

DETERMINANTS AFFECTING TAX COMPLIANCE: A CASE OF ENTERPRISES IN VIETNAM

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ABSTRACT

Compliance measurement defined as a basic content of risk management in effective tax management. The objective of this study is to explore the determinants affecting the tax compliance of enterprises in Vietnam. The research result is a science evident for tax managers to improve the tax policy. The researchers surveyed 450 managers related the tax compliance enterprises in Vietnam. They answered 15 questions and 416 samples processed. The primary sources of data collected from November 2017 to November 2018 in Dong Nai, Binh Duong province and Ho Chi Minh City. Simple random sampling technique. The method of the study has three phases following. Phase 1: We applied the expert methodology, phase 2: We tested a reliability scale with Cronbach's Alpha coefficient and Phase 3: We performed CFA and model testing with Structural Equation Modelling (SEM) analysis. Managers' responses measured through an adapted questionnaire on a 5-point Likert scale. In addition, the findings of the study have three factors affecting the tax compliance of enterprises in Vietnam with significance level 0.01.

Keywords: Tax, Compliance, Determinant and Vietnam.

INTRODUCTION

In recent years, the pressure of public spending has increased while the pressure to reduce taxes to support greater business production which has made the state budget become. The strategy is to reform the Vietnamese tax system by 2020 sets a specific goal to achieve. Besides, tax evasion and avoidance are the two most important causes of non-compliance and revenue losses. These behavioral manifestations of taxpayers are influenced by many interrelated factors, including subjective causes (tax policy, tax agency capacity, effectiveness, integrity and costs). And objective causes (complaints system, accountability in public spending, corruption, and the size of the informal economy). Therefore, Vietnam's tax policy has undergone many reform periods. The history of the Vietnamese tax system can be divided into four basic reform steps: Step 1 is from 1990-1995, step 2 is from 1996-2004, step 3 is from 2005-2010 and step 4 is from 2011-2020. The focus of the reform steps 1 and 2 is to build a system of normative tax regulations, creating a solid legal framework for national economic and fiscal activities. The first step is to create the compatibility of the Vietnamese tax system with international practices, ensuring compatibility with market economies in the region, towards a deeper integration into the world economy. Both of these reform periods are mainly done from within, external factors have limited impact.

During the phase 3 reform phase, Vietnam's economy has deeply integrated with the world. Therefore, the specific content of tax reform step 3 is aimed at amending existing taxes such as value-added tax (VAT), corporate income tax (CIT), import-export tax, and resource

tax. and issue new taxes such as personal income tax (PIT) and step 4 is from 2011-2020, the application of information technology (IT) in tax administration has played a strong role in the context of the increasing number of taxpayers, diversified scale and areas of operation. Therefore, tax management will be applied 4.0 technology in order to support taxpayers to directly submit tax declaration dossiers, tax refund dossiers, make paper remittances to the state budget and resolve tax refunds electronically in a single address. It is the electronic portal of the General Department of Taxation... Following the tendency of increasing the proportion of direct taxes, gradually reducing the indirect tax proportion. Besides, Vietnam has integration period and implementation of commitments and international links. The implementation of multilateral and bilateral international commitments. Based on the analysis of the challenges of the Vietnamese tax system, the researchers chosen topic “*Determinants affecting tax compliance: a case of enterprises in Vietnam*” as a paper. This paper helps tax managers who apply the research results for improving tax policy on the management of the Vietnamese tax system better in the future.

LITERATURE REVIEW

Tax Compliance (TC)

Tax compliance is to approach the concept of tax compliance; we need to start from the concept of compliance first. Vietnamese Dictionary defines compliance as "Keep and do what is prescribed". Compliance in English is "compliance" defined as "Conforming to a rule, such as a specification, policy, standard or law". That is, "Follow a rule, a rule, a regulation, such as a rule, a policy, a standard or a rule (Al-Mamun et al., 2014).

In summary, it can be understood that taxpayers' tax compliance is that taxpayers fully comply with tax obligations according to law, including tax registration, tax declaration, tax calculation, and tax payment. (Alm et al., 2010) comply with other tax administration requirements in accordance with the law. Tax compliance is defined in many different ways. Tax compliance is not an autonomous process but rather, it is influenced by factors such as tax inspection, tax penalty and Tax knowledge (Sapiei et al., 2014).

Tax Inspection (TI)

Tax inspection is a regular and continuous job of any tax agency. The impact of tax inspection on tax compliance by taxpayers can be considered in terms of inspection rates, inspection staff capacity and inspection rounds. (Alm et al., 1992) found a significant positive relationship between risk of tax inspection and voluntary compliance. If all corporate behaviors are not complying with taxes, they will be discovered quickly and enterprises will comply with tax better (Riahi-Belkaoui et al., 2004).

Professional qualifications, knowledge and ethics of tax officers and officials have an impact on tax compliance (Chau et al., 2009). If every enterprise behavior is not tax-compliant, it will be accurately detected in each tax inspection and the enterprise will comply with tax well (Singh et al., 2009). The Department of Taxation manages get well the tax registration, declaration and payment of taxpayers, making enterprises comply with good taxes (Helhel & Ahmed, 2014).

Hypothesis H1: Tax inspection has a positive impact on tax compliance of enterprises in Vietnam.

Tax Penalty (TP)

According to theoretical research conducted by (Palil et al., 2011), tax penalties and perceptions of offenses have an impact on tax compliance. This study argues that tax compliance will increase when penalties are involved to handle increased non-compliance. (Palil & Mustapha, 2011) studied that punishment should be applied quickly and vigorously. The idea of fear of punishment will prevent tax evasion. Establishing an effective system for handling tax evasion acts is an important solution to promote tax compliance.

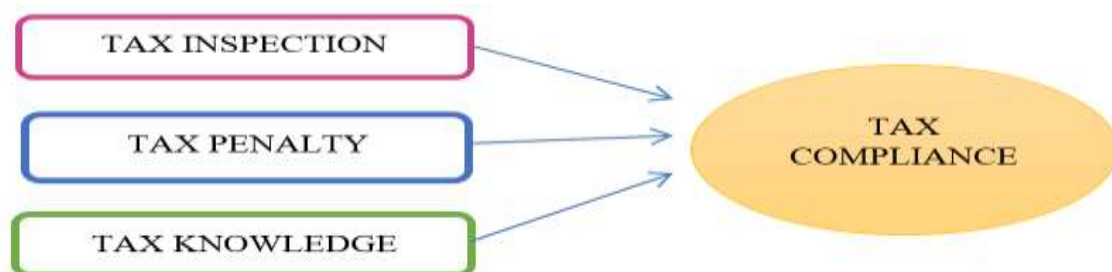
If all enterprise acts of tax non-compliance are sanctioned by the Tax Department in accordance with the law and enterprises which will comply with the tax better. The higher is the fine, the better is the tax payer complies (Singh & Mbekomize, 2009). The more strictly enforcement and enforcement of tax law violations, the greater is the tendency to increase tax compliance (Palil & Mustapha, 2011). In addition, enterprises continued handling violations according to tax law, if strictly handling acts of tax evasion according to criminal law, they will increase tax compliance (Trivedi et al., 2005).

Hypothesis H2: Tax penalty has a positive impact on tax compliance of enterprises in Vietnam.

Tax Knowledge (TK)

The impact of knowledge on tax compliance behavior has been demonstrated in various studies. Taxpayers' knowledge and conceptions of taxation will form the basis for assessment, awareness of fairness and willingness and capacity to comply with tax regulations. Subjective tax knowledge is the most common tax knowledge of people, it is important to understand why they behave the way they have been doing (Palil & Mustapha, 2011). Enterprises understand tax regulations sooner; they have a better sense of tax compliance. The more enterprises are updated with tax knowledge, the better they will be aware of tax compliance (Parka & Hyun, 2003). Enterprises believe that the respect, encouragement and reward of the corporate tax agency complies with tax as much as possible. Enterprises believe that the transparency and fairness of the tax authorities comply with tax as much as possible (Parka & Hyunb, 2003).

Hypothesis H3: Tax knowledge has a positive impact on tax compliance of enterprises in Vietnam.



(Source: Researchers proposed)

FIGURE 1
RESEARCH MODEL FOR FACTORS AFFECTING THE TAX COMPLIANCE OF
ENTERPRISES IN VIETNAM

METHODS OF RESEARCH

The research process for factors affecting the tax compliance of enterprises in Vietnam having three phases following. Phase 1: We applied the expert methodology and based on 30 experts' consultation about tax and based 30 lecturers training tax as group discussions are to improve the scale and design of the questionnaire. The results of surveying 30 tax experts and 30 lecturers training tax showed that factors affecting the tax compliance of enterprises. We created a list of possible factors gathered from the literature reviews as mentioned in the above studies. Phase 2: We tested a reliability scale with Cronbach's Alpha coefficient and exploratory factor analysis. Completed questionnaires are from enterprises related to tax compliance and having 20 minutes to finish the survey. There are 450 managers related the compliant of enterprises in Vietnam. They answered 15 questions and 416 samples processed and surveyed by hard copy distributed among 50.000 tax compliance of enterprises in Vietnam. All data collected from the questionnaire are coded, processed by SPSS 20.0 and Amos. Any observational variables with a total correlation coefficient greater than 0.3 and Cronbach's Alpha coefficient greater than 0.6 would ensure reliability of the scale. This method is based on the Eigenvalue, the appropriate factorial analysis and the observed variables in the whole which are correlated when Average Variance Extracted is >50%, the KMO coefficient is within 0.5 to 1, Sig coefficient $\leq 5\%$, the loading factors of all observed variables are >0.5. In addition, the researchers testing scale reliability with Cronbach's alpha coefficient and exploratory factor analyses (EFA) were performed. Finally, multiple linear regression used (Hair et al., 1998). Phase 3: We performed CFA and model testing with Structural Equation Modelling (SEM) analysis. The purpose of CFA helps to clarify: (1) Unilaterality, (2) Reliability of scale, (3) Convergence value, and (4) Difference value. A research model is considered relevant to market data if Chi-square testing is P-value >5%; CMIN/df ≤ 2 , some cases CMIN/df may be ≤ 3 or < 5 (Hair et al., 1998); GFI, TLI, CFI ≥ 0.9 . However, according to recent researchers' opinion, GFI is still acceptable when it is greater than 0.8; RMSEA ≤ 0.08 . Apart from the above criteria, the test results must also ensure the synthetic reliability >0.6; Average Variance Extracted must be greater than 0.5 (Hair et al., 1998).

RESEARCH RESULTS

Items	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
TI1	9.4014	8.067	0.826	0.918
TI2	9.4736	7.754	0.860	0.906
TI3	9.6466	7.535	0.785	0.933
TI4	9.5264	7.411	0.906	0.891
Cronbach's Alpha for Tax Inspection (TI)				0.933
TP1	10.3606	6.520	0.827	0.863
TP2	10.2764	6.403	0.807	0.870
TP3	10.3822	6.584	0.744	0.893
TP4	10.4183	6.678	0.771	0.883
Cronbach's Alpha for Tax Penalty (TP)				0.905
TK1	8.8918	4.044	0.779	0.823

TK2	8.0673	3.432	0.758	0.818
TK3	8.8125	3.830	0.698	0.842
TK4	8.0865	3.366	0.699	0.849
Cronbach's Alpha for Tax Knowledge (TK)				0.869
TC1	6.2260	3.515	0.851	0.888
TC2	6.2067	3.485	0.852	0.887
TC3	6.2067	3.629	0.837	0.899
Cronbach's Alpha for Tax compliance (TC)				0.925

Source: The researchers' collecting data and SPSS 20.0

Table 1 showed that all of 15 variables surveyed Corrected Item-Total Correlation greater than 0.3 and Cronbach's Alpha if Item deleted greater than 0.6 and Cronbach's Alpha is very reliability. Such observations make it eligible for the survey variables after testing scale. This showed that data was suitable and reliability for researching.

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.849		
Bartlett's Test of Sphericity	Approx. Chi-Square	5534.132		
	df	105		
	Sig.	0.000		
Pattern Matrix^a				
Code	Component			
	1	2	3	4
TI4	0.973			
TI2	0.924			
TI3	0.918			
TI1	0.855			
TP3		0.975		
TP2		0.927		
TP1		0.813		
TP4		0.791		
TK2			0.927	
TK4			0.924	
TK1			0.757	
TK3			0.736	
TC2				0.964
TC3				0.947
TC1				0.927
% of Variance				80.902

Source: The researchers' collecting data and SPSS 20.0

Table 2 showed that KMO coefficient is 0.849 and the level of significance (Sig) is 0.000. Exploratory Factor Analysis (EFA) is consistent with survey data of 450 managers related the compliant of enterprises in Vietnam. They answered 15 questions and 416 samples processed and surveyed by hard copy distributed among 50.000 tax compliant enterprises in Vietnam processed by SPSS 20.0. Besides, Table 2 showed that three components of the tax compliance included: tax

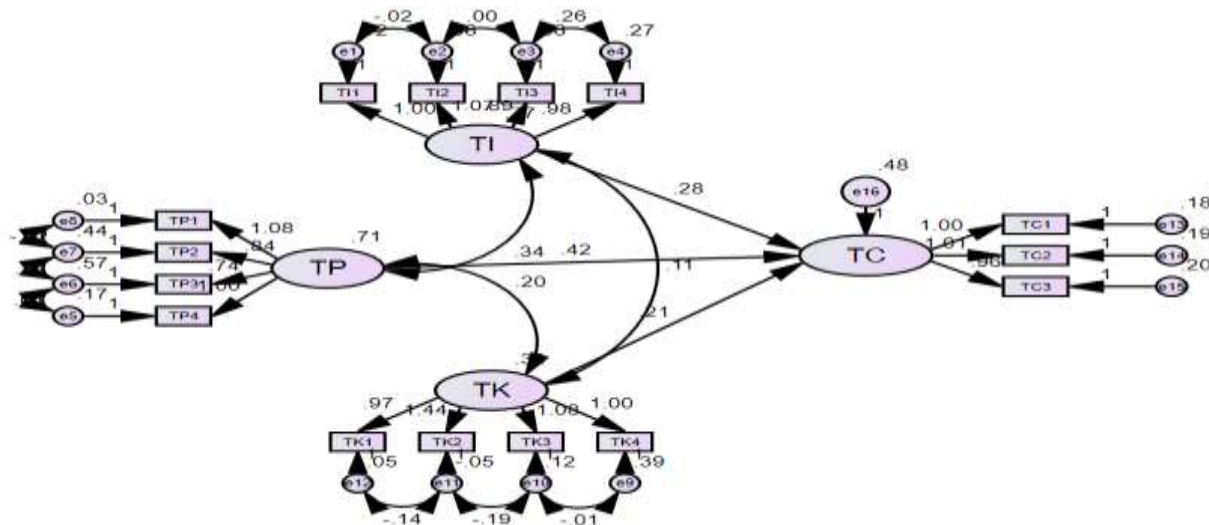
inspection (TI), tax penalty (TP) and tax knowledge (TK). Extraction Sums of Squared Loadings: % of Variance coefficient is 80.902 with the level of significance (Sig) is 0.000.

Relationships			Coefficient	Standardized Coefficient	S.E	T	Sig	Conclusion
TC	←	TI	.281	0.274	0.053	5.304	***	H1: Supported
TC	←	TP	.420	0.394	0.055	7.631	***	H2: Supported
TC	←	TK	.206	0.130	0.064	3.216	0.001	H3: Supported

Note: *** Significant at 1 percent (All t-tests are one-tailed)

Source: The researchers' collecting data, SPSS 20.0 and Amos

Table 3 showed that column "Sig" < 0.01 with significance level 0.01 and column "Conclusion" H1: supported; H2: supported; H3: supported. This showed that three factors affecting the tax compliance with significance level 0.01.



(Source: The researchers' collecting data, SPSS 20.0 and Amos)

FIGURE 2
THE STRUCTURAL MODEL SHOWING THE STRUCTURAL LINKAGE BETWEEN TI, TP, TK, TC

Chi-square = 263.690; df = 75; p = 0.000; Chi-square/df = 3.516; GFI = 0.934; TLI = 0.952; CFI = 0.948; RMSEA = 0.078.

DISCUSSION AND CONCLUSION

This study found that three factors affecting the tax compliance with significance level 0.01. Tax penalty ($\beta = 0.394$), tax inspection ($\beta = 0.274$) and tax knowledge ($\beta = 0.130$). This study is to find out tax penalty ($\beta = 0.394$) affected strongest in three factors with significance level 0.01. The researchers surveyed 450 managers related the compliant of enterprises in Vietnam. They answered 15 questions but 416 samples processed. The primary sources of data

collected from November 2017 to November 2018 in Dong Nai, Binh Duong province and Ho Chi Minh City. The Cronbach's Alpha had been analyzed, KMO test and the result of KMO analysis which used for structural equation modelling (SEM). Managers' responses measured through an adapted questionnaire on a 5-point Likert scale (Conventions: 1: Completely disagree, 2: Disagree, 3: Normal; 4: Agree; 5: completely agree). The researchers had managerial implications policymaker of Vietnam continued to improve the tax policies in the future.

Managerial implications

“Tax penalty ($\beta = 0.394$)” has the strongest impact on the tax compliance. The tax penalty (TP) has a standardized regression coefficient of 0.394. (1) Tax authorities should continue strengthening the coordination of handling violations of tax laws, the tax authorities need to cooperate with other agencies to work together to complete the legal framework, share information and coordinate the work between registration agencies. (2) Tax authorities continue aiming at managing enterprises in the establishment according to risk management principles. That is creating the most favorable conditions for enterprises to set up, start their businesses, and take strict control measures for business owners who are in breach of tax laws. (3) Tax fraud and evasion are quite common in recent years, so the strengthening of tax inspection and handling of violations of tax laws for some taxpayers and official's offense departments become urgent today. Tax authorities continue strengthening the application of information technology to tax audit operations. Today, information technology has developed strongly, especially in the field of tax management, the process of monitoring and managing people. All taxes are used by specialized software.

“Tax inspection ($\beta = 0.274$)” has the second impact on the tax compliance. (1) Tax authorities should tighten inspection and improve tax compliance. In terms of tax administration under the current self-payment mechanism. Tax inspection plays an important role. Tax inspection not only contributes to detecting and preventing violations of tax laws, tax evasion and fraud, but also contributes to warnings and prevention of tax law violations; contribute to improving tax compliance, creating equality in tax obligations. (2) Tax authorities should complete tax inspection with enterprises. The main task of the tax authorities is to focus on checking and timely detecting violations to remind and educate cases where enterprises calculate tax inadequately, improperly and pay tax debts. Tax authorities should strictly punish those cases that deliberately take advantage of the mechanism of self-declaration, self-calculation and self-payment for fraud and appropriation of tax amounts. (3) Tax authorities should reform the way of tax audit organization, establishing an independent audit team with auditing the budget settlement report. It is necessary to determine the auditing objects associated with the intensive auditing objectives to establish the corresponding audit team. Therefore, tax authorities should need to innovate in the direction of strengthening the organization of intensive specialized audits, limiting the implementation of integrated auditing.

“Tax knowledge ($\beta = 0.130$)” has the least impact on the tax compliance. (1) Tax authorities should develop a contingent of highly qualified communicators, proficient in training methods. Tax authorities should concentrate on building good propaganda groups with deep expertise to reach regional and international levels, training and fostering with a focus and focus on tax. (2) Tax authorities should be developing professional training programs related to tax calculation at regional level, meeting all conditions for training, fostering and exchanging communicators with countries in the region and the world. (3) Tax authorities should be

propaganda support which is an important solution to ensure the compliance of taxpayer's tax. Synonymous focusing on supportive propaganda solutions. Tax administration agencies have shifted from the traditional approach of focusing on coercion. Tax authorities should support taxpayers to comply with taxpayers' perspectives, understand and comply voluntarily. Despite the highlighted contributions of this research, some limitations have to be taken in this research results, thereby serving as proposals for future research. First of all, our model is tested on a sample of three provinces in Vietnam, so that the level of representativeness of the sample can be affected. Secondly, despite the high explanatory power of the model, it could be reinforced by adding control variables, such as the tax rate, awareness of fairness about tax... Finally, the analysis of the longitudinal databases available to enterprises should allow them to make comparisons over time as a result of eventual changes in the variables.

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