


A Comparative Analysis of the Status of Bankrupt Individuals in the Tax System (Case Study: France, the United States, and the United Kingdom Compared with Iran)

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Abstract: This study aims to conduct a legal examination of the status of bankrupt individuals within the tax systems of selected countries (France, the United States, and the United Kingdom) and to compare it with the tax system in Iran. From a research objective standpoint, this study is applied in nature; methodologically, it is theoretical and relies on a library-based data collection approach, with descriptive methods used for analysis and synthesis. The bankruptcy regulations and the tax liabilities of bankrupt individuals in the countries under investigation were found to be similar in principle, though notable differences were observed in certain aspects. All countries examined have legal mechanisms in place to manage the debts of bankrupt individuals. The general purpose of bankruptcy laws in these countries is to provide debtors with a chance for a fresh start. However, tax systems in these selected countries are complex and vary from one nation to another. The analysis reveals that in Iran, bankruptcy leads to the Tax Administration being treated as an ordinary creditor, and tax debts are thus converted into ordinary claims. In contrast, in France, bankruptcy does not eliminate tax debts, which may be collected from future income (potentially subject to adjustment). In the United States, tax debts are generally non-dischargeable in bankruptcy, except under narrowly defined exceptions. In the United Kingdom, bankruptcy typically does not eliminate tax debts either, and such debts may be collected from future income, possibly under negotiated terms. The observed differences among these countries primarily relate to the role of governmental institutions and the extent of tax exemptions provided. The overarching objective of this study is to examine these existing disparities. One critical issue at this stage involves offering legal recommendations to reform domestic legislation, with particular attention to the localization of legal frameworks. To this end, it is essential to understand the position and structure of legal institutions in the source legal system and to appropriately integrate them into the target legal system. Such reforms in tax procedures are expected to contribute to the country's economic prosperity.

Keywords: Bankruptcy, Tax System, Comparative Law.

1. Introduction

Today, in light of contemporary financial and economic studies, taxation is regarded as a fundamental pillar of government revenues, and the stability and sustainability of this type of income—as opposed to volatile revenue sources—has made it imperative for countries to establish a suitable tax system [1]. Tax payment is considered one

of the responsibilities of every citizen. Given the broad scope and diverse types of taxes, it is essential that mechanisms for tax assessment are increasingly clarified and made transparent, so that taxpayers become more aware of their rights and obligations. These insights—achieved through the explanation and interpretation of regulations, circulars, and prevailing practices—help cultivate taxpayers’ moral conviction to voluntarily fulfill their tax obligations without reliance on enforcement tools. This also enables tax officials to collect taxes more efficiently, thereby facilitating the allocation of collected revenue toward national development and progress [2].

The term "tax," derived from the word "maal" (property or wealth), has been used in various meanings by lexicographers: reward and recompense, almsgiving (zakat) on wealth, shepherding and overseeing flocks of sheep, fines imposed by the state for specific offenses, tribute, and finally, the annual financial obligation that governments impose on their citizens. In the terminology of modern economists, tax is defined as the amount of money or property that citizens of a country are legally obligated to pay to their government. This payment serves the purpose of funding national governance, providing essential public goods and services, ensuring collective security and defense, and facilitating social and economic development [3].

A trader (either a natural person or a commercial entity) is declared bankrupt when, due to a shortfall in assets relative to liabilities, they are unable to meet their financial obligations. In such cases, upon the request of creditors or the trader, and following a judicial determination of the trader’s financial incapacity, the court issues a declaration of bankruptcy. From the moment the bankruptcy judgment is rendered, certain legal and financial restrictions are imposed on the individual. Bankruptcy significantly influences the taxpayer’s outstanding tax debts and the method of tax collection, and awareness of these effects can assist both the trader and their creditors in making informed legal and financial decisions [4].

Ensuring economic security and preventing the exploitation and squandering of public assets by opportunists have always been key concerns for legislators. Therefore, to prevent economic insecurity stemming from bankruptcy, legislators have enacted specific provisions and regulations. The concept of bankruptcy applies to traders, while the term insolvency is used for non-traders. Issuance of a bankruptcy judgment has significant consequences, including the suspension of the trader’s operations. Hence, it must be acknowledged that bankruptcy regulations in commercial law have a direct impact on the economic landscape of any country [5].

In commercial law, bankruptcy is undoubtedly one of the subjects where comparative legal studies offer limited benefit, as it tends to have a predominantly national character in most countries. This stems from differences in legal history, judicial organization, and the legal regime governing property in each country. Furthermore, the procedures for collecting taxes from bankrupt individuals are generally well-defined and specific. Although the foundational rationale for bankruptcy is universally accepted and possesses a global dimension, the statutory rules governing bankruptcy vary significantly across jurisdictions. This observation becomes evident when examining the legal systems of European and American countries.

2. Theoretical Foundations and Literature Review

Bankruptcy laws in various countries are generally structured to ensure the security of commercial transactions, the equitable distribution of the bankrupt entity’s assets among creditors, and ultimately, the rehabilitation of the bankrupt party. In the legal systems of most developed countries, when individuals or legal entities cease to operate, alternative solutions to liquidation are also provided, with the primary goal of either restructuring the distressed business or offering enhanced protection to creditors. This section first addresses the concepts and elements of bankruptcy, followed by an examination of taxation concepts in Iran and leading countries.

Linguistically, bankruptcy denotes failure in business or trade and refers to the condition of a merchant whose liabilities exceed their assets. Legally, in commercial law, bankruptcy is defined as the state of a merchant who suspends the payment of debts and is unable to fulfill commercial obligations [6].

Given that bankruptcy constitutes the core issue of this research, this section aims to explore its historical evolution. Bankruptcy is an ancient and widespread concept. It can occur in a small retail store unable to meet its rent obligations, resulting in closure, or in a large manufacturing company suffering from continuous losses and liquidity shortages. Accountants must thoroughly understand the causes of bankruptcy since they are in a position to alert management prior to its occurrence and propose preventive strategies [7].

3. Research Background

Dadkhah and Zarrabi (2023), in a study titled *“Administrative Practice in Preventing Bankruptcy in France and Its Applicability to the Iranian Administrative Legal System”*, noted that despite France’s codified legal system, its administrative law has been significantly influenced by customary practices. Institutions in France tend to collaborate informally without strict adherence to hierarchical rules, and legal responsibilities are defined through customary understanding. The classification of bankruptcy into apparent and real types has a fundamental impact on administrative prevention mechanisms. The primary policy objective of French authorities is to prevent apparent insolvency from turning into actual bankruptcy. In Iran, due to the limitation of administrative processes to legal documents and the absence of extrajudicial administrative mechanisms—especially concerning hierarchical structures—this model is not currently feasible. The study concludes that proper legal documentation and clearly defined responsibilities are necessary for implementation [8].

Rahimzadeh Meybodi and Mojahed (2023), in their comparative study *“A Comparative Approach to the Composition Agreement in Iranian, British, and French Law”*, emphasized that governmental economic policies must be designed to effectively support economic enterprises. The composition agreement is a conciliatory legal remedy aimed at saving a merchant from economic demise. It serves as a unique mechanism in commercial law. If bankruptcy proceedings do not conclude through such agreements, the only remaining option is the sale and distribution of the merchant's assets, which is a general rule. Therefore, the agreement is concluded and executed between the debtor and creditors to resolve the merchant’s difficulties, allow the continuation of business, and ensure the protection of all creditor rights. It operates within a broader framework than that outlined in statutory provisions [9].

Baiardo et al. (2022), in their study titled *“Financial Distress, Earnings Management, and BIG4 Auditors in Emerging Markets”*, found that in emerging markets, firms experiencing higher financial distress are more likely to engage in accrual-based earnings management to inflate revenue. However, such practices are less prevalent among firms audited by Big 4 audit firms compared to those audited by non-Big 4 firms. The authors also reported significant differences among Big 4 firms in their effectiveness in curbing earnings management strategies in highly distressed firms [10].

Salehi and Dalwai (2021), in a study titled *“Business Strategy, Intellectual Capital, Firm Performance, and Bankruptcy Risk: Evidence from Non-Financial Firms in Oman”*, reported that most non-financial firms in Oman follow the analyzer strategy, as per Miles and Snow’s strategic typology. The empirical results confirm a negative relationship between business strategy and return on equity (ROE), suggesting that a defensive strategy enhances firm performance. OLS regression analysis revealed that A-VAIC (Adjusted Value-Added Intellectual Coefficient) had no effect on firm performance or the Altman Z-score. Structural capital efficiency was positively associated with

ROA, and the Z-score conformed to the hypothesized relationship. Granger causality tests showed no causal relationship between independent and dependent variables, except for the Z-score and CEE (Capital Employed Efficiency) [11].

Telles Ricca et al. (2021), in their study "*Tax Shields and Bankruptcy Costs*", discussed various theories aimed at identifying the primary determinants of capital structure. According to the trade-off theory, an optimal capital structure may exist in which firms balance the tax advantages of debt interest deductions against the expected costs of bankruptcy. Despite the relevance of both factors, simultaneous analysis of tax shields and bankruptcy costs has received limited scholarly attention. The study suggests that increased leverage is often driven by higher tax shields from debt rather than anticipated bankruptcy costs, and that firms do not always optimize tax benefits derived from debt due to other influencing factors [12].

4. Methodology

Given the nature of the topic, the present study is applied in terms of its objective and descriptive-theoretical in terms of methodology.

The statistical population of this research includes all primary sources (three books on commercial law, tax law, and bankruptcy law) and secondary sources such as legal journals, websites, and related studies (a total of 21 domestic and international articles).

This study uses purposive sampling, also known as judgmental or theoretical sampling, wherein samples are selected based on the researcher's expertise and access. In this study, the sample is equivalent to the research population and includes 12 books and 50 articles.

Two data collection methods—library research and note-taking—were employed. The library method involved reviewing books, articles, theses, and journals, while the note-taking method was used to compile and organize the dissertation content. The findings were analyzed in an interpretative-analytical manner. This research is considered a novel study within its thematic, spatial, and temporal domains.

5. Effects of Bankruptcy on Tax Debt of Individuals

Section One: Natural Persons

In the legal system of Iran, the term *natural person* refers to human beings. In other words, any individual born within the jurisdiction of the Islamic Republic of Iran, or who otherwise acquires Iranian nationality, is recognized as a legal entity under the law and is identified as a "natural person." Natural persons possess a range of rights and responsibilities as defined in the Civil Code and related legal provisions.

Subsection One: The Tax Process of Bankrupt Natural Persons in Iran

Paragraph One: The Merchant and His Transactions

To maintain equality among creditors of a bankrupt individual, the legislature has enacted regulations to ensure proportional distribution of the bankrupt's assets. To achieve this, from the date of the bankruptcy ruling, the bankrupt is prohibited from managing their financial affairs, and responsibility for such affairs is transferred to the trustee or liquidation office, who acts as the representative of both the bankrupt and the creditors. The law further stipulates that if the bankrupt fails to treat creditors equally, certain transactions with third parties may be deemed ineffective. These transactions may have occurred prior to the cessation of payments, between cessation and the declaration of bankruptcy, or after the declaration [13].

Paragraph Two: Transactions Before the Date of Cessation

Generally, these transactions are deemed valid, and creditors may not contest them unless the law provides otherwise. Unlike French law, which considers transactions prior to cessation under fraudulent conveyance rules in Article 1167 (now Article 2-1341) of the Civil Code and does not address them in bankruptcy statutes, Iranian law includes specific provisions in commercial legislation that supplement the general framework of the Civil Code.

Paragraph Three: Transactions Between the Date of Cessation and the Declaration of Bankruptcy

Once a debtor ceases paying debts, all legal actions become suspect; this interim period is referred to as the “suspect period.” The legislature scrutinizes transactions during this time with suspicion, often rendering them void or voidable due to their likely fraudulent intent. Actions for annulment initiated by the trustee or liquidation office are governed by general procedural law, and the competent court is determined under the Civil Procedure Code. Article 423 of the Commercial Code specifies voidable transactions after cessation: 1) any gratuitous transfer, including gifts and charitable donations, whether movable or immovable; 2) payment of any debt, whether due or not; 3) any encumbrance of the bankrupt’s assets to the detriment of creditors. These can be categorized as onerous transactions, gratuitous transactions, debt payments, and debt securities [13].

Paragraph One: Pre-Adjudication Transactions by Bankrupt Individuals**A) France**

Under French law, Article L.621-107 of the Commercial Code does not invalidate all suspicious payments but only those inherently questionable. These include debts that are either not yet due or have been paid in unusual ways, such as through assignment or novation. Iranian law, in contrast, voids all such payments—whether ordinary or extraordinary, due or not—without exception. The form of payment, such as cash, commercial paper, draft, or set-off (whether legal or contractual), is irrelevant. Iran’s Supreme Court has even deemed post-cessation enforcement actions that result in asset transfer to creditors as void [8].

B) United States

Under Chapter 11 of the U.S. Bankruptcy Code, transactions during this period are generally considered valid (Wilton & Howard, 2016). However, exceptions exist:

- **Fraudulent Transfers:** If a debtor transfers assets to evade creditors, the trustee may challenge the transaction to reclaim the assets for the benefit of the estate. Selling an asset at below-market value to a friend is an example.
- **Below-Fair Market Transactions:** If a debtor sells an asset significantly below fair value, the trustee may annul the transaction to protect creditors [8].

C) United Kingdom

In the UK, the legal status of transactions during the suspension of bankruptcy proceedings prior to a final judgment is somewhat ambiguous [14].

- **Suspension:** This temporary pause is typically granted to explore alternatives such as Individual Voluntary Arrangements (IVAs).
- **Bankruptcy Order:** The court formally declares the individual bankrupt.
- **Post-Suspension Transactions:** During the suspension, the debtor regains partial financial control but must act in good faith. Wasteful spending or fraudulent asset transfers can lead to judicial repercussions.
- **Limited Powers:** Even during suspension, significant transactions may require authorization from the official receiver [14].

Paragraph Two: Post-Adjudication Transactions by Bankrupt Individuals

A) France

Post-bankruptcy declaration, the bankrupt individual's financial powers are significantly curtailed:

- **Appointment of Trustee:** The court appoints a trustee to manage the debtor's estate and oversee proceedings (Ministère de la Justice, <https://www.justice.gouv.fr/>).
- **Transactional Restrictions:** Most transactions require trustee approval, including asset sales, significant purchases, obtaining credit, and managing bank accounts. Limited spending for necessities like food and rent may be allowed. The goal is creditor repayment, and the trustee works with all parties to restructure or liquidate assets (Ministère de la Justice, <https://www.justice.gouv.fr/>).

B) United States

After a bankruptcy judgment, the bankrupt individual's financial autonomy is sharply restricted:

- **Appointment of Trustee:** A bankruptcy trustee is appointed to administer the estate.
- **Transactional Limitations:** All significant transactions must be approved by the trustee, including asset sales, major purchases, credit acquisition, and account management. Routine business operations may be allowed for some businesses.
- **Discharge Focus:** The goal is to obtain a discharge—relief from most debts. Debtors must cooperate with the trustee and complete financial education to qualify.

C) United Kingdom

In the UK, after a bankruptcy judgment, financial matters are strictly managed by the Official Receiver (OR), a government official:

- **Loss of Control:** The bankrupt loses control over assets, which the OR administers for equitable distribution.
- **Permitted Transactions:** Only transactions for basic needs (food, rent, utilities) are allowed, and others must be pre-approved. The OR liquidates assets and distributes proceeds to creditors in accordance with legal priorities (UK Insolvency Service: <https://www.gov.uk/government/organisations/insolvency-service>).

Paragraph Two: Corporate Bankruptcy under Iranian Law

Today, the bankruptcy of commercial companies encompasses social, economic, and political dimensions and is regarded as a significant issue in the business world. Bankruptcy denotes commercial failure wherein liabilities exceed assets. A trader or commercial company becomes bankrupt upon inability to repay due debts, though bankruptcy does not necessarily indicate insolvency if the debtor owns inaccessible but sufficient assets [15].

According to Article 415 of the Commercial Code, bankruptcy proceedings can be initiated by the trader. The duties outlined in Articles 413 and 414 are assigned to the company's directors, or to liquidators in dissolved entities [16].

Paragraph Three: Legal Philosophy of Corporate Bankruptcy in Iran

During the Constitutional period, separate procedures existed for commercial insolvency and bankruptcy. After the adoption of the Commercial Code, bankruptcy alone was retained. Composition agreements failed in many cases to prevent liquidation. The *committee of creditors*, empowered by law, can refuse to enter into a composition agreement, potentially obstructing factory revival. Excluding workers from these decisions exacerbates the issue. Liquidation rules, focused solely on the debtor's assets, ignore the person of the debtor and the workers. Islamic ethics, through the principle of *la darar* (no harm), call for facilitation and leniency in such cases. Overemphasis on creditor interests at the expense of factory survival and employment contradicts this. Reconstruction allows for

evaluating insolvency based on available resources. Benefits of restructuring laws include job preservation, scaling, outsourcing, and debtor-led recovery plans. However, Iran's legislature has implemented limited and ineffective pre-bankruptcy frameworks lacking alignment with the Commercial Code [17].

6. Comparative Analysis and Discussion of Challenges in the Tax Collection Process from Bankrupt Individuals in Iran

Section One:

The essence of comparative legal studies can be encapsulated in a single phrase: *"utilizing the innovations and best practices of other legal systems where feasible."* The justification for adopting a comparative approach typically falls under one of the following rationales, which form the foundation of this researcher's methodology:

A) The foreign legal system under review is more advanced in the subject area, and its innovations can be adapted to improve domestic law. The comparative study aims to utilize foreign innovations to enhance the internal legal system.

B) The foreign legal system takes a different approach than the domestic system, and this alternative approach—owing to legal, cultural, religious, economic, or social differences—may be partially or wholly beneficial. The aim is not necessarily to find a superior model but to explore whether different strategies offer applicable lessons, especially in cases where both systems are relatively balanced in their treatment of the issue.

C) The foreign legal system is weaker in the area under investigation, and the purpose is to showcase the strength of domestic law and potentially offer insights or recommendations to foreign systems. However, this is not the dominant approach in legal scholarship, which more often leans toward learning from foreign systems. Such strategies are especially useful when the research is published in international journals, ideally in English, for global dissemination.

Subsection One: What Legal Methods Are Used in Iran and Selected Countries (France, USA, UK) to Determine the Tax Debt Status of Bankrupt Individuals?

In the legal systems of the selected countries, different methods exist—depending on centralized or decentralized structures—to determine the tax debt status of individuals (natural or legal persons). This study examines, compares, and analyzes each country's legal criteria for tax processes involving bankrupt individuals, as summarized in Table 1.

Table 1. Legal Methods for Addressing Tax Debt of Bankrupt Individuals in Selected Countries

Country	Legal Methods for Tax Debt of Bankrupt Individuals
Iran	1. Declaration of bankruptcy 2. Involvement of liquidation office 3. Identification of assets and liabilities 4. Debt classification 5. Exceptions and special cases 6. Debt collection
France	1. Debt claim declaration 2. Claim validation 3. Reclassification of tax debts 4. Payment of tax debts 5. Special procedures
USA	1. Review of tax records 2. Analysis of bankruptcy type 3. Adversary proceedings 4. Chapter 11 restructuring (for businesses)
UK	1. Verification of tax records 2. Analysis of bankruptcy type 3. Negotiation with HMRC 4. Legal procedures

The comparison indicates that the countries examined use a variety of legal standards to determine the status of tax debts of bankrupt individuals. These are discussed below:

A) Iran's Legal Approach to the Tax Debt of Bankrupt Individuals

In Iran, the resolution of tax debt for bankrupt individuals is carried out through specific legal procedures:

- **Step 1: Declaration of Bankruptcy**
- Bankruptcy may be declared by the debtor, their creditors, or other stakeholders to a competent court. Upon examination of evidence, the court may issue a bankruptcy order. According to Article 218 of the

Direct Taxation Act, in cases involving legal entities, the liquidator must notify the tax authority within one month of the bankruptcy ruling.

- **Step 2: Involvement of the Liquidation Office**

- Following the bankruptcy judgment, a liquidation office is established, comprising one or more liquidators who manage the bankrupt's affairs, identify assets and liabilities, collect receivables, and settle debts.

- **Step 3: Identification of Assets and Liabilities**

- According to Article 414 of the Commercial Code, the bankrupt is initially responsible for listing assets and liabilities. However, based on the latter part of Article 418, this responsibility may also be assumed by the liquidator. Tax debts must be included in this inventory. Per Article 471, the tax authority is allowed to participate in the bankruptcy supervision sessions and express views on the settlement of tax debts.

- **Step 4: Debt Classification**

- Bankrupt's debts are categorized as "ordinary" or "privileged." Under Article 160 of the Direct Taxation Act, tax authorities have priority over other creditors except employees. However, upon declaration of bankruptcy, the principle of creditor equality applies, and the tax office must stand in line with other creditors.

- **Step 5: Exceptions and Special Cases**

- In Iran, bankrupt individuals may receive tax relief or exemptions. For example, under Article 16 of the Bankruptcy Liquidation Act, a portion of the bankrupt's property necessary for subsistence and family care is exempt from taxation.

- **Step 6: Debt Collection**

- The liquidator is responsible for collecting receivables and paying debts. In the event of a dispute between the tax authority and the liquidation office regarding tax liabilities, the matter is referred to the bankruptcy court (Article 210, Direct Taxation Act). The tax authority may request asset seizure to recover unpaid taxes.

B) France's Legal Approach to Tax Debt of Bankrupt Individuals

In France, various legal procedures are used to assess tax debts during bankruptcy:

Tax Debt Declaration: Per Article 1658 of the General Tax Code (CGI), the tax authority must declare its claims to the commercial court handling the case, generally within two months of the commencement of proceedings.

1. **Validation of Claims:** The commercial court then validates the tax claims to confirm their legitimacy. Both the bankrupt and other creditors may contest the claims.
2. **Reclassification of Tax Claims:** Per Article 1659 CGI, validated tax debts are reclassified based on their nature and priority. French commercial law generally treats tax debts as privileged claims, meaning they are paid before ordinary debts.
3. **Payment of Tax Debts:** Per Article 1680 CGI, tax debts are paid by the trustee in proportion to available resources, from the proceeds of asset liquidation.
4. **Special Procedures:** The French tax system also includes protective measures for natural persons undergoing bankruptcy, tailored to their financial circumstances (Davydenko & Franks, 2008).

C) United States' Legal Approach to Tax Debt of Bankrupt Individuals

In the U.S., several legal methods are used:

Tax Record Review: The bankruptcy court requests tax transcripts from the Internal Revenue Service (IRS) to determine outstanding liabilities.

Analysis of Bankruptcy Chapter: The bankruptcy type (Chapter 7 or Chapter 13) affects tax debt treatment. Chapter 7 generally discharges unsecured debts but excludes many tax debts, whereas Chapter 13 includes a structured repayment plan.

1. **Adversary Proceedings:** If disputes arise over the amount or validity of the tax debt, the IRS may initiate adversary proceedings within the bankruptcy case to resolve the issue.

Chapter 11 Restructuring (Businesses): Businesses filing under Chapter 11 may negotiate tax repayment plans. Recent tax returns are often non-dischargeable, and penalties or interest may follow different discharge rules (Wilton & Howard, 2016).

D) United Kingdom's Legal Approach to Tax Debt of Bankrupt Individuals

The UK tax system uses several legal mechanisms:

1. **Verification of Tax Records:** HM Revenue & Customs (HMRC) examines the individual's tax history to assess unpaid liabilities.
2. **Analysis of Bankruptcy Type:** As in the U.S., the nature of bankruptcy (IVA or formal bankruptcy order) influences tax treatment:
 - **IVA (Individual Voluntary Arrangement):** A formal debt repayment agreement that may include tax debts.
 - **Bankruptcy Order:** Initiates asset liquidation to repay creditors. Some tax debts (e.g., recent income taxes, VAT, student loans) are priority claims.
3. **Negotiation with HMRC:** Under certain conditions, individuals may negotiate repayment terms with HMRC, including payment extensions or reductions based on financial hardship.
4. **Legal Procedures:** In rare cases involving significant disputes, HMRC may initiate legal action. Recent tax filings are often non-dischargeable, and penalties or interest may be subject to different rules.

7. Discussion and Conclusion

Today, with the expansion of economic activities and rapid developments in production, commerce, and technology, bankruptcy has become a highly significant issue. The inability of merchants and commercial companies to meet their financial obligations on time results in their cessation of operations and subsequent bankruptcy, which in turn disrupts commercial affairs and has negative impacts on the national economy. Consequently, the effects of bankruptcy are not limited to the merchant or the commercial company alone, but in many cases also influence the broader economic status of others and intersect with public interests. Given the competitive environment on both national and international levels, facilitating bankruptcy-related processes can play a significant role in improving the business climate, stimulating economic activities, and increasing foreign investors' willingness to invest.

One of the main concerns for merchants and shareholders of bankrupt companies involves taxation: whether they are exempt from tax or remain liable. This study was conducted with the aim of a comparative analysis of the status of bankrupt individuals in the tax systems of France, the United States, and the United Kingdom in comparison to Iran. Accordingly, this research sought to examine the structure of bankruptcy for individuals and companies under the new draft Commercial Code, comparing the effects of cessation declarations and bankruptcy rulings, and investigating how tax is levied on natural persons (traders) and legal entities (companies) in Iran and leading jurisdictions. Additionally, it explored innovations designed to prevent the issuance of bankruptcy judgments and the measures established for the rehabilitation and restructuring of defaulting traders to enable

them to fulfill their financial and tax obligations with minimal disruption to their commercial activities, thereby avoiding formal bankruptcy. Moreover, it analyzed the institutions designed to protect creditors' rights to ensure these rights are not undermined.

In Iran, given the economic conditions in recent years, reliance on internal financial resources and the development of sustainable revenues—particularly tax revenue—has become a central focus of government policy. To this end, economic policymakers and legislators have implemented support strategies such as enacting laws that leverage modern technologies to achieve what is known as smart taxation. Consequently, this research also focused on preventing tax evasion and closing collection gaps to ensure fair and efficient tax collection as a method of increasing public revenue.

Due to economic volatility, accumulated losses, and other factors, individuals and entities may declare bankruptcy. Once bankruptcy occurs, certain complications arise, such as the legal incapacity of the bankrupt to repay debts, the tax authority's reclassification as an ordinary creditor, and the failure to identify the bankrupt as a taxpayer after restoration of financial status. Regardless of whether bankruptcy is due to fault, fraud, or legitimate reasons, and regardless of whether it is declared by a qualified party or through statutory provisions, tax liabilities—which constitute a major part of the national budget—are often either not collected at all or collected with significant delay. Therefore, the legal and operational review of tax, civil, and commercial codes suggests mechanisms such as obtaining guarantees for delayed tax debts, reengineering tax processes to track bankrupt individuals post-rehabilitation, and addressing such situations in the executive regulations of Article 218 of the Direct Taxation Act, which could significantly enhance tax collection from this group of taxpayers.

In U.S. law, since all actions—judicial and non-judicial—against the bankrupt are suspended, this plays a vital role in improving the status of both the bankrupt and the creditor (because this rule can enhance the value of the bankruptcy estate). Additionally, the American legal system provides for punitive damages for violation of the automatic stay, which strongly reinforces the rule's effectiveness. Iranian law also recognizes this principle, albeit with a more limited scope. Its shortcomings—narrow coverage and lack of enforcement mechanisms—are key reasons for its ineffectiveness. The rule fails to provide a peaceful environment for the bankrupt, and the absence of enforcement allows for increased litigation and costs, creating unhealthy competition among creditors. In U.S. law, various views exist regarding sanctions for violating the automatic stay, including voidness and voidability, while Iranian law recognizes only voidness and non-enforceability. In both systems, secured creditors are subject to the rule, but in Iran, these creditors tend to opt out of composition agreements, weakening the rule's benefits. Notably, U.S. law supports secured creditors through the "adequate protection" doctrine.

Comparing the tax debt laws of bankrupt individuals in the U.S. and Iran reveals the following: In the U.S., individuals typically file under Chapter 7 ("liquidation") or Chapter 13 ("reorganization"). In Chapter 7, some assets are exempt, and others are liquidated by a trustee to repay unsecured debts like credit cards and medical bills. Remaining debts are usually discharged. In Iran, bankruptcy is governed by the Commercial Code and the Bankruptcy Administration Law. Tax debts are treated distinctively, as the tax authority does not need a court order to pursue collection—it can directly issue an enforcement order.

Similarities: Both countries have legal procedures for managing bankrupt individuals' debts. The goal in both systems is to offer debtors a fresh start.

Differences: In the U.S., bankruptcy is governed by federal law and handled by federal courts. In Iran, bankruptcy is regulated by the Commercial Code and Bankruptcy Administration Law. Tax debts in Iran are subject

to special rules that allow the tax authority to collect debts without court involvement, while in the U.S., certain tax debts may be discharged depending on the bankruptcy chapter.

In the UK, the bankruptcy law remains ambiguous and inconsistent in some respects. Companies—whether private or public—are not comprehensively governed by a single bankruptcy regime, and the scope of bankruptcy law is less clearly defined. Consequently, as this study illustrates, courts often struggle to address the bankruptcy of state-owned enterprises. In UK law, if a company is in financial distress, creditors can easily seize the company's assets, and the courts cannot prevent this. If a bankrupt tax debtor is unable to pay, the court may allow installment payments, with the obligation to settle the debt within 12 months of the enforcement notice.

Comparison between the UK and Iran:

Similarities: Both systems include legal processes for managing bankrupt individuals' debts, as is also the case in the U.S.

Differences: In the UK, bankruptcy for natural persons is handled through legal procedures such as Individual Voluntary Arrangements (IVA) and court-declared bankruptcy. An IVA allows debtors to repay according to their financial ability. In bankruptcy, assets are liquidated, and remaining debts may be discharged after a specified period. In Iran, bankruptcy is regulated by the Commercial Code and the Bankruptcy Administration Law, where tax debts are uniquely handled without court involvement.

French bankruptcy law applies to both natural and legal persons, excluding only government bodies and public institutions like municipalities and prefectures. Article L611-1 allows any registered individual or business to participate in protective measures under the supervision of the regional commercial court. Article L611-2 states that whenever an action, document, or process reveals that a business or economic group faces challenges threatening its continuity, court officials may summon company executives to outline appropriate recovery measures. These provisions reflect the inclusion of registered commercial companies under France's bankruptcy regime.

Different tax guidelines apply to bankrupt French companies depending on the nature and outcome of the insolvency proceedings. The company must continue to file and pay taxes in the usual manner.

Comparison between France and Iran:

Similarities: Both countries provide structured legal processes for managing bankruptcy. The aim in both is to offer debtors a chance at financial recovery and debt resolution.

Differences: France reformed its bankruptcy laws on September 15, 2021, to strengthen creditor protections and enhance the attractiveness of French law. In Iran, tax debts remain subject to unique provisions that permit the tax authority to act independently of the court system.

Recommendations for Localization in Iranian Law:

1. Inspired by French law, implement mechanisms for debt reduction and restructuring for bankrupt individuals in Iran. Concepts such as protection and rehabilitation—common in French law—are also compatible with Islamic legal principles.
2. Given that the U.S. tax system operates at federal, state, and local levels, it is recommended that Iran develop a decentralized tax system alongside its centralized one to simplify the tax collection process for bankrupt individuals and entities.
3. The UK's tax system emphasizes transparency and strict enforcement through smart systems. Iran is encouraged to transition from a source-based to an income-based tax system, integrating demographic policies and employing data-driven tax systems to enhance efficiency.

Authors' Contributions

Authors equally contributed to this article.

Ethical Considerations

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

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Conflict of Interest

The authors report no conflict of interest.

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