Distribution of the Tax Burden across Companies in Vietnam: The Issue of Corporate Tax Avoidance*

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Abstract

Purpose: This paper considers the issue of corporate tax avoidance (CTA) in the distribution of the tax burden across companies in Vietnam because the high level of CTA leads to unfairness in taxation. In particular, we aim for discussing the way to measure the extent of CTA and explore the determinants of CTA that reflect the features of high-tax risk-taking companies. **Research design, data and methodology:** The study investigates factors influencing the CTA behavior of legal entities listed on the Vietnam stock market between 2012 and 2018 to fill the empirical research vacuum in the country. we employ the dynamic GMM estimate method. Interestingly, CTA is considered through three approaches, including two effective-tax-rate-based methods and especially accrual earnings **Results:** The results highlight tax - accounting book disparities have significant effects on CTA. In addition, firm size, net asset value, debt leverage, and tax—accounting books are related to CTA. **Conclusions:** Tax avoidance is shown to have a positive correlation with financial distress in this case. The higher a company's capital adequacy ratio, the fewer tax avoidance opportunities it has. The paper draws some recommendations to deal with tax avoidance that improves the fairness in the distribution of the tax burden among corporations.

Key words: Tax Avoidance, Tax Allocation, Corporate Tax, Vietnam, Fairness

JEL Classification Code: E44, F31, F37, G15

1. Introduction

This article investigates the problem of corporate tax avoidance (CTA) in the distribution of the tax burden among enterprises in Vietnam. Taxes are mandatory payments made by businesses and individuals to the government to fund public goods and services that benefit all citizens. It appears to reason that equitable duty allocation is very important in taxation. In addition, ensuring a fair distribution of tax duties is also crucial to remain an effective competitive environment. However, the prevalent practice of tax avoidance by companies is to blame for the unfairness of taxes. In another word, unfairness in taxation is a result of the widespread practice of tax avoidance by corporations. Due to the high degree of CTA leading to unjust taxation, this study examines the problem of CTA in the allocation of the tax burden across enterprises in Vietnam. In particular, we have a debate on how to quantify CTA and investigate the factors that contribute to CTA, all

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of which should be reflective of the characteristics of highly tax-risky businesses.

In recent years, corporate tax avoidance (CTA) has been becoming an emerging topic in finance and accounting literature (Kovermann & Velte, 2019; Wang et al., 2020). There are some previous studies about CTA. Yet, these studies are undertaken with varying aims, and their findings are extremely contentious, particularly when it comes to how precisely CTA is quantified and what factors influence this phenomenon (Dyreng et al., 2019; Riedel, 2018). Moreover, the trend of research on determinants of CTA has changed over time. In the first stage, prior studies focus on firm-level factors. In recent years, attention has gradually shifted to corporate governance factors (Wang et al., 2020).

Among the developing and emerging countries, Vietnam has some specific features: the government owns a large portion of the business; there are not many large-scale enterprises; and the related dataset has just improved in recent years. Consequently, the empirical literature on determinants of tax avoidance in Vietnam is rather scarce. Moreover, prior studies in Vietnam often focus on analyzing the relationship between CTA and some specific factors, such as ownership (Ha et al., 2021; Ha & Quyen, 2017) or financial structure (Dang & Tran, 2021). This research aims to provide more complete empirical evidence of the impact of firm-level features and governance on CTA in Vietnam. We collect a sample comprising 125 firms listed on the Vietnamese Stock Exchange in the period 2012 – 2018 from the reliable database provided by Thomson Reuters EIKON.

Consequently, the motivation to carry out this research mainly comes from the gap in empirical research in the case of Vietnam. We investigate the factors influencing the CTA behavior of companies listed on the Vietnam stock exchange. We anticipate that the study will give an outline of the elements influencing CTA behavior in an emerging market like Vietnam. Furthermore, this study also considers CTA metrics and highlights the shortcomings of the current approaches. Consequently, this study's contribution is to investigate the causes of CIT avoidance in Vietnam. This might provide for a more equitable business climate by aiding tax inspectors in identifying companies that take excessive tax risks. Besides the introduction, the structure of this study is as follows: (1) Literature review; (2) Empirical model; (3) Results and discussion, and (4) the conclusion.

2. Literature Review

There have been some prior studies about CTA. However, there is a lack of consensus on their results (Dyreng et al., 2019; Wang et al., 2020). In summary, there are some main points in the consideration of CTA:

First, it might be difficult to clarify the difference between tax evasion, tax avoidance, and tax planning. Tax planning, according to Jones (2015), is the consideration n of a financial condition or strategy from a tax standpoint. The financial plan's many components come together in the most tax-efficient way through tax planning. Tax efficiency is the main goal of tax planning. Tax evasion, in contrast, is the unlawful act of not paying taxes by failing to register income, failing to record costs that are not permitted by law, or failing to pay taxes that are due. Meanwhile, in a broad meaning, CTA could include any legal method of reducing your tax burden. In common sense, CTA means reducing a firm's tax burden within the scope of the tax law through investments and business activities (Wang et al., 2020). CTA is defined as a closed collection of several tax preparation tactics by Hanlon and Heitzman (2010). As a result, we adhere to the definitions of Dyreng et al. (2008) and Wang et al. (2020) who define tax avoidance as any transaction that reduces a taxpayer's tax liability. Tax avoidance involves a company retaining finance resources within the company that would otherwise contribute to the state as tax duty (Wang et al., 2020). Because of the non-consensus on the definition, there are still many controversies in measuring tax avoidance in empirical studies (Chen et al., 2014; Dyreng et al., 2019; Khuong et al., 2020; Riedel, 2018). As Chen et al. (2014) and Khuong et al. (2020) implied, there are three common proxies that represent CTA. In this study, we apply all three approaches to measure the extent of tax avoidance of corporations: two methods are based on the view that CTA is considered as all transactions that reduce taxpayers' tax duty (Dyreng et al., 2008). The remaining method relies on accrual earnings (Desai & Dharmapala, 2009; Khuong et al., 2020).

Second, in terms of corporate tax avoidance motivation, there have been two main intrinsic research tendencies: financial benefit pursues and corporate social responsibility (Wang et al., 2020). On one side, priors commonly consider tax avoidance as a scheme of "value creation behavior" to make the highest shareholder's possible benefit from the tax perspective. It means reducing tax duties could benefit shareholders. Accordingly, earlier tax avoidance empirical studies are implemented based on the idea that tax reduction duties could benefit shareholders. The managers would utilize many tax avoidance strategies to achieve this (Hanlon & Heitzman, 2010). However, the agency theory states that the board's decisions about tax would concentrate on their own benefits (the agent) rather than the benefits of the shareholders (the owner) (Chen & Chu, 2005; Crocker & Slemrod, 2005). Accordingly, as per Crocker and Slemrod (2005), the incentives of taxes for managers and shareholders may differ if business managers who actively make tax choices bear the cost of unlawful tax evasion rather than the firm shareholders. Consequently, it leads to

executive compensation contracts established to align the benefits of firm executives and shareholders regarding tax more effectively. In contrast, tax avoidance may be beneficial to firm shareholders but the state discipline for tax avoidance behaviors (if the avoidance is illegitimate and detected) is individually imposed on the executives making the decision (Chen & Chu, 2005). Desai and Dharmapala (2006) and Desai et al. (2007) make the following observations based on the agency theory: Complex tax avoidance tactics may, in some cases, worsen the information gap between company management and shareholders and raise the cost of shareholder oversight.

Third, the trend of research on determinants of tax avoidance has changed over time. In the first stage, prior studies focus con firm-level factors. In recent years, attention has gradually shifted to corporate governance factors. In summary, some related studies are described as follows:

Prior tax avoidance research focused on firm-level variables that potentially have an impact on tax avoidance (Phillips et al., 2003; Shackelford & Shevlin, 2001). Basic firm-level factors are also various such as firm size, business strategy, and multinational operations (Lisowsky, 2010; Rego, 2003). Rego (2003) indicates that firm size is positively associated with tax avoidance behavior. More financial resources and financial motivations allow huge corporations to undertake tax evasion methods and even influence political problems. Larger organizations also often have greater knowledge of taxes. (Lisowsky, 2010).

By this time, recent tax avoidance research has concentrated on company governance traits that are thought to diminish agency conflicts, as stated by agency theory (Hanlon & Heitzman, 2010). In the instance of 812 listed companies in Australia between 2006 and 2009, the impact of corporate governance characteristics on the level of CTA is considered by Richardson et al. (2013). The findings suggest that internal control and risk management, two hallmarks of good company governance, have sizable impacts on the extent to which taxes are avoided. Higgins et al. (2015) show that business strategy has a significant relationship with tax avoidance behavior. These scholars explain that defender-type companies who prefer to prevent risk and the state of uncertainty, execute fewer tax avoidance activities. On the contrary, prospector-type ones, who are compatible with risk and uncertainty for higher interests, engage in more tax avoidance. Tandean and Winnie (2016) utilize the Effective Tax Rate (ETR) to calculate how much tax evasion occurs in Indonesian manufacturing firms. The empirical findings demonstrate that, in this case, the board had a positive impact on tax fraud when employing the panel data GLS estimation. These organizations' tax evasion is significantly influenced by

additional variables such management bonuses, particularly for firm size, audit quality, and ownership structure.

In the context of Vietnam, the empirical literature on determinants of tax avoidance in Vietnam is rather scarce. Tax avoidance is a new topic of research interest in Vietnam because the data has gradually improved in recent years. Nevertheless, a review of prior research in Vietnam reveals that these studies frequently concentrate on examining the connection between tax evasion and some specific elements, such as ownership concerns (Tran et al., 2023; Ha et al., 2021; Ha & Quyen, 2017), financial structure (Tran et al., 2023; Dang & Tran, 2021).

Consequently, in this research, we investigate what causes corporations trading on the Vietnam Stock Exchange to engage in CTA strategies. Based on prior studies, this study's overarching objective is to bolster the existing empirical literature on the causes and consequences of CTA in Vietnam by examining factors such as firm-level characteristics and corporate governance.

3. Methodology

3.1. Measuring CTA

In terms of empirical literature, there are still many debates on the proxies of tax avoidance of corporations (Chen et al., 2014; Dyreng et al., 2019; Khuong et al., 2020; Riedel, 2018). Following Chen et al. (2014) and Khuong et al. (2020), we implement three common approaches to measure the extent of corporate tax avoidance. Two common measures of CTA are the Current Effective Tax Rate (CurrETR) and the Cash Effective Tax Rate (CashETR), which are based on the idea that CTA includes all actions that reduce a taxpayer's tax bill (Dyreng et al., 2008; Chen et al., 2014; Khuong et al., 2020; Salihu et al., 2013). The CurrETR and CashETR are calculated in two distinct ways, as shown below:

$$CurrETR_{i,t}$$
$$= \frac{(Total\ Tax\ Expense_{i,t} - Deferred\ Tax\ Expense_{i,t})}{before\ tax\ Income_{i,t}}$$
$$CashETR_{i,t} = \frac{Cash\ Taxes\ Paid_{i,t}}{Pretax\ Income_{i,t}}$$

CurrETR is reflected as the difference between the total tax expense and deferred tax expense on the before-tax income in year t (Khuong et al., 2020; Salihu et al., 2013). By comparing the current income tax to the entire cost of taxes, this measurement suggests that a firm has a tax deferral scheme in place. It is considered as a proxy that could be explained as an opposite meaning of the extent of

CTA. As a result, significant levels of corporate tax avoidance are implied by low CurrETR levels (Khuong et al., 2020). Meanwhile, CashETR is based on the state of cash flow used for paying tax (Salihu et al., 2013). In another word, the cash flow utilized to pay taxes is the basis for CashETR (Salihu et al., 2013). Cash tax paid helps to minimize the strategical effects of utilizing tax allowance and cushions which are commonly vital elements of aggressive tax planning (Dyreng et al., 2008).

In the end, we employ a strategy of measurement established by Desai and Dharmapala (2006) which then was modified by Chen et al. (2014) and Khuong et al. (2020). As Desai and Dharmapala (2006) explained, this approach is based on based accrual earnings and book-tax difference. According to Khuong et al. (2020), this study conducts two stage calculation. The value of discretionary accruals (DA) for each business in year t is first calculated. This measure is also calculated using the value of discretionary accruals instead of total accruals (Khuong et al., 2020; Kothari et al., 2005). This value is determined as the residuals of below equation:

$$\frac{TAC_{i,t}}{A_{i,t-1}} = \beta_1 \frac{1}{A_{i,t-1}} + \beta_2 \frac{\Delta(TURNOVER_{i,t} - AR_{i,t})}{A_{i,t-1}} + \beta_3 \frac{PPE_{i,t}}{A_{i,t-1}} + \beta_4 \frac{ROA_{i,t}}{A_{i,t-1}} + \varepsilon_{i,t} \quad (1)$$

Where:

$TAC_{i,t}$: total accruals amount by year of entity i in year t,

$A_{i,t-1}$: amount of total assets by year of entity i in year t-1,

$\Delta TURNOVER_{i,t}$: the discrepancy between the firm i's turnover and its turnover in year t-1,

$\Delta AR_{i,t}$: the distinction between the entity i's accounts receivable and its accounts receivable in year t-1,

$PPE_{i,t}$: gross corporate assets include its plants and equipment of entity i in year t,

$ROA_{i,t}$: the measure of net profit of entity i in year t.

All of variable are calculated as a proportion of lagged total assets $A_{i,t-1}$.

$$DA_{i,t} = TAC_{i,t} - NDA_{i,t} \quad (2)$$

Where:

$DA_{i,t}$: discretionary accruals amount by year of entity i in year t,

$TAC_{i,t}$: total accruals amount by year of entity i in year t,

$NDA_{i,t}$: Non-discretionary accruals amount of entity i in year t.

All of variable are calculated as a proportion of lagged total assets $A_{i,t-1}$.

Next, we do the regression with below model (model 3) to determine the value of based accrual earnings by year. The residual of this estimation which couldn't be explained by based accrual earnings is considered as a proxy of the level of CTA (4):

$$BTD_{i,t} = \beta_1 DA_{i,t} + u_j + e_{i,t} \quad (3)$$
$$CTA_{i,t} = u_j + e_{i,t} \quad (4)$$

Where :

$BTD_{i,t}$: the book-tax difference of entity i in year t

$DA_{i,t}$: the discretionary accruals of entity i in year t;

u_j and $e_{i,t}$ are respectively is the average residual and the deviation from u_j.

$CTA_{i,t}$ the proxy of the extent of tax avoidance of entity i in year t.

3.2. Empirical Model

According to prior studies, we established the empirical model to explore the effects of the firm-level and corporate governance factors on the level of corporate tax avoidance as follows:

$$CTA_{i,t} = \delta_0 CTA_{i,t-1} + \delta_2 SIZE_{i,t} + \delta_3 LEV_{i,t} + \delta_4 GROWTH_{i,t} + \delta_5 OCF_{i,t} + \delta_6 PPE_{i,t} + \varepsilon_{i,t}$$

Where:

$CTA_{i,t}$: the extent of corporate tax avoidance measured as three approaches as mentioned above.

Firm size (SIZE): The natural logarithm of the book value of total assets (Dang & Tran, 2021; Richardson et al., 2013). According to Richardson et al. (2013), a company's potential to engage in tax evasion actions increases in proportion to its size. There may be a greater capacity for aggressive tax planning by large firms.

Capital leverage (LEV): The ratio of total assets to short- and long-term debt (Ha et al., 2021). Because interests of debts create tax savings, total debt could be positively correlated with CTA (Dang & Tran, 2021).

Sales growth (GROWTH): The difference between the current turnover and previous turnover (Desai & Dharmapala, 2009; Khuong et al., 2020). Turnover is the important element that determine the taxable income (Jones, 2015).

Net Property, Plant and Equipment (PPE): The Net Property, Plant and Equipment on total assets (Dang & Tran, 2021). Similar to interests, depreciation methods of properties are commonly related with tax planning strategies because they contribute to the formation of deductible expenses.

Operating Cash flow (OCF): The operating cash flow as a percentage of total assets (Desai & Dharmapala, 2009; Chen et al., 2014; Tran et al., 2023). Expenses that are directly

connected to operations activities can be related with deductible expenses (Jones, 2015).

4. Results and Discussion

To investigate how these elements affect the degree to which CTA applies in this case, we employ the dynamic GMM estimate method. Dynamic GMM technique has many advantages dealing with econometric issues in panel data such as endogeneity and heteroskedasticity. The paper explores determinants affecting the CTA behavior of 125 legal firms listed on the stock exchange in Vietnam from 2012 to 2018.

Table 1: Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Curretr	875	0.218	0.307	0.000	1.000
Cashetr	875	0.153	0.194	0.000	0.971
Btd	875	0.371	0.316	0.000	1.000
Size	875	28.097	1.430	24.690	32.827
Lev	875	0.559	0.194	0.040	0.935
growth	875	1.907	16.871	-0.997	328.897
Ocf	875	0.050	0.120	-0.696	1.189
Ppe	875	0.245	0.195	0.001	0.884

Source: Author's calculation

The Pearson's correlation between the variables included in the empirical model is shown in Table 2. Every correlation is less than 0.8. This finding suggests that the variables' multicollinearity is not seriously problematic (Dang & Tran, 2021; Khuong et al., 2020).

Table 2: The Pearson's correlation

	Curretr	Cashetr	Btd
curretr	1		
cashetr	-0.211	1	
btd	0.025	0.057	1

	Btd	Lev	Ocf	size	Ppe	growth
btd	1					
lev	0.143	1				
ocf	-0.117	-0.238	1			
size	0.036	0.185	-0.013	1		
ppe	0.022	-0.035	0.233	0.121	1	
growth	0.014	0.031	-0.021	0.069	0.007	1

Source: Author's calculation

Next, we conduct empirical analyses with three approaches of measuring the extent of tax avoidance. The Effective-Tax-Rate-based methods (CurrETR and CashETR) and Book-Tax-Difference (BTDs) approaches are respectively summarized in table 3 as follows:

Table 3: The effects of the factors on corporate tax avoidance

Variables	CurrETR model	CashETR model	BTD model
l.currtetr	0.334***		
	[12.00]		
l.cashetr		-0.025***	
		[-3.50]	
l.cta			0.208***
			[11.64]
Lev	-0.235*	-0.045***	0.239***
	[-1.73]	[-2.71]	[4.01]
Ocf	0.027	-0.121***	-0.080
	[0.22]	[-6.75]	[-1.79]
Size	-0.247***	0.008	0.058***
	[-6.21]	[1.01]	[3.51]
Ppe	0.131	-0.129***	0.117***
	[0.96]	[-7.23]	[2.80]
Growth	-0.071***	-0.003***	-0.023***
	[-9.92]	[-3.11]	[-4.97]
N	625	625	625
No. of ins	63	97	67
AR2 test	0.785	0.255	0.114
Hansen test	0.027	0.289	0.76
t statistics in brackets			
* p<0.1, ** p<0.05, *** p<0.01			

Source: Author's calculation

The difference in the empirical results of the effects of firm-level and corporate factors on CurrETR, CashETR, and BTD indicates more careful evaluation of the use of various tax evasion strategies. Each measure approach reflects a specific dimension of CTA. CurrETR reflects companies' deferral tax plans which capture only the non-conforming type of CTA. However, currETR does not catch the year-to-year fluctuations which could not reveal long-term CTA. An alternative to this approach is the cashETR (Salihu et al., 2013). Meanwhile, BTD is the residual book-tax gap which represents the gap between the accounting income and taxable income. As Salihu et al. (2013) explain, this gap reflects the level of CTA activities. According to Salihu et al. (2013) and Khuong et al. (2020), the BTD approaches may reflect the level of tax avoidance more accurately than effective tax rate approaches.

A positive correlation between company leverage and tax avoidance is indicated by the positive LEV variable. The interest will result in a cost to the borrowing corporation, but it is also a tax shelter that will help it pay less in taxes overall. In other words, the corporation is avoiding tax to a greater extent by raising interest payments the more leverage it exhibits. As a result, this finding is perfectly compatible with the hypothesis as well as with the earlier research by Richardson, Taylor et al. (2015).

Firm size (size) and net property, plant and equipment (ppe) are statistically significant positive variables. CTA behaviors are less common in large organizations with plenty of long-term assets than at smaller companies with few long-term assets. This outcome agrees with Richardson et al (2013). Our primary findings support the political power hypothesis (Siegfried, 1972; Stickney & McGee, 1982). Siegfried (1972) initially proposed this thesis, contending that larger firms have a stronger ability than smaller companies to sway political outcomes in their favor (Stickney & McGee, 1982). Particularly large firms have the resources and power to negotiate their tax liabilities or shape laws to their favor (for instance, through lobbying operations), resulting in lower taxes owed than those of smaller corporations (Gupta & Newberry, 1997). In fact, the results demonstrate a positive and significant link between book-tax differences based on total assets and a number of size parameters. The tendency for a firm to dodge taxes increases with size. Moreover, we discover a highly substantial negative correlation between financial success and CTA, suggesting that performance has a favorable influence on tax avoidance. A corporation is less likely to use tax evasion strategies the more profitable it is. Our findings are consistent with earlier research, including Tran et al. (2023) and Majeed and Yan (2019).

5. Conclusion

Maintaining a healthy business climate depends on a smooth and fair implementation of income taxes. Yet, the unfairness of taxes is a direct result of the widespread practice of tax avoidance by corporations. Inequity in tax payables, notably corporate income tax, results from widespread tax avoidance. Large corporations have usually utilized aggressive tax planning to avoid taxes, especially in developing countries that lack the experience to deal with them. CTA is actually a major contributor to the inequity of the tax system. This research looks into the issue of CTA in the distribution of the tax burden among businesses in Vietnam, where the prevalence of CTA has led to unfair taxation. In particular, the study makes use of information from 125 publicly traded firms between 2012 and 2018. According to the findings, tax avoidance and financial difficulty are positively correlated in the examined firms. Companies are less able to avoid paying taxes the greater their capital adequacy ratio. On the other hand, the more tax avoidance the corporation engages in, the greater the risk to its capital. Moreover, the findings indicate that tax avoidance is influenced by business size, net asset value, debt leverage, and tax—accounting book differences. There are main factors that contribute to CTA, all of which should be reflective of the characteristics of highly tax-risky

businesses. From the research results, the study concludes with several suggestions for addressing tax avoidance in order to more fairly distribute taxes among businesses:

Priorities must first be established by the Vietnamese tax authorities for controlling, filling up legislative gaps, monitoring instances of tax evasion, and implementing severe penalties. Moreover, it will include information to help businesses understand the importance of paying taxes to the government as well as their rights and obligations. In order for the public to understand how successfully tax dollars are spent, the government should also promote and develop trust as well as display results.

Second, companies must be aware of their rights and responsibilities with regard to tax duties. To avoid financial depletion that might lead to bankruptcy, businesses should endeavor to strengthen management competency and governance abilities. Companies ought to understand that CTA is a bad deed that is reckless and damages the state's finances

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