

The Covid-19 Pandemic Affecting Tax Compliance of Small and Medium Enterprises in Vietnam

Le Thu Thuy

Lac Hong University (LHU), Dong Nai province, Vietnam

Corresponding author: ltthuy247@gmail.com

Abstract - The Covid-19 pandemic had a significant impact on the socio-economic situation in Vietnam. The Government is implementing “dual tasks” to prioritize epidemic prevention while promoting production and business, promoting patriotism, and calling for business colleagues to turn challenges into opportunities, create a driving force for development and re-start the country’s economy. Thus, the study surveyed 450 managers related to the tax of SMEs and answered 16 questions. The data collected from June 2020 to December 2020 at SMEs in Vietnam. The authors applied a simple random sampling technique, tested Cronbach’s Alpha and confirmatory factor analysis (CFA), and model testing with Structural Equation Model (SEM) analysis. The finding has three key factors affecting SMEs’ tax compliance in Vietnam with a significance level of 0.01. Finally, this article recommended policies for enhancing tax compliance at SMEs in Vietnam.

Keywords: *Tax, compliance, SMEs, enterprises, Covid-19, and pandemic.*

1. Introduction

Every year, the state budget loses thousands of billions because small and medium enterprises (SMEs) intentionally commit tax fraud. Besides, many enterprises do not have an awareness of tax compliance, including legal understanding. Businesses do not declare tax honestly [20]. Therefore, identifying factors affecting SMEs’ tax compliance to propose tax fraud prevention and mitigation implications is very necessary and urgent in the current period [6].

Improving taxpayers’ compliance with the law will positively affect discipline, water permission and create an equal environment in production, business, and competition. Besides, taxpayers’ compliance ensured that the tax law system fully functions as an

effective macro-regulation tool of the State while at the same time creating a stable source of revenue for the State budget. Therefore, in the current conditions, researching, considering, and proposing solutions to improve the compliance of the law of the business is an essential requirement [8], [18]. For the above reasons, improving small and medium enterprises’ tax compliance is always considered a critical content, urgent requirement, and tax administration’s top goal. Therefore, this paper determines factors affecting tax compliance of small and medium enterprises in Vietnam.

2. Literature Review

2.1 Tax compliance (TC)

Tax compliance is the correct and complete compliance with tax laws’ provisions [10]. Tax compliance is compulsory for many different entities such as tax authorities, taxpayers, and other related organizations and individuals specified in tax laws [11]. In particular, the taxpayer’s tax compliance is always the most concerning issue. The taxpayers’ tax compliance reflected in the whole, timely and correct compliance with the tax laws, particularly the compliance with the criteria of timing, accuracy, truthfulness, and completeness [12], [13]. There are tax registration activities, tax declaration, tax payment, and other taxpayer tax obligations [14].

2.2 Business characteristics (BC)

The diversity and complexity are in the operational structure of taxpayers, the quality of the internal control system, including the quality of control processes, the reasonableness and rigidity of the accounting system, the level of compliance accounting processes and procedures, qualifications of employees [16], [17]. The behavior of individuals involved in business activities and business leaders also significantly impacts tax compliance [19].

Therefore, the service business often includes many different industries. The authors have hypothesis following:

Hypothesis H1: Business characteristics (BC) positively impact the tax compliance of SMEs in Vietnam.

2.3 Business type (BT)

The types of legal enterprises are pretty diverse. Therefore, it is to choose the right kind of business with the current situation and development orientation. Besides, business owners need to grasp each type of business's characteristics, advantages, and disadvantages [9], [13]. The business model of an enterprise is a simple representation of its business logic. They described what a business offers to its customers, how it finds and establishes relationships with customers, what sources, what activities and partners to get there, and, ultimately, how it makes that business profit [5], [15]. The authors have hypothesis following:

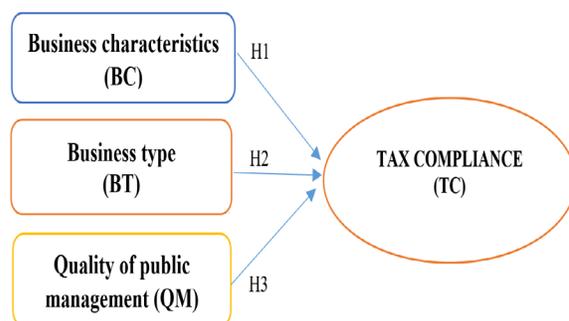
Hypothesis H2: Business type (BT) positively impacts the tax compliance of SMEs in Vietnam.

2.4 Quality of public management (QM)

The administer tax and tax authorities must implement professional activities to influence taxpayers to comply with the tax. This factor is the tax administration's performance [3], [4]. One of the criteria to evaluate good management performance is the efficiency brought and shown most clearly is the self-discipline of tax compliance, high voluntarism in complying with tax obligations to the taxpayer's country [2], [18]. To create an equal and friendly relationship between tax administration agencies and taxpayers in the direction that taxpayers are the ones to be served, the "customers" of the tax authorities and the tax authorities are the worthy ones. Most trusted by taxpayers [1], [5], [9]. The authors have hypothesis following:

Hypothesis H3: Quality of public management (QM) positively impacts SMEs' tax compliance in Vietnam.

The author proposed a research model for factors affecting the tax compliance of SMEs in Vietnam following.



(Source: Authors proposed)

Figure 1. A research model for factors affecting the tax compliance of SMEs in Vietnam

3. Methods of Research

The authors used a mixture of qualitative and quantitative methods in the article.

Qualitative techniques: the authors interviewed 15 managers from 15 SMEs. According to the study's findings, all of the factors affecting SMEs' tax enforcement in Vietnam.

Quantitative methods: The authors surveyed 450 managers of 450 SMEs about tax management. They answered 16 questions, but there are 435 samples processed, 15 samples were missing information [7]. From June 2020 to December 2020 in Vietnam, the authors gathered primary data sources. The authors were conducting a survey published in hard copy. All of the information obtained from the questionnaire is coded and analyzed by SPSS 20.0 and Amos. The authors used Cronbach's alpha coefficient to assess scale reliability and exploratory factor analyses (EFA).

The authors help to explain the purpose of confirmatory factor analysis (CFA): (1) unilaterality, (2) scale reliability, (3) convergence value, and (4) difference value. If Chi-square testing is P-value > 5 percent, a study model is considered important to the data; CMIN/df < 2.0, in some cases CMIN/df may be < 3.0 or < 5.0; GFI, TLI, CFI > 0.90. However, according to the recent authors' views, GFI is still acceptable when it is more relevant than 0.8; RMSEA < 0.08. In addition to the above parameters, synthetic reliability > 0.6 is guaranteed by the test results; the mean-variance derived must be greater than 0.5 [7].

4. Research Results

Testing Cronbach's alpha for factors affecting the tax compliance of SMEs in Vietnam following:

Table 1. Cronbach's alpha of the business characteristics (BC) of SMEs

Code	Contents	Cronbach's Alpha if Item Deleted
BC1	SMEs have a flexible and straightforward organizational structure	0.821
BC2	The number of owners in SMEs is sufficiently efficient	0.819
BC3	SMEs have an efficient scale of operations	0.844
BC4	The covid-19 pandemic has relation with the business characteristics	0.816
Cronbach's Alpha is 0.863		

(Source: Data processed by SPSS 20.0)

Table 1 showed that Cronbach's alpha of SMEs' business characteristics (BC) is $0.863 > 0.6$.

Table 2. Cronbach's alpha of the business type (BT)

Code	Contents	Cronbach's Alpha if Item Deleted
BT1	SMEs have the industry's rate of return	0.925
BT2	SMEs have the industry competitiveness	0.946
BT3	SMEs have the revenue control	0.932
BT4	The covid-19 pandemic has relation with the business type	0.915
Cronbach's Alpha is 0.946		

(Source: Data processed by SPSS 20.0)

Table 2 showed that Cronbach's alpha of the business type (BT) at SMEs is $0.946 > 0.6$.

Table 3. Cronbach's alpha of the quality of public management (QM)

QM1	The Government effectively manages tax collection	0.870
QM2	Tax agencies provide good support for tax services for businesses	0.833
QM3	Tax officers will perform the function of propagating tax laws	0.871
QM4	Tax officers have the following qualifications in taxation	0.811
QM5	The covid-19 pandemic has relation with the quality of public management	0.833
Cronbach's Alpha is 0.872		

(Source: Data processed by SPSS 20.0)

Table 3 showed Cronbach's alpha of public management quality (QM) at SMEs is $0.872 > 0.6$.

Table 4. Cronbach's alpha of the tax compliance (TC)

Code	Contents	Cronbach's Alpha if Item Deleted
TC1	The business characteristics (BC) positively impacts the tax compliance of SMEs in Vietnam	0.887
TC2	The business type (BT) and the quality of public management (QM) positively impacted the tax compliance of SMEs in Vietnam	0.812
TC3	The covid-19 pandemic has relation with the tax compliance	0.900
Cronbach's Alpha is 0.907		

(Source: Data processed by SPSS 20.0)

Table 4 showed that Cronbach's alpha of the tax compliance (TC) at SMEs is $0.907 > 0.6$.

Table 5. Testing of the confirmatory factor analysis (CFA)

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.881	30.504	30.504	4.881	30.504	30.504
2	3.154	19.714	50.218	3.154	19.714	50.218
3	2.752	17.200	67.418	2.752	17.200	67.418
4	1.432	8.949	76.367	1.432	8.949	76.367

5	0.711	4.442	80.809
6	0.661	4.131	84.940
7	0.513	3.204	88.144
8	0.365	2.282	90.426
9	0.302	1.890	92.316
...
16	0.084	0.527	100.000

KMO and Bartlett's Test is 0.800; Sig is 0.00

(Source: Data processed by SPSS 20.0)

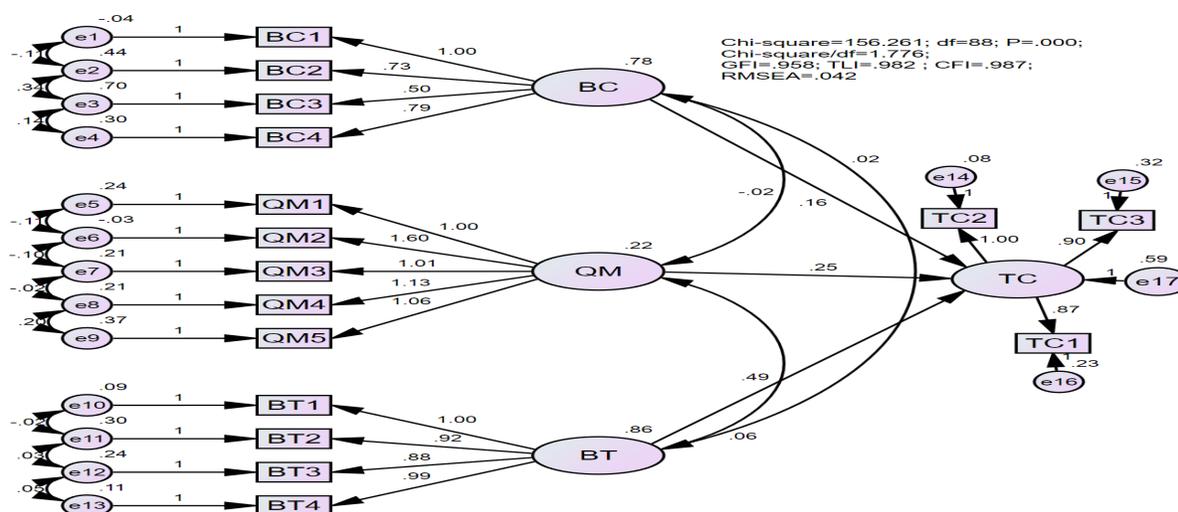
Table 5 showed that the testing of the confirmatory factor analysis (CFA) at SMEs with KMO is 0.800 > 0.6; Sig is 0.00 (<0.01). Table 5 showed there are four components.

Table 6. Factors affecting the tax compliance of SMEs in Vietnam

Relationships	Estimate	Standardized Estimate	S.E.	C.R.	P
TC <--- BC	0.156	0.150	0.054	2.893	0.004
TC <--- QM	0.252	0.129	0.082	3.089	0.002
TC <--- BT	0.492	0.495	0.045	10.871	***

(Source: Authors proposed by SPSS 20.0 and Amos)

Table 6 indicated three factors that affected SMEs' tax compliance with a significance level of 0.01.



(Source: Data processed by SPSS 20.0 and Amos)

Figure 2. The structural model showing the structural linkage factors

Figure 2 had the Chi-square = 156.261; df = 88; p = 0.000; Chi-square/df = 1.776; GFI = 0.958; TLI = 0.982; CFI = 0.987; RMSEA = 0.042.

5. Conclusions

Tax compliance of taxpayers is always an issue of concern to tax policymakers and tax managers, including theoretical issues and tax administration practices. Improving taxpayers' compliance with the law will have positive effects, such as strengthening discipline. Tax managers continue creating an equal environment in production and business and competition. Tax managers ensure the tax law system fully functions as an effective macro-regulation tool of

the State while at the same time creating a stable source of revenue for the state budget. The results showed that the three factors affected SMEs' tax compliance in Vietnam with a significance level of 0.01. This result is necessary for tax managers to pay attention to critical managerial implications.

6. Policy implications

Based on the findings, the authors made the following recommendations to strengthen SMEs' tax following:

(1) In the condition that the self-payment mechanism expanded and developed, inspection and examination will be an essential function, ensuring compliance of businesses and improving tax administration effectiveness. It is to raise enterprises' awareness of tax compliance through inspection and examination. Tax authorities need to focus on solving some of the following specific issues: Need to strengthen inspection activities at Tax authorities' headquarters, to select the objects to be inspected and examined accurately, then need to promulgate a good inspection process and must have a sufficient number of inspectors, good in terms of quality: quality and professionally trained. Complete tax payment methods create favorable conditions for enterprises in fulfilling the obligation to pay state budget such as electronic tax payment via the internet, mobile network, and other amount means. Besides, for localities that have not yet qualified, the tax authorities need to coordinate with relevant agencies such as treasuries and banks to arrange more convenient tax collection points when necessary, making it easier for businesses to pay taxes.

(2) To ensure regular strict management of enterprises, tax managers must strictly comply with the current tax administration procedures. It is necessary to pay attention to the supervision of enterprises through desk checks. This work must be conducted regularly every month for all subjects, especially businesses, through data on declarations, reports, and other information channels. Any change such as a sudden change in sales, a change in business type, a change in export density, or a change in import density must be recognized and evaluated by managers. In addition to allocating appropriate forces, properly implementing inspection and examination processes, test preparation is of great importance. Before inspecting and examining an enterprise, the tax department must inform the enterprise.

(3) The Tax Department needs to establish a center for analysis, data processing, and risk management methods to select inspection objects nationwide according to each tax year's unified criteria. With the inspection, the analysis and processing center can localize the target group - mainly taxpayers in the fourth (non-compliant) and third (reluctant to comply) group. Besides analyzing the data in the business's declaration, tax managers combined with the analysis of the socio-economic situation in each specific period, such as outstanding issues, significant fluctuations in the year. The center can identify the problem inspected. They are taking measures to remind and urge the payment of tax and other revenues managed by tax authorities. Tax debt management's goal is to secure tax debt collection. The last but not least important tax debt management content is to remind and urge in specific forms prescribed by law for enterprises to fulfill their tax obligations. For

example, telephone reminders or written notices about tax arrears.

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