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THE INFLUENCE OF ELECTRONIC TAX MANAGEMENT SYSTEMS (ETMS) ON BANKING GOVERNANCE

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ABSTRACT

The objective of this research is to ascertain whether the implementation of electronic tax management systems “ETMS” enhances the efficacy of banking governance applications by streamlining the processes associated with accessing tax records and performing the requisite financial analyses for taxpayers. Furthermore, it seeks to facilitate the monitoring of manipulative activities arising from the potential misuse of the discretionary authority of tax assessors, in a manner that is more efficient than traditional paper-based transactions. Additionally, the research aims to simplify the procedures for assessing the quality of tax services and their integrity in terms of corruption. An electronic questionnaire form was distributed to 128 employees in the General Tax Authority, employees of government banks and the Integrity Commission, and then statistical analysis was conducted using the SmartPLS program to determine the stability of the questionnaire paragraphs and the saturation rate of each paragraph, in addition to descriptive analysis and hypothesis testing. The research findings indicate that there exists a substantial relationship between electronic tax management systems and the enhancement of banking governance.

KEYWORDS: Electronic Systems, Tax Administration, Banking Governance, ETMS.

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INTRODUCTION

Similar to other developing nations, Iraq has a lack of tax awareness, as the populace fails to recognize the significance of taxes in fostering economic progress. Consequently, taxpayers frequently refrain from proactively disclosing information regarding their taxable activities, thereby imposing the majority

of the responsibility on the General Tax Authority and its various divisions. These divisions depend on a manual system that organizes taxpayers alphabetically, maintaining a paper file for each individual that contains the taxpayer's priorities along with their serial number, while electronically archiving these records in an outdated system. Furthermore, there is a deficiency of experienced personnel who exhibit a strong commitment to regulations, laws, and integrity. The Central Bank of Iraq, tasked with addressing the majority of issues within the financial and banking sector, has mandated all banks operating in Iraq to implement banking governance principles. This necessitates the adoption of digital technology and alignment with advancements in electronic payment systems, specifically through the application of electronic tax management systems (ETMS), which will streamline the procedures of Iraqi regulatory authorities. This research paper addresses a topic aligned with the Iraqi government's initiative to implement e-government, specifically the application of electronic tax management systems (ETMS) and the assessment of their impact on enhancing banking governance, increasing government revenues, and streamlining administrative processes for individuals and companies subject to taxation.

Literature Review

Taxes serve as a primary source of revenue for governments, facilitating the funding of expenditures and developmental initiatives. Tax is defined as a contribution made to finance government expenditures, distinguishing it from fines or penalties, which serve to deter or punish undesirable behaviour (Jones., 2004). A mandatory duty imposed by public authorities without a specific direct return has been defined (Simon & Nobes, 2001). Taxes are a compulsory contribution to the state, mandated by law for individuals or entities, and utilised for governmental purposes aimed at maximizing societal prosperity (Ismawati, 2022). Electronic tax administration systems focus on the automation of tax administration, compliance, and collection processes. These systems utilise data analytics and digital tools to enhance taxpayer compliance, minimise errors, and improve efficiency. Electronic tax administration systems (ETMS) facilitate tax compliance by streamlining processes, lowering costs, and improving efficiency (Salazar, Bedoya, Fretell, & Mayuri, 2023).

ETMS systems improve tax administration efficiency through digital platforms for VAT refunds, tax invoices, and evasion prevention. This results in increased revenues and a reduced administrative burden, positively influencing both voluntary and mandatory compliance among SMEs, thereby enhancing overall tax administration and adherence to tax regulations (Manalu, Kusumastati, & Safiq, 2021). The implementation of electronic tax management systems (ETMS) facilitates the adaptation of tax collection to the digital economy and mitigates the complexities associated with virtual goods (Zhu, 2021). Additionally, ETMS addresses the challenges of e-commerce tax collection through features such as electronic registration, electronic filing, electronic payment, and biometric identification, thereby enhancing taxpayer compliance and modernizing tax administration via information and communication technology (Djafri, Damawati, Suharto, Satwika, & Rahmatullah, 2023). The increase in the number of taxable persons necessitates that tax authorities implement measures to ensure continued compliance and user satisfaction (Rahman, Talukder, Lanrong, & Abul Khayer, 2020). This approach aims to enhance the quality of information and service, thereby promoting the sustained use of the electronic tax reporting system. We should prioritize the technical quality of the system's performance, given that the electronic tax reporting system enables taxpayers to submit their tax return records in real-time (Awang, Nadzir, & Haruna, 2023). The primary elements of the electronic tax administration system are as follows:

1. **Taxpayer Registration and Identification:** The electronic tax administration system enables the simplification of registration processes, allowing individuals and businesses to register electronically. This feature guarantees the accurate capture and maintenance of taxpayer information in a central database (Smith, 2022).

2. E-filing and e-payment: This refers to the electronic submission of tax returns and the electronic payment of taxes. This reduces the burden on taxpayers, reduces paperwork, and speeds up the processing of returns and payments (Johnson, 2021)

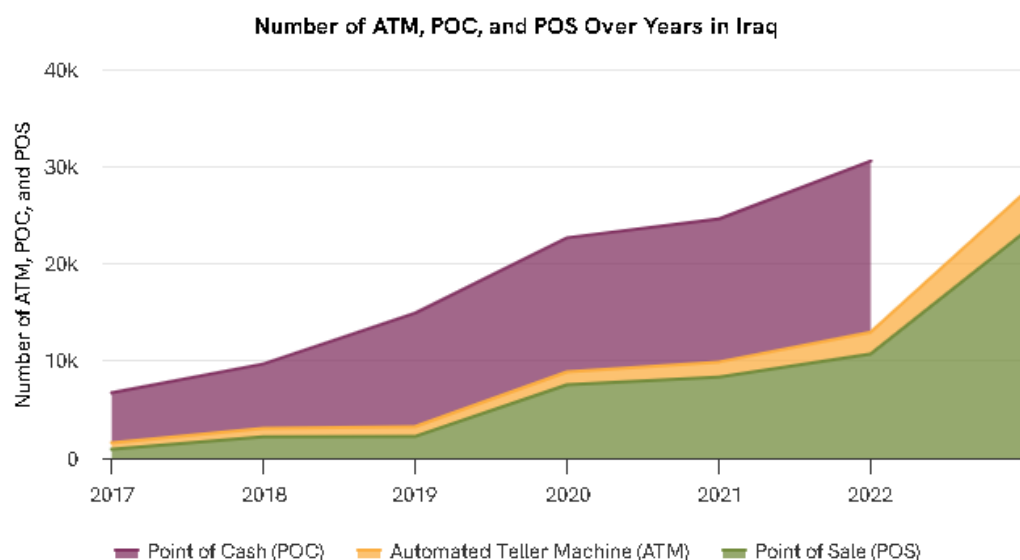
3. Data integration and analytics: This capability enables tax authorities to detect inconsistencies, identify non-compliance, and conduct audits more effectively. The advanced e-tax system integrates data from different sources, which facilitates data analysis (Brown, 2020)

4. Automation of tax processes: By processing tax returns more accurately and tracking payments and correspondence, the e-tax administration system reduces human intervention, thereby reducing the risk of errors and fraud (Garcia, 2023). Additionally, it enables taxpayers to access their information and receive assistance in filing returns and payment options, thereby encouraging voluntary compliance (Wilson, 2021)

Electronic payment methods and banking governance

The use of corporate governance and electronic payment settlement technology in the banking industry has been a priority for succeeding Iraqi governments. Because it preserves the stability and dependability of banks, bank governance is crucial in the financial industry. Therefore, it is widely acknowledged that in order to guarantee overall stability and bank well-being, the banking industry requires effective corporate governance. The most crucial elements of the concept of corporate governance are risk control methods, the effectiveness of internal and external audits, accountability in financial institutions, and the reduction of fraud and mismanagement risks. (BADRAN¹ & CHAMOUN, 2024). The efficacy of corporate governance, as well as the interactions between management, the board, shareholders, and other stakeholders (such creditors), all have a role in reduced agency costs and enhanced corporate performance. The inclusion of depositors and regulators, who often have different goals than shareholders and management, makes governance relationships in financial organisations more complicated. (Rose & Hudgins, 2010)

It is noted from Figure (1) that the Iraqis' demand for electronic financial services is constantly increasing, and this matter encourages the necessity for government agencies to proceed with the implementation of electronic tax systems.



Data Source: Central Bank of Iraq

(Source: iData, 2024)

There has been a noticeable rise in the engagement with POC and POS devices, as well as ATM machines, following a period before 2017 when demand was low and these services were not widely embraced due to inadequate service and limited financial knowledge among users.

METHODOLOGY

Iraq was selected as the research 's location to assess the research variables due to the researcher's interest, particularly among workers of the General Authority for Taxes and Banks and some banking institutions, with a sample size of 128 employees and taxable residents. The research used descriptive and analytical methodologies to ascertain the research variables with the objective of quantifying the influence magnitude between them. This research is significant due to the critical role of tax revenues as a government financing mechanism. The findings are anticipated to enhance awareness among tax administrations regarding the non-compliance of numerous taxpayers with their tax obligations. This research seeks to provide innovative and practical solutions to tax evasion while promoting improved banking governance to mitigate financial and administrative misconduct.

Research Problem: The Iraqi economy has increasingly relied on oil income as contrast to non-oil sources, such as taxes. The cause of this may be the failure of successive administrations to implement pragmatic measures for genuine economic changes grounded in the knowledge economy, which mostly depends on communications technology and its accompanying contemporary conceptions. This research examines the influence of electronic tax management systems (ETMS) on enhancing banking governance, so framing the research issue with the following inquiry: Is there a statistically significant correlation between electronic tax management systems (ETMS) and the enhancement of banking governance?

Objectives of the Research: Performing a descriptive analysis to illustrate the trend of the research sample's perceptions on electronic tax management systems (ETMS). Assessing the nature of the link between electronic tax management systems (ETMS) and banking governance.

The research posits a primary hypothesis: there is no statistically significant impact of electronic tax administration systems on banking governance.

DATA ANALYSIS AND RESULTS DISCUSSION

The second part of this paragraph tests the main research hypothesis, while the first part focuses on descriptive analysis and evaluation of the measurement model. The goal of this research is to measure the role of electronic tax management systems (ETMS) in improving banking governance.

Analysis and evaluation of the measurement model

The research adopted descriptive analysis, including measures of central tendency and dispersion. Partial Least Squares (PLS-SEM) modeling was also used through the SmartPLS program.

Coding Scale Paragraphs

Table (1) Coding the Scale Paragraphs

Variable	Paragraphs	Variable	Paragraphs
1.2. Electronic Tax Management Systems (ETMS)	GB	Governance	GRB

Source: Prepared by researchers

Analyze the questionnaire items

Table (2) shows the metric descriptive analysis, and the results of the rate indicated that all paragraphs of the search variables (ETMS) and bank governance exceeded the presumptive intermediate (3) (when using the Licert scale), and the lower standard deviation rates demonstrated the accuracy of respondents' answers and their understanding of the paragraphs.

questionnaire items analysis of the variable of electronic tax management systems

Table (2) questionnaire items analysis of the paragraphs of the research variables

Variable	Item	Paragraphs	Mean, arithmetic	Standard deviation
ETMS) GRB	GB1	Electronic systems contribute to enhancing compliance with tax laws	3.772	1.73
	GB2	Enhance electronic systems in the application of approved accounting standards and reduce calculation errors	3.983	1.49
	GB3	Application of electronic tax systems limits fraudulent financial reporting	3.326	1.33
	GB4	Electronic systems help speed up the fulfillment of financial obligations of taxable entities	3.986	96
	GB5	The use of electronic systems increases the level of transparency of transactions and tax procedures	3.871	0.89
	GB6	Electronic systems contribute to reducing transaction costs	3.871	9. (5)
	GB7	Electronic systems facilitate the procedures for registering the information of taxable entities in terms of effort and time	3.741	0.99
	GB8	The use of electronic systems increases electronic payments and reduces cash transactions	3.628	0.91

Variable	Item	Paragraphs	Mean, arithmetic(al)	Standard deviation
Governance	GRB 1	Improving the quality of tax audit	3.602	1.001
	GRB 2	Simplifying procedures for accessing tax records and conducting the required financial analyses for suspects	.703	1.044
	GRB 3	Monitoring the manipulations resulting from the abuse of the discretion of the tax assessor more easily than paper transactions	3.576	1.012
	GRB 4	Simplifying the procedures for evaluating the quality of tax services and free of corruption	3.746	0.94
	GRB 5	Increase tax compliance for those subject to it and reduce tax evasion	761	0.86
	GRB 6	Reducing the channels of personal communication between taxpayers and management, which reduces the chances of manipulation and fraud	3.72	0.91
	GRB 7	Electronic systems simplify the preparation of periodic reports for the Tax Investigations Authority	644	0.944
	GRB 8	Assists in the exercise of the Authority's oversight role over institutions and individuals to ensure full compliance with tax laws and regulations	3.729	0.917

Source: Smart_PLS Outputs

Evaluation of the scale model

The quality of the measurement model is assessed according to the small squares (Hair, 2014) as shown in table (3):

Table (3) Criteria for evaluating the measurement model

Criterion	Purpose	Minimum Acceptable
Cronbach's alpha coefficient	Testing the stability and consistency of the scale	0.7
Compound stability	Testing the stability and consistency of the scale	0.6
Paragraph Stability (Saturation)	Testing the validity and stability of the scale	0.6
Average Extracted Variance (Ave)	Testing the validity and stability of the scale	0.5

Source: Hair, J. (2014). A primer on partial least squares structural equations modeling (PLS-SEM). Los Angeles: Sage.

Questionnaire items analysis for (ETMS) variable

Table 4 shows a model of the (ETMS) variable response scale, Which showed that all paragraphs achieved the acceptable limits for Cronbach's alpha coefficient, composite reliability, and reliability coefficient, in addition to acceptable saturation rates.

Table (4) Results of the analysis of questionnaire paragraphs for the variable (ETMS)

Paragraphs	Saturation	Cronbach-Alpha	Compound stability	↵ Ave ↵
GB1	0.791	.778	0.791	.545
GB2	.739			
GB3	.796			
GB4	.778			
GB5	0.772			
GB6	.830.			
GB7	0.878			
GB8	0.893			

Source: Smart_PLS Outputs

Questionnaire items analysis for banking governance

Table 5 shows a model of the (banking governance) variable response scale, Which showed that all paragraphs achieved the acceptable limits for Cronbach's alpha coefficient, composite reliability, and reliability coefficient, in addition to acceptable saturation rates.

Table (5) Results of the analysis of questionnaire paragraphs for the variable banking governance

Paragraphs	Saturation	Cronbach-Alpha	Compound stability	♪ Ave ♪
GRB1	0.848	0.766	0.786	0.548
GRB2	.861			
GRB3	.852			
GRB4	.725			
GRB5	.806			
GRB6	.739			
GRB7	.776			
GRB8	.814			

Source: Smart_PLS Outputs

Impact Relationship Test

The effect hypothesis is tested by conducting track coefficients analysis in the structural model according to micro-square modeling as in table (6) below:

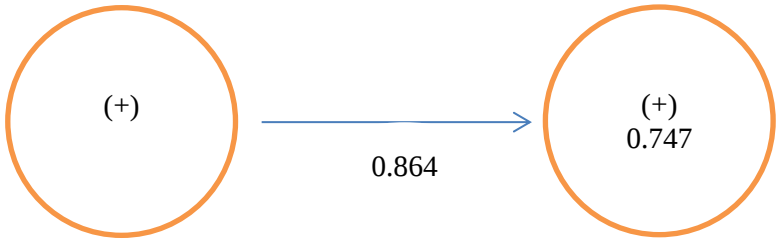
Table (6) Evaluation Criteria of the Structural Model

Criterion		Threshold
Path coefficients	t-value	greater than or equal to 1.96
	p value	Less than or equal to 0.05
Interpretation coefficient	R ²	0.25 weak, 0.5 medium, 0.75 high

Source : Hair, J. (2014). A primer on partial least squares structural equations modeling (PLS-SEM). Los Angeles: SAGE.

The main hypothesis stated that "there is no statistically significant effect of electronic tax management systems on banking governance." In order to test this hypothesis, the structural model was built, as shown in Figure (2) below:

Figure (2) The structural model for testing the main hypothesis



Source: Smart_PLS Outputs

Note: The numbers in the arrows represent the path coefficient while the numbers in the circles represent the selection coefficient, and the symbol [+] refers to hiding the paragraphs of the variable because there is no need for them in evaluating the structural model.

Table (7) Evaluation results of the structural model of the main hypothesis

Hypothesis	Mode	VIF	Path Coef	T. test value	p Value	Result	F	Coefficient of determination (R ²)
H1	GRB → GB	1	.864	15.70	0	Admission	1.698	.747

Source: Smart_PLS Outputs

The results in Table 7 indicate that the path coefficient (direct effect) was 0.864, with a coefficient of determination (R²) of 0.747. Both the t value and the p.value meet the necessary thresholds outlined in Table 6, confirming the significance of the path coefficient and indicating a significant relationship. Therefore, we reject the null hypothesis and affirm the alternative hypothesis, which shows a statistically significant impact of electronic tax management systems on banking governance.

CONCLUSION

The findings of the descriptive research indicated that the use of electronic systems in tax administration facilitates the prompt fulfillment of taxpayers' financial responsibilities, enhances the transparency of transactions and processes, and reduces costs while accelerating completion. The research sample agreed that the implementation of electronic systems in tax administration enhances governance principles by simplifying the processes for accessing tax records, performing necessary financial analyses, and monitoring manipulative activities resulting from tax assessors' abuse of

discretionary authority more efficiently than traditional paper transactions. Furthermore, it simplifies the evaluation of tax service quality and its integrity against corruption. The impact hypothesis, which validates the importance of electronic tax administration systems in banking governance.

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