# Factors Affecting Tax Compliance of Small and Medium Enterprises in Dong Nai Province of Vietnam

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## Abstract

Tax compliance has had many domestic and foreign studies focusing on theoretical and practical aspects, especially in the context of the Covid-19 pandemic's substantial impact on business activities. Therefore, the authors research the topic: of factors affecting tax compliance of small and medium enterprises (SMEs) in Dong Nai province. Next, the authors applied the quantitative research to design a scale for the research questionnaire, interpreted and re-coded the scale, and collected and analyzed data of 1.000 taxpayers (1.000 SMEs) at five Tax Departments in Dong Nai province. The authors tested the reliability of the rankings by Cronbach Alpha coefficient and EFA analysis. Also, analyze the relationship between independent and dependent variables. The confirmatory factor analysis results and the structural model show that the indicators meet the requirements. Indicators include chi-squared adjusted for degrees of freedom (CMIN/df), CFI comparative fitness index, satisfactory TLI and RMSEA index, and 8/8 supported research hypotheses at a significance level of 5%.

**Disciplinary**: Business Taxation Policy & Management (Tax Compliance & Enterprises).

**Cite This Article:**

# 1 Introduction

Small and medium enterprises (SMEs) have a significant position in each country's economy, reflected in economic growth at the national or regional level, including in developed and developing countries. In each economy with different development characteristics, the role of SMEs

is also expressed at different levels. Up to now, in most countries of the world, small and medium enterprises have been widely recognized as having a critical economic role, increasingly occupying a vital position in the global production network and supply chain of goods and services in the world.

Alecxandrina (2016) studied paying tax as prescribed by law is the obligation and right of every organization and individual. Paying taxes is just an unavoidable obligation. However, some taxpayers still think paying taxes into the state budget means losing money. If there is an opportunity to not pay taxes or reduce the amount of tax payable without being dealt with, they may not be able to fulfill their tax obligations.

In addition, every year, the state budget loses thousands of billions of dong because small and medium-sized enterprises (SMEs) deliberately cheat on taxes because many enterprises do not have a sense of tax compliance in which the intention is to pay taxes. Business law, is not a truthful tax declaration (Chobek, 2017; Allingham & Sandmo, 2017). Besides, SMEs play an essential role in solving social security issues in Dong Nai. However, the business situation in this area is quite complicated. The ability of SMEs to comply with the law in general and tax law in particular, is still inadequate. Tax evasion and tax arrears are also common, affecting tax management. Next, the amount of tax paid to the state budget is not commensurate with the number of SMEs: This partly reflects the level of tax compliance of SMEs, which is a problem for tax authorities in terms of the goal of equality between people paying tax.

Increasing taxpayer compliance is one of the tax field's most significant and essential issues. Therefore, identifying factors affecting SMEs' tax compliance to propose policy implications to prevent and limit tax fraud is necessary and urgent in the current period. In addition, tax compliance is the correct and complete implementation of tax laws and taxpayers. However, taxpayers do not always fulfill their obligations. Therefore, it is necessary to study the contents of legal compliance in general and tax compliance of SMEs in particular.

## 2  Literature Review

### 2.1 Tax Compliance

According to Benk et al. (2011), the definition of tax compliance refers to people's consent to comply with regulations from tax filing to paying taxes.  Gerbing (2016) found a more straightforward definition: tax compliance is the most neutral term to describe the taxpayer's willingness to pay tax.

Tax compliance is the complete and timely implementation of tax obligations following the provisions of tax laws. Taxpayers voluntarily and consciously fulfill their tax obligations. The main task is to propagate, educate, monitor, supervise and inspect the observance of tax obligations and prevent and handle acts of tax non-compliance (Inasius, 2015; Kenzel, 2014).

It can be understood that taxpayers' tax compliance means that taxpayers fully comply with tax obligations following the law, including activities of tax registration, tax declaration, tax

calculation, tax payment, and compliance with other requirements on tax administration as prescribed by law (Manchilot, 2018; Hischer & Mark, 2014; Hung et al., 2022).

Tax compliance is defined in a variety of ways. Tax compliance is not a process by itself. But on the contrary, it is influenced by external factors.

## 2.2 Factors Affecting Tax Compliance of Small and Medium Enterprises

**Elements of a business type (NNKD)**: According to the OECD (2004) and other studies on tax compliance in Vietnam, conditions have demonstrated that the industry-specific factors of enterprises influence tax compliance and corporate tax returns. Business lines are measured by the following criteria: profit rate, competition; difficulty controlling revenue; difficulty controlling costs.

**Economic factors (KT)**: According to Marti (2010), the main influences on economic factors include factors such as bank interest rates, the stage of the economic cycle, the balance of payments, and financial and monetary policy. These factors significantly affect the operation and decision-making of enterprises. Because these factors are relatively broad, it is necessary to identify the specific impacts that have the most direct effect on the enterprise's business. Specifically, interest rates significantly impact capital costs and business expansion and development strategies (Jerome et al., 2018; Hischer & Mark, 2014).

**Social factors (XH)**: According to Newman et al. (2018), social factors significantly affect the consumption habits, behavior, and preferences of taxpayers and help to create the internal culture of enterprises and act the way businesses operate. Conduct, and communicate with the outside, especially regarding the tax compliance behavior of the company. Social factors affect the aggregate demand for goods and services of businesses and how businesses meet taxpayers' needs.

**Tax policy factors (CST)**: The complexity of tax policy affects corporate tax compliance. Tax law is vague, unclear, cumbersome, and confusing, so taxpayers are prone to non-compliance (Edward et al., 2015). The general complexity of the tax system in general and corporate income tax policy is one of the social determinants of tax compliance (Tandreoni & Feinstein, 2015).

**Elements of the management of tax authorities (QLT)**: According to Swistak (2016), a tax agency is a system of agencies performing the State management of taxes. Tax is a compulsory payment to the state budget of organizations, households, business households, and individuals, according to the provisions of the tax laws. Through tax debt management activities, tax authorities ensure the effectiveness and strictness of tax laws, limit the misappropriation of tax money, prevent tax loss and ensure fairness among taxpayers (Lin & Valerie, 2018).

**Characteristics of the enterprises (DDDN)**: The features of enterprises in Vietnam are very diverse and rich, so each type will have different parts. Research by OECD (2004) and Sophia (2016) shows that business characteristics impact enterprises' tax compliance. Enterprise characteristics are represented by attributes such as the complexity of the enterprise's organizational structure,

type of business, enterprise scale, business operation time, and business performance (Lumumba et al., 2010; Deichen, 2017).

**Feel the quality of tax service (CLDV)**: Tax service quality is the extent to which a service meets the needs and expectations of taxpayers. Generally, the quality of tax services is understood as the level of people's perception of state administrative procedures and how to guide, receive and handle the work of state officials. Many researchers have confirmed that taxpayers' perception of service quality impacts tax compliance (Reriksen & Fallan, 2016).

**The structure of the tax system (HTT)**: As for the tax system, on a national scale, most countries have to adjust their tax policies and laws under international regulations. It is noteworthy that traditional protectionist barriers such as tariffs and customs unions are gradually being removed, but non-tariff measures that are essentially obstacles to international trade are becoming increasingly diverse and more used (Shahrodi, 2010; Ranaf, 2014).

## 2.3 The Research Model

Increasing taxpayer compliance is one of the most significant and vital issues in the tax field today. Tax compliance always has concerned policymakers, economists, researchers, and managers. Therefore, many studies abroad focus on theoretical and practical aspects of tax compliance. Besides, tax compliance of small and medium enterprises is the correct and complete implementation of tax laws and taxpayers. However, taxpayers do not always fulfill their obligations. Therefore, To implement this method, the authors conducted a research model on the factors affecting tax compliance of SMEs in Dong Nai province as follows:
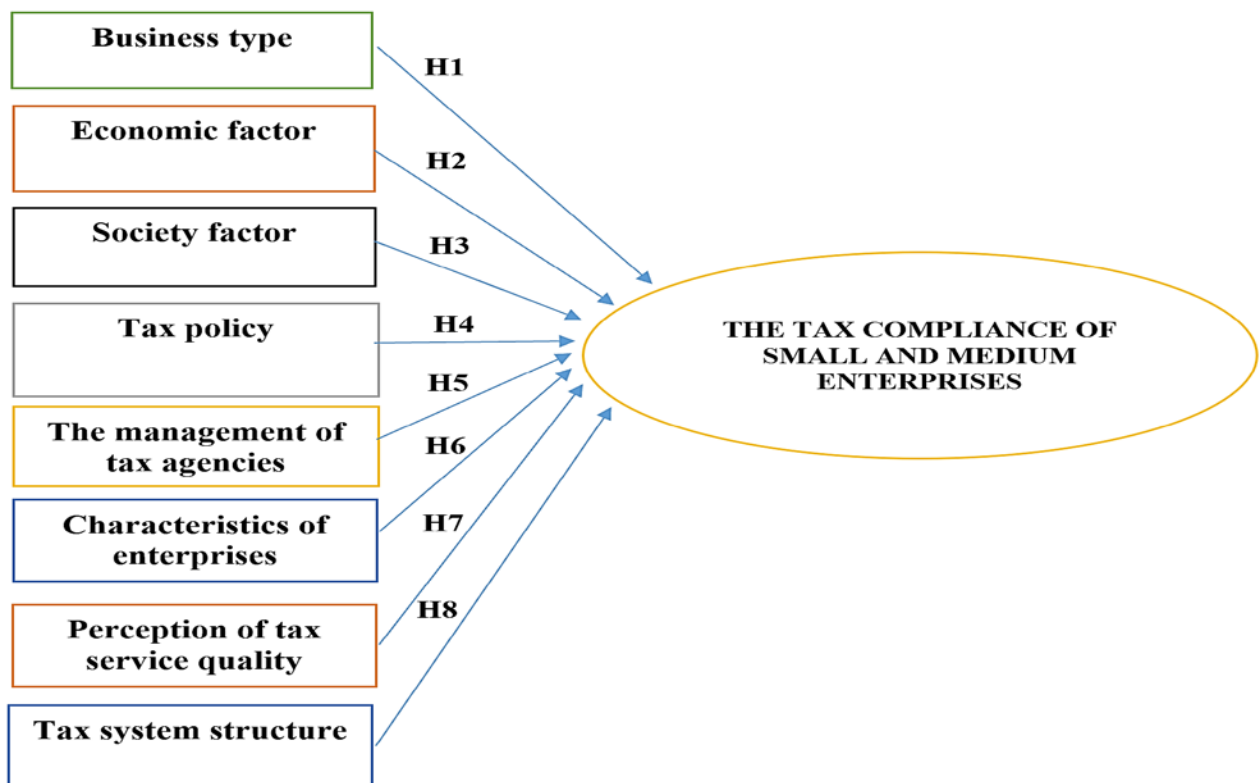
**Figure 1:** Factors affecting tax compliance of SMEs in Dong Nai province

Figure 1 shows eight factors affecting the tax compliance of SMEs in Dong Nai province.

# 3 Method

The article uses the process of research and development of the scale with the following steps:

Step 1: The authors identify a research problem related to taxpayers' tax compliance as one of the basic requirements for tax policy making and law enforcement activities.

Step 2: The authors continue to develop research objectives.

Step 3: The authors explore the theoretical basis and related studies at home and abroad. From a theoretical perspective, the analysis of the contents of tax compliance, such as concepts, contents, requirements, evaluation criteria, influencing factors, assurance conditions, etc., applies to situations. The specific circumstances of each locality in certain periods are significant regarding tax policy formulation, strategies and plans to improve the tax system, and corporate management tax (Hair et al., 2010).

Step 4: The authors build a research model and draft scale through focus group interviews, with some groups being established and conducting interviews. As a result of this step, the original scale is adjusted and is called the draft scale (Hair et al., 2010).

Step 5: Collect data with preliminary research by group discussion of 30 tax-related managers at 5 Tax Sub-Departments in Dong Nai province. This is when the authors conduct primary quantitative analysis, using the questionnaire built at the end of step 4, sent to each taxpayer. The sample size to be collected is n = 400 Taxpayers (NNTs), taxpayers representing 1 small and medium-sized enterprise who are paying taxes at 5 Tax Sub-Departments in Dong Nai province. In this context, the authors also preliminarily evaluate the scale using Cronbach's alpha reliability coefficient and analyze EFA on the data collected in step 5 (Hair et al., 2010).

Step 6: The authors continue to conduct formal research: using questionnaires to interview taxpayers at 5 Tax Departments in Dong Nai province. The total number of survey samples is 1.000 NNT. The official scale is evaluated through an example of size n = 1.000 NNT. The evaluation sampling method is a convenient, random sampling method. In this step, the author conducts formal research at 5 Tax Branches in Dong Nai province, such as (1) Dinh Quan - Tan Phu Area Tax Department. (2) Tax Department of Long Khanh - Cam My area. (3) Tax Sub-Department of Trang Bom - Thong Nhat area. (4) Tax Department of Long Thanh - Nhon Trach area. (5) City Tax Department. Bien Hoa for data collection. The survey and data collection object is the taxpayers of the 5 areas mentioned above. For each tax department, the author surveyed 200 taxpayers. The method of information collection is a prepared questionnaire sent to each participant. The sample size is n = 1.000 NNT. The sampling method is random sampling, which is convenient for evaluation. After the data is collected, it is put into coding, data entry, cleaning, and data analysis with SPSS version 20.0; AMOS software (Hair et al., 2010).

Step 7: The authors continue to synthesize survey data, encrypt, clean the data, and put it into Excel and SPSS software. The Cronbach Alpha coefficient analysis is used to determine the scale's reliability. The scale is reliable when this coefficient is more significant than 0.6. The overall

variable correlation coefficient is the correlation coefficient of one variable with the mean scores of other variables on the same scale, so the higher this coefficient, the better the correlation of the variables with other variables in the group is high. The variables with the correlation coefficient between the variable and the total (item-total correlation) must be greater than 0.3. According to Hair et al. (2010), variables with a total correlation coefficient of less than 0.3 are considered garbage variables and are automatically removed from the scale.

Step 8: The authors continue to test the scale, exploratory factor analysis (EFA), confirmatory factor analysis (CFA), and linear structural model analysis (SEM). Exploratory factor analysis (EFA) is used to test the validity of the scale of concepts. Therefore, when performing EFA analysis, the performance criteria are as follows: Using the Principal Axis Factoring method, the Promax1 rotation. Standard 2: coefficient factor loading maximum of each variable ⩾ 0.4. Standard: At each variable, the difference factor loading most extensive and |Factor Loading| any must be ⩾ 0.3 to ensure the difference between the factors (Hair et al., 2010). Total variance extracted ⩾ 50% according to Hair et al. (2010) and KMO ⩾ 0.5, Bartlett test has statistical significance (Sig<0.05).

Step 9: the authors continue to synthesize measurement results, eliminate inappropriate variables, test statistics and analyze the results (Hair et al., 2010).

Step 10: Based on model testing results, the authors make conclusions and suggest policy implications that contribute to improving tax compliance of small and medium-sized enterprises.

# 4  Result and Discussion

In 2021, in the context of the complicated and prolonged development of the Covid-19 epidemic, it will seriously affect the socio-economic situation of the locality and the state budget collection. However, with the synchronous and drastic implementation of measures from the beginning of the year, Dong Nai's state budget revenue has been higher than expected. Accordingly, the total balance of state budget revenue in 2021 will reach VND 46,460 billion, 37% higher than the assigned estimate and 11% higher than 2020. If subtracting payment from the lottery and land use levy, respectively, over VND 1,857 billion and VND 5,271 billion, the realized revenue is over VND 39.3 trillion, exceeding 30% of the plan and increasing 17% over the same period last year.

Of the total state budget revenue achieved, foreign-invested enterprises continue to play an important role when contributing over VND 14.9 trillion, accounting for 39% of total revenue; central enterprises contributed over 1.8 thousand billion VND; local enterprises reached over 2.1 trillion dong and non-state enterprises over 8.6 trillion dongs. Professional activities such as propaganda and support for taxpayers; inspection, examination, and combat loss of tax revenue; tax declaration management, tax accounting, and value-added tax refund; tax debt management and tax debt settlement; administrative reform, modernization of tax administration, and strengthening of international integration were maintained and successfully completed the assigned tasks.

Besides the advantages that small businesses bring, such as easy management, simple organizational structure, etc., there are still many difficulties and challenges. What are the

problems of small companies are something that many organizations and individuals are interested in before going through the procedure of setting up a small-scale company.

During the recent Covid-19 pandemic, enterprises in general, and small and medium-sized enterprises in particular, were already facing more and more difficulties, the difficulties of SMEs. Dong Nai currently has over 38,000 enterprises, of which SMEs account for over 86%. Table 1 gives the survey results.

**Table 1**: Descriptive statistics from surveying 945 taxpayers in Dong Nai province

| Contents | Code | Min | Max | Mean | SD |
|---|---|---|---|---|---|
| Your business complies with paying taxes in full and on time | TTT1 | 1.00 | 5.00 | 3.43 | 0.94 |
| Your business must comply with the regulations on tax declaration and must pay on time | TTT2 | 1.00 | 5.00 | 3.38 | 0.95 |
| Your business always accurately declares all tax information and arising income | TTT3 | 1.00 | 5.00 | 3.34 | 0.97 |

Table 1 shows that the number of taxpayers with the lowest answer is 1.0, and the highest is 5.0. The mean between the variables is around 3.0 and is less than 1.0 apart. The standard deviation of the data is approximately 1.0, and there is not much difference between the variables.

**Table 2**: Testing the SEM model results

| The relationship between the factors | | | Standardized Estimate | Estimate | S.E. | C.R. | p-value | Results |
|---|---|---|---|---|---|---|---|---|
| TTT | ← | CLDV | 0.156 | 0.092 | 0.046 | 3.382 | *** | Accepted |
| TTT | ← | CST | 0.511 | 0.536 | 0.027 | 18.833 | *** | Accepted |
| TTT | ← | NNKD | 0.077 | 0.088 | 0.023 | 3.394 | *** | Accepted |
| TTT | ← | QLT | 0.087 | 0.092 | 0.027 | 3.234 | 0.001 | Accepted |
| TTT | ← | XH | 0.070 | 0.077 | 0.024 | 2.864 | 0.004 | Accepted |
| TTT | ← | HTT | 0.217 | 0.092 | 0.046 | 4.708 | *** | Accepted |
| TTT | ← | KT | 0.152 | 0.147 | 0.030 | 5.038 | *** | Accepted |
| TTT | ← | DDDN | 0.081 | 0.068 | 0.029 | 2.782 | 0.005 | Accepted |

***Less than 1% significance level.

Table 2 shows that the regression weights and test hypotheses include eight factors that affect tax compliance (TTT) at the level of statistical significance < 5%. Thus, eight factors affecting tax compliance include: (1) perceived quality of tax services (CLDV), (2) tax policy (CST), (3) business type (NNKD), (4) the management of tax authorities (QLT), (5) society (XH), (6) structure of the tax system (HTT), (7) economy (KT), (8) characteristics of the enterprise (DDDN).

Perceived tax service quality (CLDV) positively impacts SMEs in Dong Nai province tax compliance. The above results show that the hypothesis is accepted by the research data. Thus, the results of this study are consistent with the results of Alecxandrina (2016) believes that service quality will depend on the taxpayer's perceived level after using the service (pleasure, emotion, or value received to perform services and honor commitments as well as keep promises to taxpayers, in addition, services feel from the perspective of beneficiaries, not management.

The results show that the hypothesis is accepted by the research data. Tax policy (CST) positively impacts tax compliance of small and medium enterprises in Dong Nai province. Thus, the results of this study are consistent with the results of Sophia (2016). Tax policy is one of the most important macroeconomic policies for each country and Vietnam, including Dong Nai province. Tax policy not only provides the primary source of revenue for the state budget but through which the State can regulate economic activities, improve social welfare and support economic growth.

Business type (NNKD) positively impacts tax compliance of SMEs in Dong Nai province. The above results show that the hypothesis is accepted by the research data. Thus, the results of this study are consistent with Jerome et al. (2018), which said that depending on the business line, there are appropriate impact policies to improve taxpayers' compliance with tax laws. For specific tax issues, tax authorities need to have forms of support such as opening training courses and seminars to answer tax questions in various formats using online tax consultants. Provide support to businesses, encourage support from large tax consulting organizations, and specialize in tax consulting.

The management of tax authorities (QLT) positively impacts SMEs in Dong Nai province tax compliance. The above results show that the hypothesis is accepted by the research data. Thus, the results of this study are consistent with the results of Inasius (2015), who said that the management of the tax law is increasingly improved towards transparency, creating favorable conditions and reducing compliance costs for taxpayers and tax authorities.

The results show that the hypothesis is accepted by the research data. Social factors have a positive impact on tax compliance of SMEs in Dong Nai province. Thus, the results of this study are consistent with Gerbing's (2016) that a weak tax culture is a feature of the current socio-cultural environment. Public opinion condemns tax evasion and welcomes taxpayers' tax compliance behavior is not strong. Tax compliance has not been considered a standard of a taxpayer's behavior in a social community.

The results show that the hypothesis is accepted by the research data. The tax system's structural element (HTT) positively impacts the tax compliance of SMEs in Dong Nai province. Thus, the results of this study are consistent with Reriksen & Fallan (2016) that to help taxpayers voluntarily comply with good tax needs many factors.

Economic factors (KT) positively impact tax compliance of SMEs in Dong Nai province. The above results show that the hypothesis is accepted by the research data. Thus, the results of this study are consistent with Lin and Valerie (2018) that influencing factors mainly include factors such as bank interest rates, stage of the economic cycle, the balance of payments, and fiscal and monetary policies. Because these factors are relatively broad, filtering is needed to identify the impacts directly affecting a business's business and its tax compliance.

Business characteristics (DDDN) positively impact tax compliance of SMEs in Dong Nai province. Thus, the results of this study are consistent with the results of Alecxandrina (2016) showed that the behavior of information disclosure of enterprises is influenced by enterprise

characteristics such as organizational structure, number of owners, size, and time and operational efficiency. The above results show that the hypothesis is accepted by the research data.

Tax compliance is the correct and complete implementation of tax laws and taxpayers. However, taxpayers do not always fulfill their obligations. Increasing taxpayer compliance is one of the tax field's most significant and essential issues. Based on things mentioned above, the authors had proposed policy implications, including 8 groups of recommendations that the tax industry and businesses need to prioritize: Tax policy, economy, perception of tax service quality, the management of tax agencies, tax system structure, business type, society, and characteristics of enterprises. These policy implications will improve the tax compliance of small and medium enterprises in Dong Nai province in the coming time.

# 5 Conclusion

Tax compliance is reflected in taxpayers' understanding and complete, correct, and timely compliance with tax law provisions and full implementation of their tax rights and obligations. However, in reality, because the performance of tax obligations will more or less affect the material benefits of taxpayers, they are not wholly voluntary in tax compliance. Besides, if the tax policy is too complicated, difficult to understand, difficult to enforce, or too lax, creating many loopholes creates opportunities for tax non-compliance.

Tax compliance is always a concern to tax policymakers and administrators, including theoretical and practical tax administration issues. Therefore, it is very urgent and essential to study the contents of tax compliance in general and tax compliance of small and medium-sized enterprises in Dong Nai province in particular. Specifically, looking at the factors affecting tax compliance of small and medium-sized enterprises in Dong Nai province from a theoretical perspective and applying it to the specific conditions and circumstances of Dong Nai province during the period is very important now, both in terms of tax policy formulation, strategies and plans to improve the tax system, as well as in terms of tax administration organization. Besides the successes of the thesis, there are always certain limitations. Limited access to survey subjects makes the collected data not rich and not as representative as desired. With the initial desire of the authors to survey tax accountants and financial directors of small and medium-sized enterprises in Dong Nai province, the approach is quite tricky, especially for tax accountants and supervisors of financial managers in these enterprises. The following research should expand the survey object to all types of businesses and the scope of the study in all provinces and cities of Vietnam.

# 6 Availability of Data and Material

Data can be made available by contacting the corresponding author.

# 7 Acknowledgment

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