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Income tax compliance behavior of businesses: The case of Vietnam

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A B S T R A C T

The socio-economic development of each country requires the contribution of businesses to social goals and the state budget. Improving tax compliance behavior is consistent with improving the ability of businesses to contribute to the budget. The objective of the study is to evaluate factors affecting tax compliance behavior for businesses. The study is conducted on 202 enterprises in Thai Nguyen, a locality located in the key economic region of Vietnam and with a high level of economic development. Through quantitative analysis of the research results, it found that: the system legislation and socio-economic conditions have the strongest influence on businesses' tax compliance behavior. However, the influence of business characteristics and tax authority characteristics on tax compliance behavior is lower.

1. Introduction

Socio-economic development in countries has a huge contribution from businesses through contributions from the state budget, employment, and national output. As businesses develop, contributions to the state budget increase and therefore the state has more resources to finance investment, ensuring payment for obligations that the state must perform. Therefore, each country creates a favorable business environment to promote start-up activities, expand production, investment and consumption. The financial system is supposed to promote savings and investment through mechanisms that reduce transaction costs and provide businesses with access to low-interest loans, thereby improving efficiency. When businesses grow, tax revenues and the state budget increase. As a result, nurturing state tax revenue and improving tax compliance for individuals and businesses is an important driving force to improve the state budget situation in any country (Alexander & Pisa, 2023).

Starting as a country with a low level of development, Vietnam has gradually integrated into the world economy and achieved certain achievements in socio-economic development and improving people's living standards. Per capita income has increased rapidly and basically became a middle-income country. The number of enterprises has increased rapidly, especially private enterprises and foreign-invested enterprises, and thereby the contribution of enterprises to the economy has also increased. The state has the ability to collect more taxes and can therefore fund the country's welfare and infrastructure programs. However, improving the business environment and improving the tax system and legal basis with the potential to increase tax collection and tax compliance for businesses has not been done through previous studies, and therefore is the research objective in this article (Chiarini et al., 2022).

In addition to the introduction, the study also discusses previous studies, builds research models, collects data, processes and analyzes data. Thanks to that, the study conducts quantitative analysis to evaluate factors affecting tax compliance in the case of Vietnam.

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2. Literature Review

The problem of corporate income tax is an issue of interest to many researchers. Klassen and Shackelford (1998) empirically document a strategy by which firms avoid state income taxes. Examining aggregated data for US states and Canadian provinces from 1983–1991, the authors found that revenue from corporate income tax had low tax rates, consistent with businesses shifting locations. tax base to more favorable taxed jurisdictions. Additional tests exploit unique features of state formula allocation systems and find manufacturing shipments from states with tariffs outside their borders, which is reducing the corporate income tax rate on revenue.

Taxes have become a source of revenue in most developed and developing countries. However, tax non-compliance remains a serious problem globally. The negative impact of tax non-compliance on the economy and the evolving nature of indirect taxes in Malaysia led to the study of Sinnasamy et al. (2015). Smuggling activities involving cigarettes, alcohol and imported vehicles have caused huge losses in tax revenue in Malaysia. Therefore, this study attempts to propose a conceptual framework by integrating tax agents as moderating effects between tax rates, penalties, tax equity and peer influence on tax non-compliance.

A study of how the interaction between internal corporate governance and changes in the tax environment and corporate governance in the United States in the early 2000s influenced the extent of corporate tax evasion was conducted by Jiménez-Angueira (2018). The analyzes use a panel of US firms over the period 1997–2005 and the difference between regular book tax and cash effective tax rate as a proxy for tax avoidance. The results show that, compared to other enterprises, enterprises with weak governance in the period of low regulation (1997–2000) had lower levels of tax evasion than in the period of high regulation (2003 –2005) in response to tighter policies from the external monitoring regime.

In the first case, Marques et al. (2019) used a sample of foreign subsidiaries in Europe during the period 2001–2015 to study the relationship between the investment location decision issues affected by corporate taxes and companies shifting income to minimize their tax bills. This study evaluates the extent to which the real investment response to corporate taxes is influenced by cross-border income shifting. More precisely, it assesses whether the tax responsiveness of real investment is lower when there are international income transfers authorized by intangible assets held by corporations. The results show that the increasing likelihood of shifting income out of countries with higher taxes makes real investment sensitivity less responsive to host country corporate taxes.

To take a broad view of the corporate tax planning of a multinational enterprise (MNE), that is, the ability of an MNE to plan for its tax affairs using a multitude of strategies to legally reduce tax bills, we can see Cooper and Nguyen (2020). The underlying theoretical assumptions, empirical testing methods, profit shifting estimation strategies and results are diverse. In this article, the authors provide conclusions by studying this phenomenon from an international business (IB) perspective. The authors survey the academic literature on MNEs and corporate tax planning to examine the level of understanding of the topic and identify areas that the authors hope will stimulate the interest of IB scholars. From there, the authors identify key mechanisms and firm characteristics that can influence corporate tax planning.

Barrios et al. (2020) showed that changes in tax compliance costs resulting from harmonization of the corporate tax base will have a positive and significant impact on gross domestic product (GDP) and welfare. The authors illustrated the mechanisms through which these changes would occur depending on the level of initiation and differences in tax compliance costs. Differences in compliance costs will directly affect labor demand because compliance costs are represented by the number of workers engaged in tax compliance activities. Therefore, the Common Consolidated Corporate Tax Base will also indirectly impact the general demand for capital and production in the economy. In addition, labor supply incentives will be altered by changes in wages and thus affect welfare. When assuming budget neutrality, we find that on average, CCCTB would slightly increase corporate income tax rates in the EU, slightly affecting the incentives for firms to shift profits through borders. The authors exploited unique recently published survey data designed to provide comparative information on corporate tax compliance costs to assess the impact of that regime, using an equilibrium modeling approach shared, and the results suggested that reducing tax compliance costs is accompanied by higher economic efficiency. Member states with the lowest compliance costs before the reform and those with large amounts of foreign investment will benefit more than other member states. Cross-border business activities will also benefit more than domestic business activities. The impact on non-EU countries, such as the United States and Japan, will be limited.

Discussing the consequences of intentional tax non-compliance in the US corporate sector during the business cycle when a financial conflict occurs, Bruno et al. (2022) simulated a spillover risk shock to its credit channel through the financial acceleration mechanism. In addition to emphasizing the role of tax evasion as a self-financing mechanism, the article also presents a twofold result, which produces negligible consequences when analyzing the business cycle. First, due to the risk shock, tax evasion magnifies the impact of the financial accelerator and significantly amplifies macroeconomic fluctuations. Second, the endogenous tax evasion motive creates a reallocation of resources from production purposes to consumption purposes during the business cycle. Discussing another factor affecting tax compliance behavior of businesses, Garcia-Blandon et al. (2022) studied the situations of Norway and Denmark. Due to mandatory gender quotas on boards, the proportion of female directors in Norway increased from about 5% in 2001 to more than 40% in 2007, while it remained stable in the neighboring country. neighboring Denmark. This study takes a difference-in-differences approach to investigate the impact of board gender composition on corporate tax activism. The results indicate that the likelihood of adopting aggressive corporate tax strategies increased in Norway following the appointment of more female directors compared to the situation in Denmark. This finding is useful for a variety of sensitivity analysis and especially for measuring corporate tax aggressiveness. We explain this result by the way in which women's participation on the board is achieved, i.e. through mandatory gender quotas on the board. Zhang et al. (2023) examined the impact of regional fiscal constraints and corporate tax minimization strategies through an investigation centered around the elimination of agricultural tax reform, used as an almost natural experiment. Research shows that a sudden decline in financial capital flows leads to a decline in tax evasion, driven by incentives for companies to improve their efficiency. This drive towards tax compliance is enhanced in cases where businesses: (1) are located in localities with strict tax administration mechanisms; (2) operate as a non-state-owned entity; (3) be located in areas where local administrative agents have high promotional incentives; (4) active activities in fiercely competitive fields. Empirical findings show that fiscal constraints imposed by local governments significantly reduce the incentives for firms to engage in tax evasion, a conclusion that is consistently supported across various measures of fiscal pressure. Furthermore, the study explores the underlying mechanisms underpinning the correlation between government fiscal constraints and a decline in firms' tax avoidance activities, from a productivity-oriented perspective. The analysis illustrates that, as companies grapple with financial pressures emanating from local governments, they will aim to improve productivity to ease operational strains. Finally, a series of tests are performed to distinguish the different effects of government fiscal constraints on firms' tax avoidance incentives, assessed from an industry concentration perspective, equity configuration, promotion incentives and stringency of tax enforcement.

Based on the data of China's A-listed tourism companies from 2019 to 2022, Tiantian et al. (2023) empirically tested the impact and mechanism of digital transformation of tourism enterprises. schedule for tax evasion. The results show that digital transformation of tourism businesses will significantly limit tax evasion behavior of businesses, and digital transformation of businesses will limit tax evasion by improving the level of internal control. Therefore, digital transformation of the tourism industry can restrain aggressive tax evasion by managers seeking their own benefits through effective governance mechanisms, and at the same time force managers to consider between benefits and costs of tax avoidance, thereby affecting businesses' tax avoidance strategies. This study expands research in the areas of corporate digital transformation and corporate tax avoidance, and offers tailored insights to drive deeper integration between the digital economy and the global economy. real economy. The authors examined the impact of digital transformation of tourism enterprises on tax evasion, and studied its mechanism, heterogeneity and economic consequences, taking tourism businesses listed on the A-share main board of the Shanghai and Shenzhen Stock Exchanges from 2019 to 2022 to serve as sample subjects. This article examines the impact of digital transformation of tourism enterprises on tax evasion, and delves deeper into its mechanism, heterogeneity, and economic consequences, taking tourism enterprises listed on the A-share main board of the Shanghai and Shenzhen Stock Exchanges from 2019 to 2022 to serve as sample subjects. From the perspective of digital transformation, the article analyzes the impact of businesses' strategic decisions on tax evasion. In addition, the article also examines how the digital transformation mechanism of enterprises affects tax avoidance behavior from the perspective of financial constraints, and provides empirical evidence to better understand the logical relationship between Digital transformation of businesses and tax evasion. Further, studying the disciplining impact of credit markets on firms' corporate tax avoidance strategies, Alexander and Pisa (2023). showed that, under adverse credit market conditions, firms that have refinancing demanders want to limit the after-tax cash flow benefits of tax avoidance to regain access to traditional risk-averse credit markets. The results showed that firms increase their cash effective tax rate by 2 percentage points when faced with refinancing constraints, and that this effect is more pronounced for firms that are able to refinance. lower asset utilization and higher probability of default. However, corporate governance mechanisms moderate the relationship between tax avoidance and credit refinancing. Furthermore, the authors showed that firms reduce their tax avoidance strategies while retaining leverage and debt shields. Overall, the findings are consistent with the phenomenon of credit markets exerting pressure on tax evading companies and contribute to the debate on policies to discipline tax evaders.

3. Data and methodology

Based on Hair et al. (2010) shows that the sample size should not be less than 5 times the number of scales. In this case, we collected 16 scales, so the sample size should not be less than 80. Therefore, when the sample size is greater than 80, then It can be said that the sample selection is appropriate. Specifically, this study selected a sample size of 210 businesses in the area. After data collection is complete, the research will eliminate survey forms containing missing items, so the remaining sample size is 202 forms.

Survey implementation period is from July to August 2023. Convenience sampling method. Because the sampling process is relatively difficult, because businesses operating in the last months of the year are relatively busy, the convenience sampling method is more suitable for the conditions of this study.

Based on previous studies, the research model was developed and adjusted to suit the conditions in Vietnam, then the research model has the form:

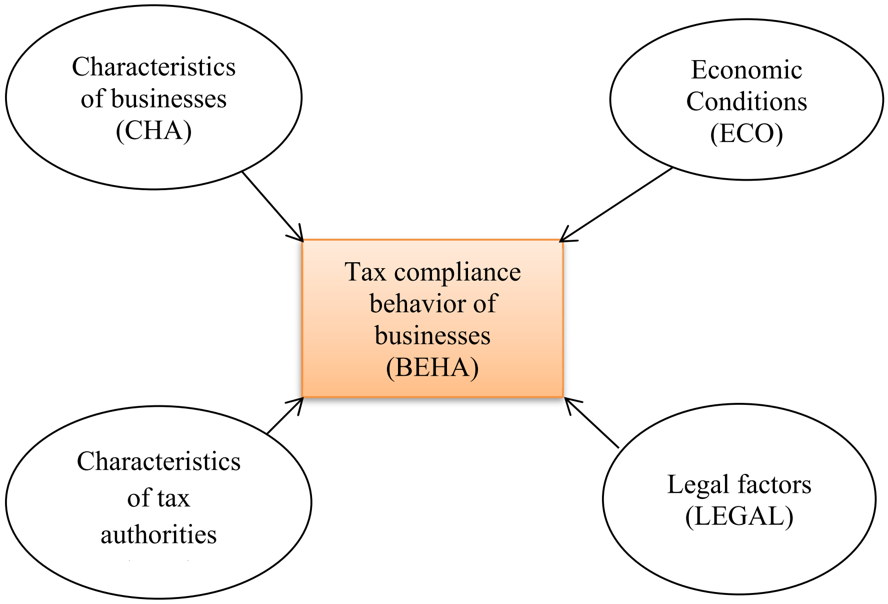

Fig. 1. Expected research model

This study applies reliability analysis methods based on Cronbach's alpha, exploratory factor analysis (EFA), correlation analysis, and multiple regression model analysis to evaluate the impact level of factors. on income tax compliance behavior of businesses in Thai Nguyen. This study uses SPSS analysis software version 22.

3. Results

3.1. Descriptive statistics

Table 1
Descriptive statistics

No.	Quantity	Ratio %
JSC business	60	29.70%
Private enterprise	122	60.39%
100% foreign capital	12	5.94%
Venture	4	1.98%
Others	4	1.98%
Total	202	**100.00%**
Employment status	**Quantity**	**Ratio %**
20 employees and less	140	69.30%
20-100 employees	50	24.75%
100-1000 employees	8	3.96%
1000 employees and more	4	1.98%
Total	202	**100.00%**
Sectors		
Construction and real estate	101	50.00%
Business and retailing	40	19.80%
Service business	45	22.27%
Manufacturing business	14	6.93%
Others	2	1.00%
Total	202	**100.00%**
Address	**Quantity**	**Ratio %**
Thai Nguyen City	92	45.54%
Song Cong City	35	17.32%
Pho Yen town	30	14.85%
Other areas	45	22.27%
Total	202	**100.00%**

Source: Authors' analysis

Table 1 shows that the survey sample mainly surveyed private enterprises, accounting for 60.39%, partly reflecting the contribution of private enterprises to the economy of Vietnam in general and Thai Nguyen in particular. The local economic development has the contribution of the FDI business sector, and the study surveyed 12 FDI enterprises to evaluate the views of this business sector on Vietnamese state policies. This study was mainly conducted on small businesses with a scale of less than 20 employees, demonstrating that small and medium enterprises are the place to attract the local workforce. Because it is located in a highly developed area, the businesses are mainly related to the construction and real estate industries, retail businesses and manufacturing businesses. In addition, businesses are mainly concentrated in Thai Nguyen, Song Cong and Pho Yen cities, these are three areas with rapid economic development in the area and are the driving force for local economic development.

3.2. Cronbach's Alpha Analysis

Cronbach's Alpha analysis aims to evaluate the reliability of the scale and is the basis for subsequent analysis. When the scale has a reliability level greater than 0.6, it will be selected for analysis in the next step. At the same time, scales with low reliability will be eliminated in the analysis. Through this study, Cronbach's Alpha coefficients are all greater than 0.6, meaning that the scales used in this study all have a good level of reliability and thereby confirms that the choice of scale is appropriate.

Table 2
Cronbach's Alpha Analysis

No	Scale	Number of scales	Cronbach's alpha
1	Tax compliance behavior	4	0.799
2	Characteristics of businesses	4	0.787
3	Characteristics of tax authorities	5	0.712
4	Economic Conditions	4	0.765
5	Legal factors	5	0.732

Source: Authors' analysis

3.3. EFA analysis

Next, the study analyzes the exploratory factors. The results of exploratory factor analysis are important and are the basis for regression analysis. The results are shown in Table 3 below:

Table 3
EFA analysis

Scale	Factors			
	1	2	3	4
TAX2	0.811			
TAX5	0.790			
TAX3	0.776			
TAX4	0.753			
TAX1	0.743			
LEGAL2		0.810		
LEGAL1		0.801		
LEGAL3		0.788		
LEGAL4		0.765		
LEGAL5		0.711		
CHA1			0.808	
CHA3			0.802	
CHA2			0.766	
CHA4			0.699	
ECO3				0.780
ECO2				0.776
ECO1				0.755
ECO4				0.687
ECO5				0.667

Source: Authors' analysis

Table 4
The KMO and Bartlett test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.788
Bartlett's Test of Sphericity	Approx. Chi-Square	5421.123
	Sig.	0.000

Source: Authors' analysis

Based on the KMO and Barlett test, it shows Approx. Chi-Square reached 5421.123 and at the same time Sig. reached 0.000, and at the same time KMO reached 0.788 and satisfied the testing conditions. Furthermore, the EFA analysis showed reliable and consistent results in the regression analysis in the next step. Thus, we can partly predict the possible influence of the independent variables on the dependent variable.

3.4. Regression

Regression analysis is the basis to confirm which independent variables have an impact on the dependent variable Y, as a basis for analyzing solutions and affecting tax compliance at businesses in Thai Nguyen province. The regression results are shown in Table 5 below:

Table 5
Regression results

Indicator	Regression coefficient	Sig.
Intercept		0.301
TAX	0.178	0.002***
LEGAL	0.216	0.009***
CHA	0.106	0.000***
ECO	0.211	0.000***
Number of observations	202	
ANOVA (sig,)	0.000***	
Adjusted R^2	77.4%	

Note: (***) is significant at the 1% level
Source: Authors' analysis

Some results can be explained as follows:

Legal factors have the strongest influence on businesses' tax compliance, because they have the largest estimated coefficient and are statistically significant. This reflects the tax compliance of businesses affected by the legal system. Indeed, when the legal system is complete and complete, it has the ability to impact the tax compliance behavior of businesses. Especially when a strict legal system has the ability to reduce tax non-compliance in businesses. This reflects that the government should further improve the legal system to help the tax system operate well and reduce tax compliance costs, thereby helping businesses improve their responsibility and tax compliance behavior.

Economic conditions are the second most influential factor, after legal factors. This can explain that thriving businesses often have a higher sense of tax compliance than undeveloped or small-scale businesses. Therefore, when a country creates favorable conditions for businesses to conduct economic activities, it can help businesses have higher tax compliance, while areas with lower levels of economic activity often does not help businesses improve tax compliance.

The study also confirms that business characteristics have a positive impact on tax compliance. This may explain why tax compliance depends on different types of businesses. Large and professionally operated businesses often have higher tax compliance than small and medium-sized businesses. Because large businesses often have professional and standard accounting regimes, they often target national and international markets, requiring higher tax compliance.

The study also suggests that the characteristics of the tax authority affect the tax compliance of businesses. When tax authorities closely monitor the activities of businesses and strengthen inspection of taxes in businesses, it will help businesses have no incentive to evade taxes, or help businesses improve their efficiency of tax compliance. This reflects the tax authorities' positivity in improving tax compliance in businesses.

4. Conclusion

Thai Nguyen is a locality located in the key economic region of Vietnam. In recent years, the local economy has increasingly developed and integrated deeply into the regional and global economy through the business community. Developing businesses help the country develop and increase the ability to create jobs and contribute to the state budget. However, tax compliance behavior for each business is different. Research results show that the legal system and economic conditions have the greatest impact on tax compliance behavior of businesses in the area. This means that when the legal system is perfected and economic and social conditions are improved, it can help improve tax compliance behavior for businesses and thus benefit the state budget. The study also suggests that business characteristics and tax authority characteristics have a positive influence on tax compliance behavior, but this impact is smaller.

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