constitutes a significant part of this science. Some scholars, such as Allport, have even defined attitude as the core of social psychology. Numerous definitions have been proposed for the concept of attitude, a few of which are mentioned below:

- Attitude is a combination of beliefs and emotions that predispose a person to view others, objects, and various groups in a positive or negative manner.
- Attitudes summarize evaluations of objects and, consequently, are responsible for predicting or guiding future actions or behaviors.
- Attitudes can be defined based on learning theories and the cognitive approach. In each of these theories, the concept of attitude is defined differently, and each emphasizes different aspects of attitude (Shahmohammadi, 2016).

C. Political Connections and Support

According to Fisman (2001), political connections, compared to a company's economic foundations, are the primary determinant of profitability in East Asian and developing countries. He believes that the earnings of politically connected companies are largely influenced by government decisions that favor their interests. In politically connected companies, access to capital resources is not heavily reliant on reported profits, as political ties lead to easy access to credit

and capital resources from government-owned banks (Boubakri et al., 2012). Government political support has two dimensions: social and individual. These two dimensions have been used to measure the level of government political support.

D. Social Conditions and Norms

The term "social conditions" is rarely used in theoretical frameworks. However, this study argues that it is the most appropriate focus for research on tax payments and similar future investigations. Social conditions, as used in this study, can be understood within the context of social indicators and social status. Furthermore, it is clear from the explanation in this section that acquiring more social indicators provides a higher social status. If social values are considered "principles accepted and acknowledged by people," social norms reflect these principles in the rules and customs of people's lives and emerge to preserve these values (Sedaghati Fard, 2009). In the "Contemporary Persian Dictionary," the term "norm" means "method, way, or valid standard," and in a broader sense, it is defined as "a rule for correct action that connects members of a group and guides, manages, or regulates proper and acceptable behavior." In sociological terms, norms are referred to as "standardized patterns of behavior and conduct" because they provide clear guidance to people in a society, dictating how they should behave in any given situation. In essence, social norms determine what a person should say, how they should think, and what actions they should perform, which are called

permissible norms. They also specify what a person should avoid saying and what actions they should refrain from, which are called prohibited norms (Salehi et al., 2014). Therefore, it can be said that a vast amount of interactive and important social actions are guided by norms that oversee human actions. Choosing a particular mode of behavior and considering existing rules can happen for any individual or individuals within a society. Each person, regardless of the prevailing standards in society, can choose a regular behavior for themselves. However, at the societal level, to establish relationships with others, it is necessary to behave according to rules. These behavioral rules must be collectively accepted. Therefore, in every society, there are standardized ways of behaving, called norms, that people follow in their daily activities, such as business, religious practices, and sports. An important point to note about norms is that social norms are not equal in terms of value, importance, and acceptance among people in society. They are generally divided into three categories: **A. Religious Norms:** Religious norms are the product of religious teachings in each society. For example, Islamic jurisprudence and Sharia law are among the religious norms that originate from religious teachings. Moral norms can also be considered within the category of religious norms. **B. Formal Norms:** Formal norms comprise the organizational, administrative, and financial laws of countries, their subordinate units, and institutions.

Examples include the Constitution, Civil Law, and legal and criminal laws. **C. Traditional or Informal Norms:** Traditional norms are those that have not been established by an individual or individuals but have emerged spontaneously and gradually from the events of everyday life, originating solely from society itself. For instance, customs and traditions are norms that dictate how people should conduct themselves in an acceptable manner in their daily activities (Salehi et al., 2014). In addition to attitudes, norms are also important determinants of tax compliance. Behavioral tendencies are determined by individual norms. Norms are behavioral standards at three different levels: individual, social, and national. They define a set of internalized standards about how to behave. Individual norms are related to moral reasoning, power-seeking and dependency, and values. There is significant overlap between individual norms, values, and tax ethics. At the social level, norms are usually defined as the prevalence or acceptability of tax avoidance within a reference group. Social norms are related to the behavior of reference groups such as friends, acquaintances, or occupational groups. If taxpayers believe that non-compliance is an accepted behavior within their reference group, they are also likely to be non-compliant.

Below are the hypotheses and objectives presented:

Research Objectives

Main Objective

✓ To design a model of corporate tax compliance considering the role of government.

Secondary Objectives

✓ Objective 1: Identify the factors influencing the corporate tax compliance model from the government's perspective.

✓ Objective 2: Improve the corporate tax compliance model by considering social conditions.

Research Hypotheses

Main Hypothesis

✓ It is possible to design a model of corporate tax compliance considering the role of government.

✓ The government, through the Iranian National Tax Administration as the supervisory body, can improve corporate tax compliance by considering social conditions.

Secondary Hypotheses

✓ Hypothesis 1: In companies where the government is the majority shareholder, corporate tax compliance is high.

✓ Hypothesis 2: In companies where a government official is on the board of directors, corporate tax compliance is high.

Guzel et al. (2018) examined the tax compliance behavior of independent accounting professionals. Specifically, among the variables that influence this behavior, the effects of perceived tax fairness and trust in government on compliance with tax requirements were investigated. A sample of 392 independent accountants in Turkey

was selected to examine the relationships between tax compliance, perceived tax fairness, and trust in government. The findings indicated that (1) there is a positive and statistically significant relationship between trust in government and tax compliance through the perception of tax fairness; (2) there is a positive and statistically significant relationship between trust in government and tax compliance; and (3) there is a positive and statistically significant relationship between trust in government and perceived tax fairness. Mahdi Fayzel et al. (2017) investigated the relationship between fairness, trust, and tax compliance in Malaysia. According to them, previous studies have claimed that fairness influences tax compliance. This study categorizes fairness into procedural fairness, distributive fairness, and interactional fairness. Therefore, this study examined the impact of these three types of fairness on tax compliance. Trust also affects tax compliance behavior and has a relationship with the element of fairness. The perceptions of individual taxpayers were gathered using questionnaires from previous studies. The research findings indicate that procedural fairness and trust have a positive and significant impact on tax compliance. However, trust does not mediate the relationship between fairness and compliance. This research contributes to the broader tax literature regarding fairness in Malaysia.

Casal et al. (2016) believed that reducing the social distance between taxpayers and tax authorities increases taxpayers' acceptance of the tax burden and improves tax compliance. They asserted that tax compliance depends

on taxpayer disclosures. The results of their study indicated that providing disclosures about tax benefits and tax distribution leads to greater compliance.

Bagheri et al. (2019) aimed to comprehensively identify the factors influencing tax compliance in Iran, using the OECD (2004) compliance model as a framework. After conducting exploratory studies, reviewing existing research, and considering the environmental conditions prevailing in Iran, the aforementioned factors were classified into 8 components and 40 indicators. Using the fuzzy Delphi method, the opinions of 61 experts regarding the impact of each of these indicators on tax compliance were collected and analyzed. The results of the study indicated that, according to the experts, with the exception of the following indicators: type of taxpayer, type of income, type of profession, age, gender, religion and religious teachings, race and nationality, ethnic background, proliferation of tax consulting offices, and finally, civil institutions and social norms, all other indicators in the study have an impact on tax compliance.

Malanazari et al. (2017) investigated the relationship between organizational culture and corporate tax compliance. This study utilized Hofstede's cultural questionnaire to measure organizational culture and a metric based on the difference between declared and final corporate taxes to measure corporate tax compliance. The research sample consisted of 65 companies from the Large Taxpayers Office between 2008 and 2012. The results indicated that organizational culture has a significant impact on corporate tax

compliance, and corporate tax compliance is characterized by low uncertainty avoidance, high individualism, high masculinity, and low power distance.

Hejazi et al. (2015) examined the relationship between corporate social responsibility and corporate tax compliance. Since corporate tax compliance is an example of community involvement and contributing to the government to achieve social goals, it is expected that corporate social responsibility and corporate tax compliance have a significant and positive relationship. This study used a questionnaire tool to measure corporate social responsibility and a metric based on the difference between declared and final corporate taxes to measure corporate tax compliance. Thirty companies from the Large Taxpayers Office were examined during the period from 2008 to 2012. Hypothesis testing provided evidence that the more companies engage in activities related to social responsibility, the greater their tax compliance.

Numerous studies have been conducted in Iran on tax compliance, political connections, and related topics.

Some research has focused on earnings management and political connections (e.g., Davoudi Nasr & Habibi, 2015). Other studies have analyzed tax avoidance and political connections (e.g., Ebrahimi et al., 2017), while others have evaluated political connections alongside other variables and topics in accounting and auditing (e.g., Badaavar Nahandi & Taghizadeh Khanqah, 2018; Rahnamai Roodposhti & Mohseni, 2018). Furthermore, some studies have assessed the role of government (e.g.,

Rahmatollahi et al., 2017; Gholami, 2016), while another group of studies has focused on identifying the factors influencing tax compliance (e.g., Bagheri et al., 2019). Indeed, a review of the literature reveals a wide range of topics addressed. However, it appears that among these studies, there has been no research specifically examining the design of a tax compliance model for companies (taxpayers) from the perspective of the role of government and social conditions.

Considering the theoretical foundations and the relevant research background, three hypotheses were formulated as follows:

Hypothesis 1: The government, through the Iranian National Tax Administration as the supervisory body, can improve corporate tax compliance by considering social conditions.

Regarding the first hypothesis, it can be stated that the government, through the Iranian National Tax Administration, hopes that companies will comply with tax regulations considering social conditions. Furthermore, Arab Mazyar (2011) emphasized in his research that the level of tax compliance is the most important indicator of achieving a desirable and efficient tax system.

Hypothesis 2: In companies where the government is the majority shareholder, corporate tax compliance is high. Regarding this hypothesis, it can be stated that Izadi (2020) considered the optimal tax compliance model to be a mixed model of shareholders (government and private). He suggests focusing on behavioral components alongside the transparency of tax information

(increasing the probability of detection + government accountability) as a suitable model for designing and implementing tax enforcement mechanisms.

Hypothesis 3: In companies where a government official is on the board of directors, corporate tax compliance is high. Regarding this hypothesis, it can be stated that one of the ways to facilitate tax payment in Iran is the presence of a government official on the company's board of directors.

Methodology

To achieve the research objectives, this study employed a quantitative approach (questionnaire-based). The data collection method was a questionnaire, which included five components: tax compliance, government and government ownership, political connections, and the social role of

government. The questionnaire was presented to experts for face and content validity to ensure the questions were suitable for measuring the variables. Subsequently, the questionnaire was distributed to qualified and knowledgeable tax assessors and auditors for completion.

The target population comprises all tax assessors and auditors at the Large Taxpayers Office. In a population of 4830 individuals, according to Cochran's formula, a sample size of 356 was selected, and the questionnaire was distributed among them. In this study, Cronbach's alpha, one of the most well-known and reliable methods for measuring the reliability of a scientific study, is employed.

The research variables are summarized in the table below:

Table 1: Variable Names and Types in the Model

Variable Name	Variable Type	Variable Calculation
Government Role	Independent	Government Ownership: Calculated as the total shares held by government shareholders divided by the total outstanding shares.
		Government Ownership Concentration: Calculated using the Herfindahl index, which is the sum of the squares of the market share percentages of suppliers.
		Political Influence: Based on previous studies, political influence has been solely attributed to the presence of politicians on the board of directors. Therefore, if there are political or government individuals as board members, a value of 1 is assigned; otherwise, a value of 0 is assigned (Saleh, 2009).
Tax Compliance	Dependent	Tax Compliance Index (Zanganeh, 2010)
Corporate Political Connections	Dependent	- The ratio of long-term debt to total debt is calculated annually for each company. - The ratio of government-affiliated board members to total board members is calculated annually for each company. Companies with a ratio of long-term debt to total debt and a ratio of government-affiliated board members to total board members higher than the median of other companies are considered politically connected and assigned a value of 1; the remaining companies are assigned a value of 0.
Social Conditions	Moderator	Social Indicators Social Welfare
Company Age	Control	Natural logarithm of the company's operating duration
Company Size	Control	Natural logarithm of total assets
Return on Assets	Control	Ratio of operating profit to total assets
Financial Leverage	Control	Total debt to total assets
Sales Growth Rate	Control	$(\text{Sales in the previous year}) / (\text{Sales in the previous year} - \text{Sales in the current year})$

Result and Discussion:

This study involved a two-phase sampling process. The first group consisted of 15 experts whose interview results were used for grounded theory analysis. In the second phase, 356 questionnaires were distributed. Of these 356 respondents, 119 (33.4%) were women and 237 (66.6%) were men.

For the sample group of 356 individuals, the educational background information was as follows: 78 individuals (21.9%) had a bachelor's degree, 180 individuals (50.6%) had a master's degree, and 98 individuals (27.5%) had a doctorate. Regarding work experience, 113 individuals (31.7%) had less than 5 years of experience, 125 individuals (35.1%) had between 5 and 10 years, 55

individuals (15.4%) had between 10 and 20 years, and finally, 63 individuals (17.7%) had 20 years or more of work experience. Among the 356 samples, 145 individuals (40.7%) held the position of auditor or senior auditor, 43 individuals (12.1%) were in middle management positions, 107 individuals (30.1%) were in deputy positions, and 61 individuals (17.1%) were in director-general positions.

Analysis of the Research Model

The analysis of models in structural equation modeling with the partial least squares approach consists of two main stages: evaluating model fit and then testing the research hypotheses. The model fit evaluation stage includes three parts: measurement model fit, structural model fit, and overall model fit (Davari & Rezazadeh, 2016).

The proposed conceptual model of this study is presented in the figure below.

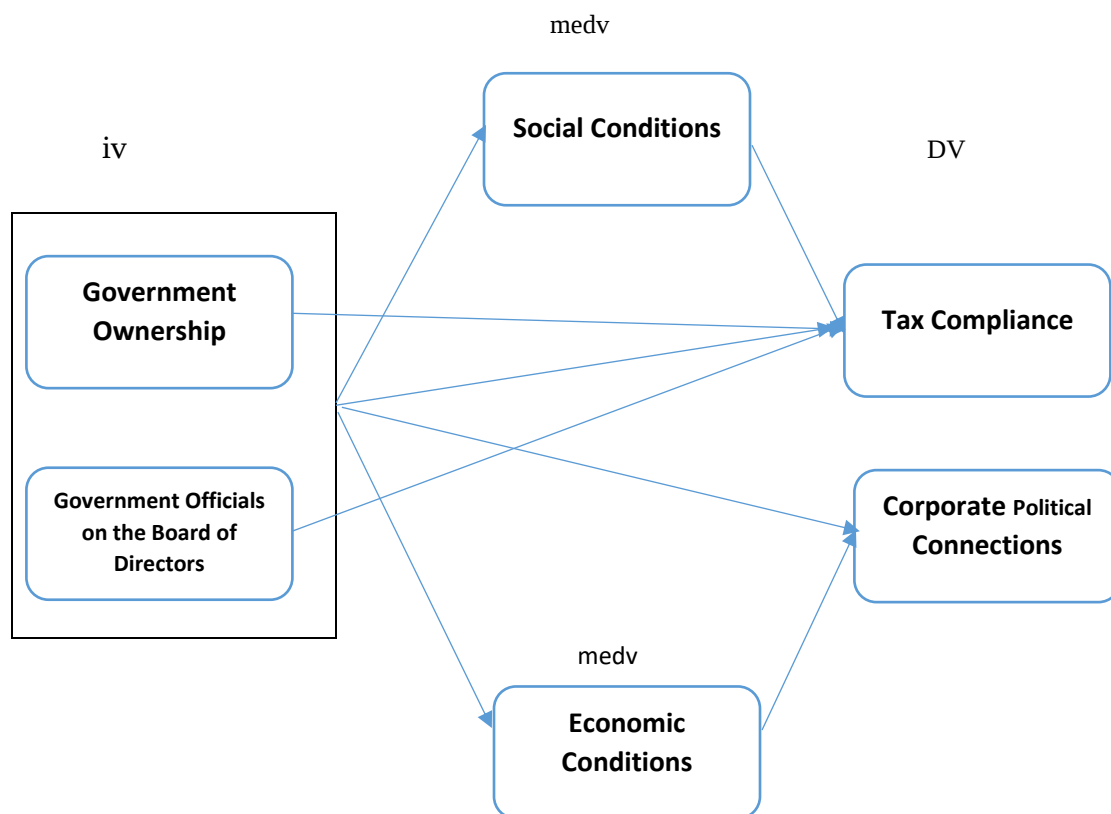


Figure 1 - Graphical Representation of the Conceptual Model of the Current Study

In the figure above, the "Government Role" variable is a second-order construct with two first-order constructs: "Government Ownership" and "Government Officials on

the Board of Directors." The two first-order variables, "Social Conditions" and "Economic Conditions," play a mediating role in the model. Finally, the two variables "Tax Compliance" and "Corporate Political

Connections" are the dependent variables. Convergent validity is examined at both the indicator and construct levels. At the indicator level, factor loadings are considered, with a threshold of 0.4 being deemed appropriate (Hair et al., 1999). Examining the research model with standardized coefficients, it is observed that all factor loadings are greater than 0.4, thus

confirming convergent validity at the indicator level.

The figure below displays the measurement models for the conceptual model of this study.

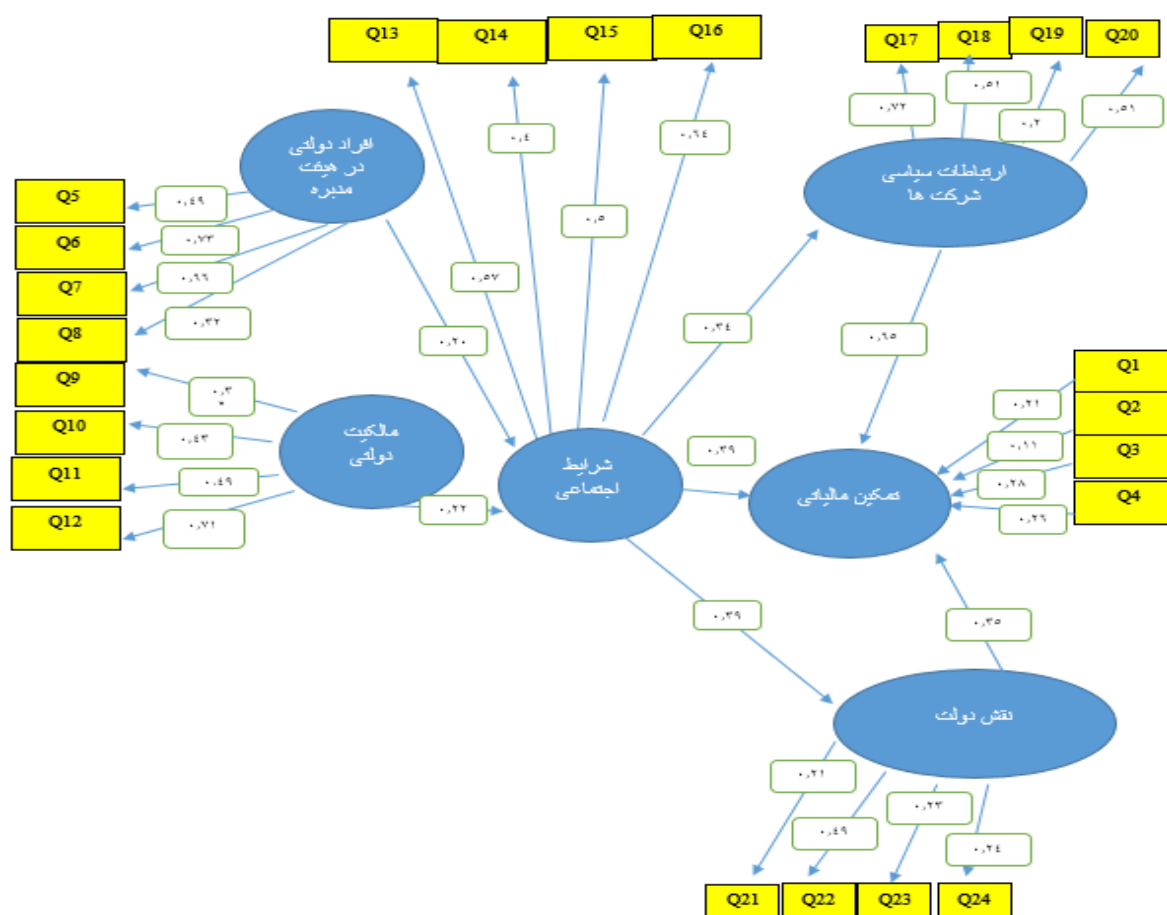


Figure 2. Measurement and Structural Models of the Present Study

Measurement Model

Generally, a measurement model refers to a part of the overall model that includes a

variable along with its associated questions. Three criteria are used to assess the fit of measurement models: convergent validity, discriminant validity, and reliability (Davari & Rezazadeh, 1395).

Reliability

The second criterion for evaluation is generally internal consistency reliability. The traditional measure for internal consistency is Cronbach's alpha, which provides an estimate of reliability based on the intercorrelations of

observed indicator variables. Cronbach's alpha assumes that all indicators are equally reliable (all indicators have equal loadings on the construct). However, PLS-SEM prioritizes indicators according to their individual reliability. Furthermore, Cronbach's alpha is sensitive to the number of items in each indicator and generally tends to underestimate internal consistency reliability. The value of this index should be above 0.7 (Hair et al., 2019). The figure below shows the value of this index for the research constructs. The table below presents the Cronbach's alpha values.

Table 2: Cronbach's Alpha Values for the Research Constructs

Research Construct	Cronbach's Alpha
Corporate Political Connections	0.876
Government Officials on the Board	0.769
Tax Compliance	0.747
Social Conditions	0.91
Government Ownership	0.839
Government Role	0.885

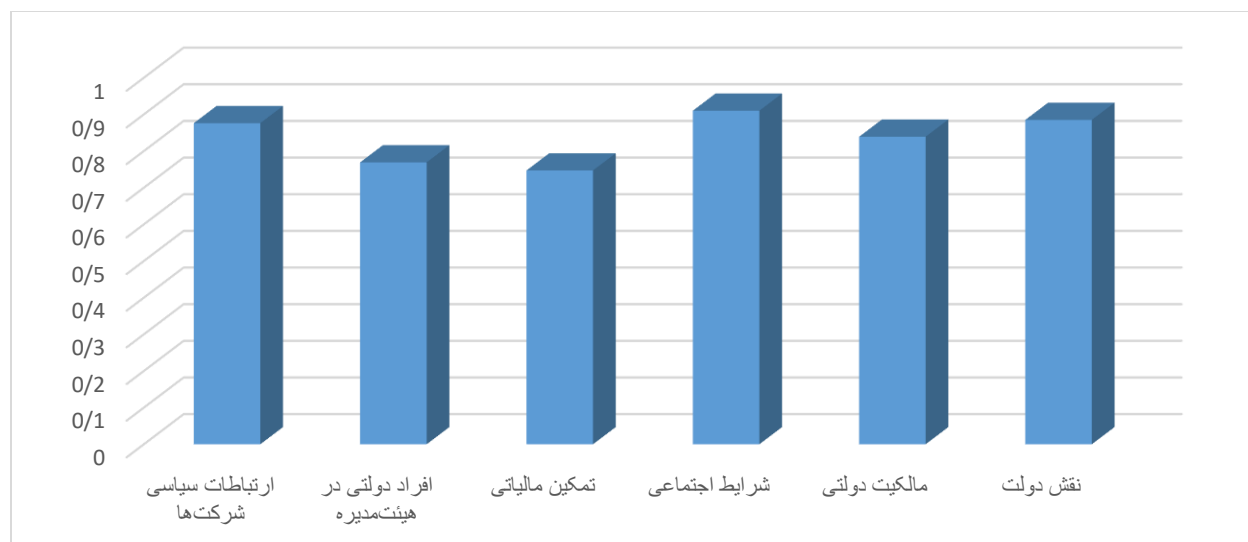


Figure 1: Histogram of Cronbach's Alpha Coefficients for the Research Constructs

Due to the limitations of Cronbach's alpha in the population, the use of another measure for internal consistency reliability is permissible, which is referred to as Composite Reliability (CR). This type of reliability considers the different outer loadings of the indicator

variables. The appropriate value for this index is 0.7 (Hulland, 1996). The figure below shows the values of this index for the research constructs. The table below also presents the values of composite reliability for the research constructs.

Table 3: Composite Reliability (CR) Values for the Research Constructs

Research Construct	Composite Reliability (CR)
Corporate Political Connections	0.901
Government Officials on the Board	0.897
Tax Compliance	0.805
Social Conditions	0.926
Government Ownership	0.903
Government Role	0.916

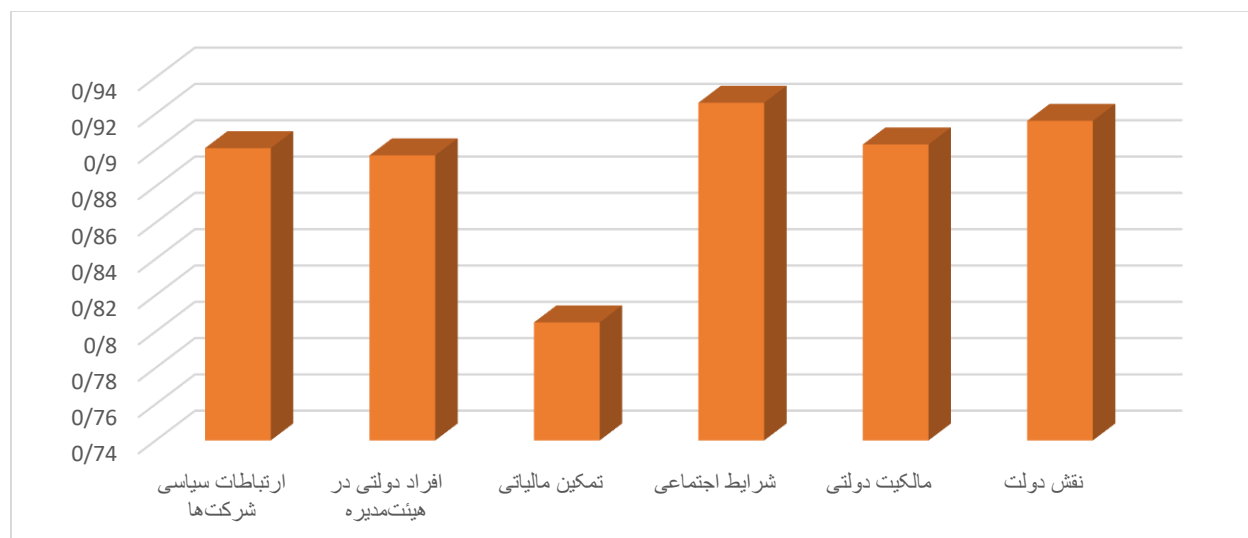


Figure 2. Histogram of Composite Reliability (CR) Coefficients for the Research Constructs

Convergent Validity

To examine convergent validity at the factor level, the Average Variance Extracted (AVE) index is used. The minimum acceptable value for this coefficient, from the perspective of Fornell-Larcker (1981), is 0.5, and from the

perspective of Magner et al. (1996), it is 0.4. Given that all the values presented in the table below are higher than 0.5, this indicates that the model has adequate convergent validity.

Table 4: Average Variance Extracted (AVE) Values for the Research Variables

Research Construct	Average Variance Extracted (AVE)
Corporate Political Connections	0.505
Government Officials on the Board	0.812
Tax Compliance	0.592
Social Conditions	0.541
Government Ownership	0.757
Government Role	0.686

The statistic is also presented as a histogram in the figure below.

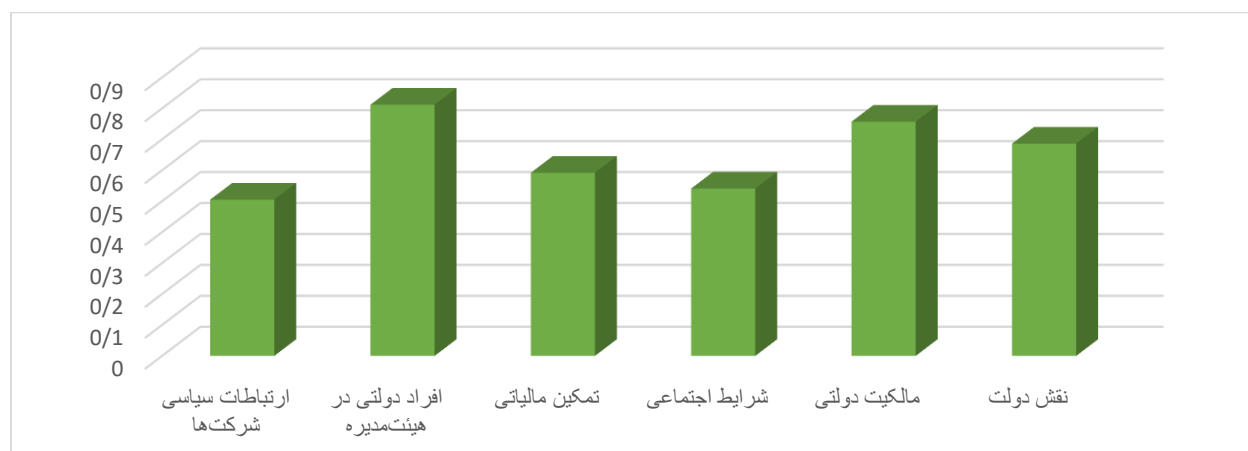


Figure 3: Histogram of Average Variance Extracted (AVE) Values for the Research Constructs

The following table summarizes these statistics.

Table 5: Overview of Model Quality Criteria

Research Construct	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Corporate Political Connections	0.876	0.901	0.505
Government Officials on the Board	0.769	0.897	0.812
Tax Compliance	0.647	0.805	0.592
Social Conditions	0.91	0.926	0.541
Government Ownership	0.839	0.903	0.757
Government Role	0.885	0.916	0.686

The table below presents the evaluation of the Fornell-Larcker criterion for the discriminant validity of the research model.

Table 6: Fornell-Larcker Criterion

Construct Intersection	Corporate Political Connections	Government Officials on the Board	Tax Compliance	Social Conditions	Government Ownership

Corporate Political Connections	0.711				
Government Officials on the Board	0.42	0.901			
Tax Compliance	0.807	0.43	0.897		
Social Conditions	0.459	0.488	0.498	0.735	
Government Ownership	0.467	0.727	0.756	0.431	0.87

The square root of the Average Variance Extracted (AVE) is shown on the diagonal elements, and the correlations between the constructs are below them. For example, the reflective construct of Corporate Political Connections has a value of 0.711 for the square root of its AVE, which should be compared with all correlation values in the Corporate Political Connections column. For Government Officials on the Board, the correlations should be examined for both the row and column. In general, the square root of the AVE for the reflective constructs of Corporate Political Connections, Government Officials on the Board, Tax Compliance, Social Conditions, and

Government Ownership are all higher than the correlation of this construct with other latent variables in the path model. Overall, the Fornell-Larcker criterion provides evidence for the discriminant validity of the constructs. In this section, based on the statistical findings, the fit of the measurement models was confirmed in terms of indicator reliability, convergent validity, and discriminant validity. Therefore, we will now examine the fit of the structural model.

Method of Cross-Loadings: In this method, the correlation between the indicators of a construct with that construct is compared with the correlation of those indicators with other constructs (Davari, 1393).

Table 7: Discriminant Validity Matrix Using the Cross-Loadings Method

Research Questions	Corporate Political Connections	Government Officials on the Board	Tax Compliance	Social Conditions	Government Ownership	Government Role
EcoCon_1	0.357	0.337	0.307	0.542	0.28	0.325
EcoCon_2	0.406	0.284	0.28	0.436	0.279	0.299
EcoCon_3	0.254	0.228	0.194	0.394	0.256	0.26
EcoCon_4	0.365	0.274	0.313	0.45	0.277	0.294
EcoCon_5	0.382	0.207	0.219	0.411	0.18	0.204
EcoCon_6	0.412	0.173	0.221	0.408	0.197	0.199

EcoCon_7	0.363	0.218	0.184	0.394	0.225	0.237
GovOffic_1	0.377	0.892	0.651	0.488	0.686	0.827
GovOffic_2	0.381	0.91	0.798	0.396	0.678	0.825
GovPoss_2	0.402	0.751	0.709	0.44	0.911	0.898
GovPoss_3	0.363	0.665	0.624	0.423	0.866	0.832
PolitCon_1	0.746	0.371	0.37	0.25	0.369	0.394
PolitCon_2	0.768	0.274	0.317	0.201	0.334	0.328
PolitCon_3	0.797	0.294	0.345	0.243	0.335	0.338
PolitCon_4	0.775	0.292	0.337	0.22	0.317	0.326
PolitCon_5	0.755	0.3	0.341	0.222	0.298	0.318
PolitCon_6	0.59	0.223	0.183	0.475	0.229	0.241
PolitCon_7	0.672	0.322	0.294	0.562	0.303	0.332
PolitCon_8	0.638	0.302	0.256	0.557	0.277	0.307
PolitCon_9	0.623	0.283	0.264	0.548	0.268	0.292

Research Questions	Corporate Political Connections	Government Officials on the Board	Tax Compliance	Social Conditions	Government Ownership	Government Role
SociCon_1	0.494	0.229	0.234	0.522	0.171	0.209
SociCon_10	0.36	0.272	0.258	0.529	0.269	0.289
SociCon_11	0.374	0.249	0.239	0.545	0.26	0.273
SociCon_2	0.481	0.25	0.241	0.539	0.234	0.257
SociCon_3	0.384	0.408	0.389	0.791	0.419	0.442
SociCon_4	0.344	0.463	0.402	0.845	0.408	0.46
SociCon_5	0.416	0.374	0.34	0.83	0.383	0.405
SociCon_6	0.399	0.438	0.368	0.851	0.393	0.44
SociCon_7	0.326	0.373	0.357	0.821	0.391	0.409
SociCon_8	0.321	0.436	0.429	0.822	0.394	0.438
SociCon_9	0.304	0.345	0.371	0.84	0.343	0.367
TaxComp_1	0.364	0.816	0.92	0.439	0.709	0.802
TaxComp_2	0.415	0.615	0.874	0.381	0.585	0.636
GovPoss_1	0.359	0.542	0.552	0.35	0.831	0.755

As the results in the table above show, all the questions or indicators related to each construct have a higher correlation with the same construct, and in other words, the discriminant validity of the model is at an appropriate level.

Z-statistics of factor loadings:

The next criterion for evaluating the structural model fit is the significance coefficients (z-values), which, as presented in the figure below, can be obtained through the bootstrapping command.

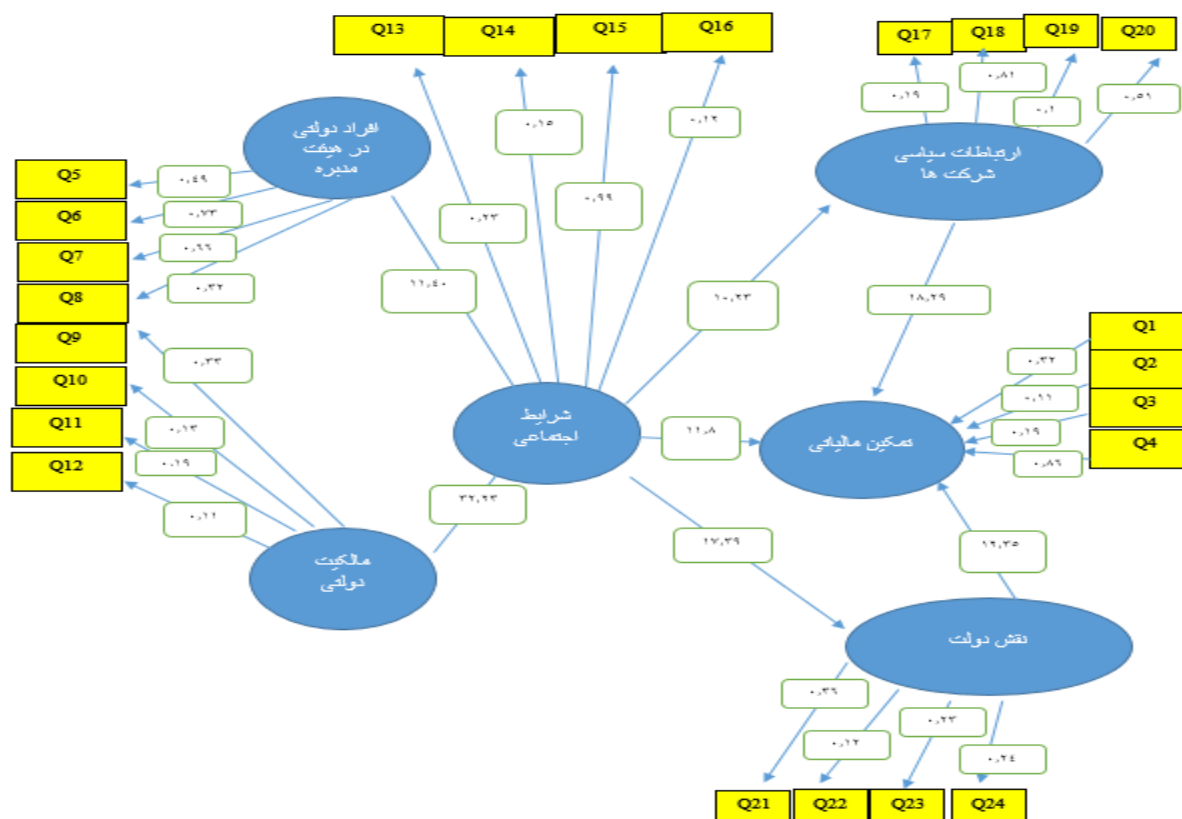


Figure 4: Conceptual Model of the Research with t-values

As shown in the figure above, all the z-statistic values are greater than 1.96, which indicates the significance of all the questions or items and the relationships between the variables at the 95% confidence level.

Coefficient of determination (R^2 value)

The most common measure used to evaluate the structural model is the coefficient of

determination (R^2 value). An R^2 value of 0.75, 0.50, or 0.25 for endogenous latent variables can generally be described as substantial, moderate, and weak, respectively (Hair et al., 2011; Henseler et al., 2009). The following table shows the R^2 values for the endogenous constructs of the research model.

Table 8: Coefficient of Determination for the Endogenous Construct of the Research Mode

Dependent Construct	R Square	Adjusted R Square
Corporate Political Connections	0.207	0.204
Government Officials on the Board	0.838	0.838
Tax Compliance	0.714	0.71
Social Conditions	0.258	0.256
Government Ownership	0.913	0.913

According to the findings in the table above, the coefficient of determination values for the dependent variable of the study are within their acceptable ranges, which indicates a good fit for the structural model of the study in terms of the coefficient of determination statistic.

Also, see the histogram of the coefficient of determination:

مقدار ضریب تعیین قوی

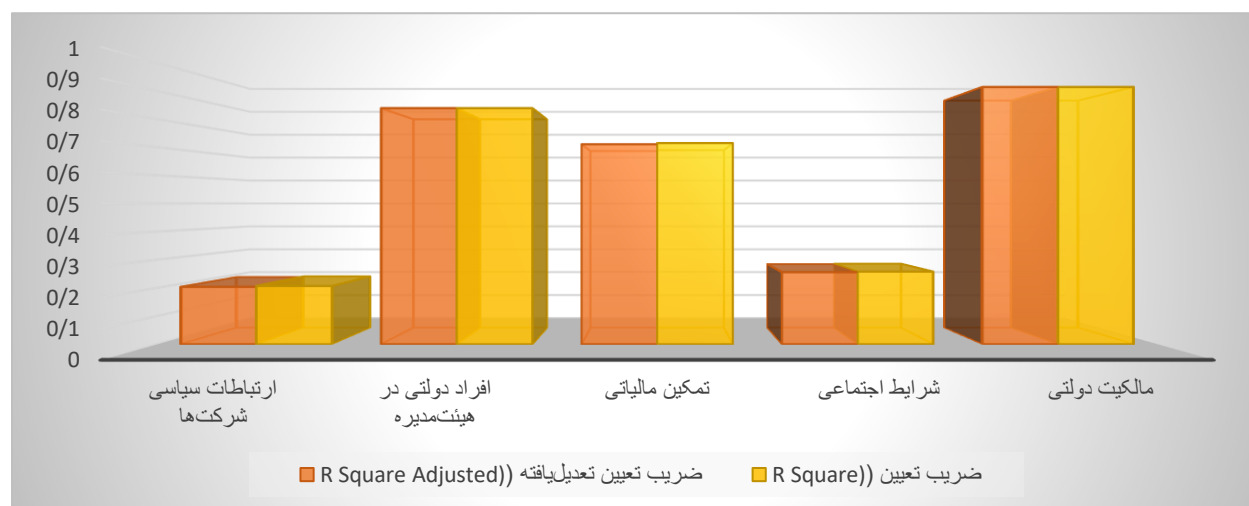


Figure 4: Histogram of the Coefficient of Determination (R square / R²)

Path Analysis and Hypothesis Testing

In this section, we will examine the main hypotheses of the research. The hypotheses of the present study are as follows:

In companies where the government is the major shareholder, corporate tax compliance is high.

Table 9: Results of Confirmation or Rejection of the First Hypothesis

Row	Research Hypothesis	Path Coefficients	Standard Deviation (STDEV)	T-VALUE	P Values	Hypothesis Status
H1	Government Role -> Social Conditions -> Tax Compliance	0.269	0.025	17.39	0.005	Confirmed

In the first hypothesis of the research, the role of government on tax compliance was evaluated through social conditions. According to the findings in the table above, the resulting path coefficient is 0.269, which indicates that approximately 26% is moderated through social conditions. In examining the above hypothesis, it is

confirmed that in companies where the government is a major shareholder, the tax compliance of companies is high.

In companies where a government official is on the board of directors, corporate tax compliance is high.

Table 10: Results of Confirmation or Rejection of the Second Hypothesis

Row	Research Hypothesis	Path Coefficients	Standard Deviation (STDEV)	T-VALUE	P Values	Hypothesis Status
H4	Government Officials on the Board -> Tax Compliance	0.305	5.843	11.4	0.044	Confirmed

The table above shows the results related to the hypothesis of the effect of government officials on the board of directors on the tax compliance of companies. The results indicate that the variable of government officials on the board of directors covers about 30% of tax compliance, as its path coefficient is 0.305. This effect is a

significant and meaningful influence. This path coefficient has a p-value of 0.044, which is less than the significance level of 0.05, and on the other hand, it has a t-value of 11.40. In general, to confirm a hypothesis, the t-value must be above 1.96, so we can claim that the hypothesis can be accepted at the 5% error level or 95% confidence level. The

mentioned hypothesis falls within the range of 1.96 and above, indicating that companies with a government official on their board of directors have high tax compliance.

Main Hypotheses

In this section, we will examine the research hypotheses. In the present study, there are

two main hypotheses that will be examined in turn below.

Designing a model of corporate tax compliance is possible, considering the role of the government.

Table 12: Results of the Main Research Hypotheses

Row	Research Hypothesis	Path Coefficients	Standard Deviation (STDEV)	t-value	P Values	Hypothesis Status
H1	Government Role -> Social Conditions -> Tax Compliance	0.269	0.025	11.8	0.005	Model design confirmed

The table above shows the results of proving and rejecting the main hypothesis of the research. As we know, to prove a hypothesis, it is sufficient that the t-value be above 1.96. Then, at the 5% error level or 95% confidence level, we can claim that the hypothesis has been proven. On the other hand, a hypothesis can also be proven through the p-value statistic, so that if this value is less than 0.05, then the hypothesis is confirmed and proven, and if it is above 0.05, then the hypothesis is rejected. Based on the findings in the table above, the first main hypothesis presented above was confirmed with a significance statistic value of more than 1.96 at the 95%

confidence level. On the other hand, for these paths, the p-value was less than 0.05, which indicates that designing a model of corporate tax compliance is possible, considering the role of the government.

- Second main hypothesis:

The government, through the country's tax organization as a supervisory body, can improve the tax compliance of companies by considering social conditions..

Table 10 - Results of confirming or rejecting the second hypothesis

Row	Research Hypothesis	Path Coefficients	Standard Deviation (STDEV)	T-VALUE	P Values	Hypothesis Status
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H3	The country's tax organization as a supervisory body -> Tax compliance	0.106	12.947	12.35	0.023	Confirmed
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The table above shows the impact of the role of the country's tax organization as a supervisory body on tax compliance. As the results show, the path coefficient of this relationship is equal to 0.106, which has a P-value of less than 0.05 and a T-value of more than 1.96, respectively. The P-value is equal to 0.021 and the T-value is equal to 12.35. Therefore, at the 95% confidence level, it can be confirmed that the type of effect is direct, and it is concluded that the government, through the country's tax organization as a supervisory body, can improve the tax compliance of companies, considering social conditions. Also, this relationship has a standard deviation of 12.947.

5- Discussion and Conclusion

The findings of this study provide valuable feedback for government institutions, especially tax authorities. This information can significantly assist them in developing and improving tax approaches, such as tax compliance strategies. It is expected that in the future, mechanisms will be integrated to address social conditions as a key factor influencing tax compliance. The data collected from this study can be used to assess the level of stakeholder engagement in fully understanding the role of social conditions, governance, and the

government's role in overseeing corporate tax compliance. This research concluded that designing a tax compliance model for companies is feasible, considering the government's role. It was also found that in companies where the government is a major shareholder, tax compliance is high. Therefore, it is recommended that the country's tax organization, by incorporating incentives and penalties into its regulations, shape the operating conditions of companies in a way that increases their willingness to comply with tax laws. Furthermore, it was concluded that political connections within a company, in a way, pave the way for tax compliance. Therefore, the government should devise a suitable strategy to place an affiliated individual on the board of directors of large companies suspected of tax evasion. This could be achieved through regulations approved by the tax authorities or by offering a suitable position in government agencies to one of the key members of the board of these companies. Overall, it is suggested that regulations be considered to prevent individuals with political influence and senior management positions in ministries from holding positions on the boards of publicly traded companies. Currently, social conditions are such that people are reluctant to invest in such companies. This could lead to companies being less inclined to have politically influential individuals on their boards in the long term.

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