Exploring and Analyzing the Relationship between Taxes Policymakers and Financial Investments Owners: Evidence from State of Palestine

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Keywords: Tax System, Tax Policymakers, Financial Investments owners, and Individuals and Corporate Companies.

Abstract: This study is about exploring and analyzing the relationship between taxes policymakers and financial investments owners. It aimed at achieving and spreading tax policies, procedures, structures and regulations among financial investments that are owned by individuals and corporate companies. It provided insights into the problem and helped developing ideas on improving a good relationship between tax policies and financial investment in order to extend investment size and maximize profits, and improve the quality of tax policies as well. The study was conducted in State of Palestine. This study has used Qualitative research with type of case study. Data were collected through documentation, observation and online interviews. Qualitative data were subjected to content analysis. The findings showed that the relationship between tax policies and financial investments is acceptable. But, those financial investments that are owned by individuals, their awareness and understanding of tax policies is limited, not like corporate companies. Therefore, individuals would contribute to the improvement and development of country’s tax policies if those policies are imposed equally on all parties. Many elements were associated with exploring and analyzing the relationship between taxes policies and financial investment in Palestine namely tax policies structure and hierarchy, tax rate, tax laws systems and procedures, tax incentives, individual’s perception towards government ability to utilize tax collection for social welfare; and the quality and capacity of tax administration. The study recommended to work on improving the coordination between taxes policies and financial investments in order to contribute to the improvement and development of the quality of tax policies and the quality of financial investments as well. Through, a) Increasing the attention to the internal control system in tax services and policies departments more than is applicable, b) Issuing a working manual that includes the detailed procedures of each control process of tax policy, and c) Generalizing the rules of implementation of tax policies.

1 INTRODUCTION

The political, economic and social development of any country depends on the amount of revenue generated for the provision of infrastructure in that given country. However one means of generating the amount of revenue for providing the needed infrastructure is through a well structure tax system. Azubike (2009) is of the view that tax is a major player in every society of the world. The tax system is an opportunity for government to collect additional revenue needed in discharging its pressing obligations.

A tax system offers itself as one of the most effective means of mobilizing a nation’s internal resources and if lends itself to creating an environment conducive to the promotion of economic growth. Nzontta (2007) on the other hand, argues that taxes constitute key sources of revenue to the federation account shared by the federal, state and local governments. Appah, et al., (2004). Tax is a compulsory levy imposed on a subject or upon his property by the government to provide security, social amenities and create conditions for the economic well-being of the society also Anyanwu (1996) and Anyanfo (1997) stated that tax are imposed to regulate the production of certain goods and services, protection of infant industries, control business and curb inflation, reduce income inequalities etc. On the other hand, Tosuu and Abizadeh (2005) acknowledge that taxes are used as
proxy for fiscal policy. They outlined five possible mechanisms by which taxes can affect economic growth. First, taxes can inhibit investment rate through such taxes as corporate and personal income, capital gain taxes. Second, taxes can slow down growth in labor supply by disposing labor leisure choice in favor of leisure. Third, tax policy can affect on research and development expenditure. Fourth, taxes can lead to a flow of resources to other sectors that may have lower productivity. Finally, high taxes on labor supply can distort the efficient use of human capital high tax burdens even though they have high social productivity.

Moreover, the improvement of tax system (Tax Policies) is usually depending on the quality of the existing investments and their size in the state. Financial investments are considered as the main key to support the needs and demands of government, and also it is an important tool that used to measure the economic conditions and the growth rates in the state. In this context, the study has focused on creating a good relationship between tax policymakers and financial investments owners. Therefore, the relationship in this context means the ongoing process of identifying, establishing, maintaining, and enhancing successful relations with different investments and other parties. So that the purposes of all parties (Tax systems and investments) involved are met, and this is done by a mutual giving and fulfillment of promises. Also, this relationship is considered as a social relationship in order to accomplish the purpose of meeting the interests of both parties, and ensure that mutual needs are met during social interactions between these parties. Furthermore, this relationship based on communication between Tax policies setters and investors (the owners of financial investments), in which this communication is considered as any act by which one party gives to or receives from another party information about the mutual needs, desires, perception, knowledge or affective states. Communication is defined as the process of passing important information and understanding from one party to another, it is essentially a bridge of meaning between taxes and investments.

Tax is a major sources of government revenue all over the world. Government use tax proceeds to render their traditional functions, such as provisions of public goods, maintenance of law and order, defense against external aggression, regulation of trade and business to ensure social and economic maintenance. Musgrave and Musgrave (2004) stated that economic effects of tax include micro effects on the distribution of income and efficiency of resources use as well as macro effect on the level of capacity output, employment, prices and growth.

Furthermore, to establish the role of Palestinian taxes policies and meet the purpose of its existence, the country should collaborate with investors in order to achieve the interests of state’s economy, and achieve the internal, and external stability (Jihad, Ghasawna.1999). In addition to reinforcing the main concept of financial investment and its role in the state, the policymakers should confirm the definition of tax fairness which is the idea most people gravitate towards when thinking about good tax principles, but the emphasis placed on this issue is often so great it appears fairness is the only tax concept that matters. Of all the principles of good tax policy, fairness is the most challenging to put in place since it means different things to different people. Therefore, if there is tax fairness in the issued policies, then this will lead to upgrade the quality of existing investments, and will dramatically improve tax system to be such a tool that all different financial investments would depend on.

1.1 Statement of The Problems

In developing countries, the government has to control the development and the growth of economy or some economies through setting policies, procedures, and legal instructions. In addition, government sometimes manage and coordinate some investments because private initiative and capital are limited. Tax policy is considered as such an important tool that is used by government, and it means the choice by a government as to what taxes to levy, in what amounts and on whom, and it could be the use of government spending and revenue collection to influence economy. Therefore, tax policy is usually used to promote economic growth and stability, and promote social policy programs with economic effects. Taxation 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.

According to the classical economist the only objective of taxation was to raise government revenue. But with the change in circumstances and
ideologies, the aim of taxes has also been changed. These days apart from the objective of raising the public revenue, taxes level affect consumption, production and distribution with a view to ensuring the social welfare through the economic development of a country, tax can be used as an important tool in the following manner: optimum allocation of available resources, raising government revenue, encouraging savings and investment, acceleration of economic growth, price stability, control mechanism etc. the one and major problem to be address in this work “is the poor tax policies discipline in the allocation of resources and the operation of an ineffective tax regime in Palestine”. The work therefore intends to examine whether economic growth is enough a viable tax in Palestine.

1.2 Objective of The Study

This study generally seeks to “identify or analyze the relationship between tax policymakers and financial investment owners” in which effective tax policies has brought about economic growth and financial investments in Palestine. While the specific objectives are as follows:

1. To explore the relationship between tax policymakers and financial investment owners in Palestine.
2. To analyze or discover if there is any contributions of tax policies to real financial investments in Palestine.
3. To determine whether the relationship between policymakers and investments owners is acceptable or not in Palestine.

1.3 Study Focus

This paper has been made to focus on:

Understanding the relationship between tax policies and financial investments. Where the owners of those investments will provide a sense of tax policy and will actually promote the implementation of tax policies. Tax policies setters will also provide a sense of tax system as a result of establishing a good relationship with the owners of financial investments. Whereas, financial investments could lead to promote strong economic development and stability, low inflation and layoffs, low unemployment and wide range of opportunities, and strong government budget revenues.

Exploring and analyzing the core content of each concept through explaining the main components of tax policies (e.g. tax laws, legal procedures, policies, regulations, and the hierarchy of tax policies), and the components of financial investment as well (e.g. size, activities, type and financial position).

1.4 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 policies in Palestine and to add to knowledge about the relationship between Tax Policies and Financial Investment. 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 tax issues and investment in Palestine. The study gives theoretically knowledge to the investors and other tax administrative officers on applications of the tax policies.

2 THEORETICAL FRAMEWORK AND LITERATURE REVIEW

2.1 Stakeholder Theory

Stakeholder theory means a collection of policies and practices relating to The stakeholders, values, compliance with legal requirements and the environmental community awards, as well as the commitment of business to contribute to the sustainable development. Stakeholder theory begins with the assumption that the value (value) explicitly and no doubt a part of business activities (Freeman et al., 2002 in Kusumadilaga, 2010). Furthermore, investment has a direct relationship with stakeholders, and investment concepts cannot be separated from the main process of stakeholders operations, activities and their financial transactions. In addition, investment is considered as the main company’s strategy to satisfy stakeholders. Therefore, if investment policy is done well, the performance of the company will increase. This is because the stakeholders have confidence in the company that they invest in. thus, this would make investors to look after the company, and its social and environmental problems and conditions that exist. Thereby, stakeholders will provide full support for any action taken during the company did not violate the law. Stakeholder’s theory is the theory that puts emphasis on the role of stakeholders, stressing the fact that a firm cannot function independently from its surroundings (Bearle and
Meanse, 2002). Eventually, investment tools have assumed that the only transaction where the firm offers something of value – typically social profits or public service – presupposes the approval and support by key individuals and/or social-political interest groups (Murray, Vogel, 2007).

### 2.2 Agency Theory

Agency theory is entirely connected to the description of the nature of conflict between the 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, and it explains the main relationship between two parties. On one hand, the principal, he acts as the one who will run the ownership, and the related businesses. On the other hand, the agent, he acts as the one who will manage the transactions and interests with the first party. This theory was chosen to determine the relationship between tax policies and financial investment, and diagnose the turbulences and the conflict between tax policies and financial investment in Palestine.

However, agency theory was extended to define the role of management for determining the basic relations between different agents with different goals in the organization, (Eisenhardt, 1989). The agency theory that relates to this study is about understanding the relationship between one parties (called the tax policy) is engaged by another party (called the financial investment). Both parties are assumed or recognized to be benefits maximizer, and motivated by financial and non-financial items. Meanwhile, there are some problems that surround the relationship between both parties, and it could be uncertainty and information asymmetry. Therefore, if the objective function of both parties is incompatible, this could lead to make the (tax policy) take actions which will jeopardize the (financial investment) benefits. In addition, the agency theory always operates under the condition of risk and uncertainty

### 2.3 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. In addition, Taxation theory is 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. Furthermore, the fundamental purpose of any tax system is to raise revenue for government. Therefore, it’s important to view tax proposals first through the lens of what makes a good public finance system. Over years of research and practical experience, tax policy has advocated several concepts and principles to guide decision-makers and inform governments as to how to best tax their citizens. Finally, it should be noted that “good tax policy” does not change during times of large budget deficits or healthy surpluses. Good tax systems can fall woefully short of creating adequate revenue during recessions, and poor tax systems can raise plenty of money (but they often are unsustainable).

Adam Smith in The Wealth of Nations (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 tax payers and (4) cheap to administer and collect.”

### 3 TAX FUNCTIONS:

According to the taxation theory. It has divided taxes into groups in order to simplify the process of tax policy. Therefore, this theory has explained the main function of tax in which these functions are:

- a. Is to finance the country’s expenditures. Taxes are the main source to finance these expenditures, and governmental budget in order to offer the public services to the citizens. Moreover, if tax payers are concerned with paying taxes, then the government will be able to
offer services, and meet citizen’s requirements (Sabri: 1998).

b. Is to achieve the social goals: through redistributing income equally among all individuals, 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 (Abo Nasar: 1996).

c. 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: 1996).

d. Is to protect the national products: through imposing high taxes on importing products, or reducing it or cancelling it, in order to improve the quality of national products and to protect it (Siam: 1994).

e. It is considered as tool of economic policy tools in order to make a balance in the financial policies, to encourage investments, and to encourage producing national products (Abo Nasar: 1996).

4 TAX POLICY PRINCIPLES

This paper has determined to create a positive and acceptable relationship between tax policies and financial investment. Therefore, if this relationship is good, then economy growth, stability and the quality of investment and productivity will be improved and upgraded. Furthermore, there are six principles must be taken into consideration in order to establish this relationship (Keen, Michael, 2004).

1. Keep tax policies simple, easy to comply with, and easy to collect: tax policies must be easy not difficult in order to connect all investors towards it. Moreover, tax policies are considered as the main coordinator that directs, and manages all economic activities and operations, and especially those that are in relation with financial investment and investors. In addition, the more complex a tax, the greater the costs for the government to administer it and the greater the compliance costs for investors to determine their liability and report it. Simplicity also breeds a sense of fairness among investors due to greater understanding.

2. Make tax policies transparent and visible: investors should know that a tax exists, why the tax is being levied, who's responsible for the tax, and how it's calculated and paid. As a matter of economics, when taxes are visible it allows investors to make informed judgments about the relationship between their tax burden and the types and levels of government services provided to them.

3. Encourage stability and predictability: it means that tax policies should provide investors with supportive tax services, information and any other tax documents. Therefore, this could help investors to put the right plans to manage their investments. Thus, this would upgrade the process of tax policy to be such an important tool in investment.

4. Don’t distort decision-making: it means that tax policies should be a tool that could enable investors to make their decision as easily as possible. It shouldn’t be a harmful tool. Thereby, easy tax procedures would lead to enhance the harmony and positivity with investors. Thus, this could lead to make investors trust in tax policies and its criteria, structures, and procedures.

5. Protect economic competitiveness: a tax system needs to reflect the realities of competing in a global economy. Information technologies and other advances are reducing the significance of “place” in the conduct of economic activity. No state can afford to ignore this by placing themselves at a distinct comparative disadvantage relative to other states. Tax systems should also be responsive to changing regulatory and competitive circumstances.

6. When possible and appropriate, base taxes on benefits received -- Policy makers should always strive to enact fees or taxes that are directly related to the costs of the benefits provided to the people paying them. Of course, most government services are more general in nature and broadly beneficial to society as a whole, which means they can’t readily be tied to identifiable taxpayers or groups of taxpayers. Consequently, most government services require general taxation and the consideration of other tax principles.
5  THE RELATIONSHIP BETWEEN TAX POLICYMAKERS AND FINANCIAL INVESTMENT OWNERS

Definitely, a good relationship between Tax Policy makers and Financial investments owners could be established by reinforcing the main principles of social tax justice which are A) Equity. B) Simplicity. C) Certain. D) Convenience. E) Elasticity of Tax to changes in the tax base. Therefore, if these principles are implemented as effectively as possible, then this would dramatically lead to establish positive, and strong relationship between both of them. Thus, the possibility of achieving the purposes of this relationship will be strongly noticed. Generally, the one who is totally responsible for establishing that relationship is tax administrations, because tax administration is acting as the financial tool of country’s budget, and it is responsible for the whole tax activities. Therefore, to establish a good relationship: Firstly, tax administration must accept and respect the given financial statements that are provided by investors and owners of corporate investments and not to reject it all. Secondly, tax administration must adopt new techniques such as (innovate new tax systems, improve tax facilities, and create flexible laws), and other techniques that would increase the confidence of those investors towards tax administration. Thirdly, investors must follow and obey the current tax procedures, and they should be committed to the instructions of tax policies. Thus, this relationship will positively achieve the interests of taxes and investors.

Furthermore, a good relationship could be established. But, it should depend on elements such as: A) Equal treatment should be made among all investors without any biases. B) Improve communication skills of tax officials towards the owners of financial investments, and upgrade their knowledge about Tax systems and policies. C) Tax policies setters should offer the same tax information, and tax services to all those who want to invest in the state, and it should not be offered only to big corporations and foreign investments. And D) creating agreements between Tax policy setters and investors in order to know the main requirements and needs of both of them. Therefore, this would lead to meet the interests of both of them.

6  STUDY METHODOLOGY

In this study, the researcher used qualitative research. The type of this research is case study which means the specification in an event, including individuals, a group of culturally or a portrait life (Cresswell, 1998) mentioned several characteristics of a case study, which are: (1) to identify a case for a study, (2) the case is a system that bound by the time and place, (3) case studies uses various sources of information in the collection the data to give a picture in details and deeply about response of an event, and (4) using the case study. The qualitative approaches were used to provide descriptive forms which involved conducting interviews, observation and questionnaires with open ended questions. 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.

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 and analyze the relationship between taxes policies and financial investments 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. In addition, this study has been chosen in order to provide necessary documents, details, ideas and information on the relationship between taxes policies and financial investments. Furthermore, the researcher will recognize how to obtain useful data to serve the research.

6.1 Methodology Justifications:

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 policies in achieving the desirable interests of financial investments in the State, eliminating or minimizing the effects of unacceptable tax procedures, and identifying the nature of tax policy and financial investments. Therefore, this will lead to enhance the development of the economy and the country’s growth. Moreover, this methodology was used to analyze the relationship between tax policies and financial investments. And identify the strengths and weaknesses of this relationship. In addition, the
main justification of this study is to conduct research in understanding Palestinian tax policy, 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.

7 STUDY FINDINGS

1. It was found that there was acceptable relationship between tax policymakers and financial investment owners. In addition, it was noticed that foreign investments have lots of tax facilities rather than local investments. Therefore, the tax relations with local financial investments are limited. Thus, this could lead to harm the state’s economy on the long run.
2. It was found that there was reasons for non-achieving the interests of both of tax policymakers and investors in which these reasons are: low collaboration with some local investments, and irresponsibility is at first; lack of adequate tax services, information, and other facilities provided is at second; poor relationship of some local financial investment owners with tax policymakers is at third; unclear tax procedures, and policies is at fourth; and low investment exemptions is at fifth.
3. It was found that there was lack of tax awareness of owners (financial investments) of the importance of current tax system (policies, structures, procedures, and the updated tax regulations). Therefore, tax policymakers should provide continuous journals and conferences on their policies. Thus, this will lead to increase the awareness of owners, and improve their relations with tax policymakers as well.
4. It was found that there was lack of the Establishment of the social security fund to facilitate the enforcement of labor law and legislations, taking into account the amendments proposed by financial investments owners in Palestine.
5. It was found that there was cut back on the local financial investments. Therefore, intensive efforts should be exerted to enhance awareness for promoting the advantages and traits of the local investments.
6. It was found that there was lack of transparency in enforcing the new tax policies and laws, and low tax facilities to supply new local investors.

8 CONCLUSIONS

During this study, what has been noticed is that local and foreign financial investments have contributed to the improvement and the development of tax policy (Tax System) of the government. Whereas, this has enabled the government to offer public services to the citizens and enabled it to encourage new investors or startups businesses to invest in the state. Each financial investment has its own vision, mission, culture, and philosophy. In Palestine, financial investments are the main source of governmental tax revenues. Thereby, tax policymakers have set new tax procedures and techniques in order to facilitate investors and owners, and improve the quality of their investments. In addition, this study has figured out that financial investments are considered as the key player to offer public services through supporting the governmental budget revenues, encouraging foreign investment in order to enter hard currency to the country, and decreasing the high levels of unemployment and inflation in order to decline the governmental expenditures.

Furthermore, the results of analysis have shown that the relationship between tax setters and foreign investments is stronger than local ones. Therefore, that has led to decrease the number of local investors in the state. Thus, this could harmfully affect the local economy. In addition, many factors such as financial inability, poor economic conditions, high fluctuation and economic crisis, political instability, and liquidity deficiencies and many more could affect negatively the state’s economy if government and tax policymakers didn’t pay attention to the importance of local financial investments. In evaluating tax policy, it is important to understand the interactive effects with the implications for financial investments and business decision-making. This is especially true for redistributive goals, which economists recognize are best left to tax system.

Finally, this paper has demonstrated—in exploring a relationship between state’s policies and state’s economy. Whereas, this study has urged to set new tax policies that suit all different types of investments, and to upgrade its quality, efficiency, and effectiveness to be more competitive with other economies. In addition, this study has reached to the conclusion that 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 lack of financial investments and poor redistribution of resources. 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 limit the encouragement of investment in the state.

9 STUDY RECOMMENDATIONS

Recommendation Base on the general findings of the study the following recommendations are however made:

1. Government through the monetary authority should implement taxation laws that stimulate the aggregate level of investment in Palestine.

2. The government should implement tax policies, procedures and other regulations fairly among local and foreign investments in order to achieve economic development and growth objectives.

3. Government should use the earned tax revenues to provide infrastructural amenities as this will encourage and attract new investors whether they are locals or foreigners to invest in Palestine. Therefore, this would dramatically lead to increase the capacity of their financial investments.

4. Rationalize and unify policies of public expenditure as well as ensure commitment of all governmental institutions to encourage and protect the local financial investments. In this regard, serious efforts should aim to stop waste of funds and excessive spending on luxurious cars as well as on furnishing of ministries and other governmental institutions with imported exorbitant furniture.

5. Pay serious attention to establishing and allocating funds for research and development that are needed to keep the both of local and foreign investments informed of the latest tax policies, laws, regulations, and procedures, and that’s in order to enhance a well-accepted relationship.

6. Support and offer tax facilities and exemptions that encourage foreign and local investments to improve the state’s economy. In addition, adopt an effective mechanism that ensures the updating of new financial investments registration information whenever changes occur in the status of the entity particularly in changes in contacts and locations.

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