Why do Vietnamese people evade taxes?

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Abstract

Prior works and theoretical framework has shown many determinants to tax evasion. However, the authors did not examine which determinants are the most and the least important reasons for evading taxes from taxpayers' perspective. This study examines the importance levels of reasons why people evade taxes, taking Vietnamese personal income tax as the case study. Data is gathered through survey questionnaire and interviews, and analyzed using Statistical Package for Social Science (SPSS) software. Results suggest that government performance related reasons are more important than deterrence related ones in explaining for people's decision to evade taxes.

Key words: tax evasion, determinants to tax evasion;

1. Introduction

Tax evasion has become a topic for many researches. Policy attention to tax evasion and enforcement was spotlighted after the financial crisis of 2008, the Great Recession, and the large deficits that followed (Slemrod, J., 2016).

It's similar in Vietnam as if tax evasion has become tax evasion is a serious challenge facing tax administration and deterring tax revenue performance. Despite the various

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tax reforms conducted by Vietnamese government to increase tax revenue over the years, prior statistical evidence has proven that the contribution of tax revenue to the government's total revenue remained consistently low. The ratio of tax revenue in the total State budget in Vietnam was 23.3% in period from 2011 to 2015, while those contributions in other neighboring countries such as Malaysia, Laos accounted for 24.3% and 23.4% respectively (Nhat Minh, 2016). Personal income taxes accounted for 24, 5 % of total tax revenue and 8, 77 % GDP on average across the OECD (Pomerleau, K., 2015 & OECD, 2016). In Vietnam, this amount is smaller and on decreasing trend, at 5.5% in 2014 due to tax evasion and ineffective tax policy (Ministry of Finance of Vietnam, 2015). While there are lots of efforts from the government and tax authorities to reform the tax system and policy in order to deter tax evasion, this situation seems to get worsen. Increased utilization of personal income tax will cause the government to re-evaluate their policy with the emphasis on perceptions of tax evasion.

Understanding people's difficulties and changing ways of making law and rules which adjust people's behavior would improve their attitudes and actions. Alm, J. (2015) supposed that tax administration typically emphasized variety standard enforcement policies that seek to detect and penalizes noncompliance; however, he concluded that a government compliance strategy based only on detection and punishment could be well be a necessary and reasonable starting point but not a good ending point. Then, he also asked for the need of a multi-faceted approach to tax law enforcement and administration. Moreover, Alabede, J.O, Ariffin, Z.X. and MdIdris, K. (2011) concluded that taxpayer's attitude towards tax evasion is positively related to compliance behavior. In addition, studies from social psychology showed that attitude could exert a strong influence on behavior. Therefore, this is the time for tax policy makers and researchers to change their approach in designing laws and policies. In many countries, tax culture seems to consider taxpayers as compulsory followers, and then the governments don't care about their perception on tax. Nevertheless, more recently there is an emerging view that taxpayers' decision depends upon their own moral values and also upon their perception of the quality, credibility, and reliability of the tax administration (Alm, J., 2015). It is the true that there is no study on examining the reasons why people evade taxes from taxpayers' perspective. Therefore, the author

come to conduct an empirical study to understand important reasons why people evade taxes, and figure out taxpayers' difficulties regarding tax liability fulfillment in Vietnam. This study would suggest priority issues for tax authority and government consideration to address tax evasion.

2. Literature review

Theoretical underpinning and prior works identified dozens of determinants to tax evasion (Ali, M., Fjeldstad, O.H. and Sjursen, I. H. (2014); Belkaoui.R., 2004; Picur and Belkaoui, R., 2006; Wright, V., 2010; Allingham, M.G. and Sandmo, A., 1972).

According to Khlif, H., & Achek, I. (2015) and Belkaoui, R. (2004), the General Deterrence Theory refers to the capability of ***deterrence regulations (penalty and audit) to reduce the phenomenon of tax evasion*** and enhance tax compliance in one country. Besides, there are many other empirical studies examining the relations of the deterrence methods to tax evasion. Allingham, M.G. and Sandmo, A. (1972) conclude that there were positive relations between declared income and the penalty rate and the probability of detection (audit). It means that if the government increases the penalty and apply tougher audit, it will help to reduce tax evasion. Kiri, N. (2016) reviews factors influencing on tax evasion. Based on previous researches' results, he comes to a conclusion that a high penalty rate tends to be an effective method to prevent people from evading tax, and that an increase in penalty rate enhances compliance behavior so decreases tax evasion actions. Similarly, Wright, V. (2010) supposes general deterrence theory suggested that increasing the certainty of punishment, potential offenders may be deterred by the risk of suspicion. That is, deterrence factors are implemented by increasing the probability of detection (audit) and imposing of tougher penalties.

The Fiscal Psychology Theory suggests the importance of positive policies that are developed by government to improve taxpayers' perception in government performance in order to reduce tax evasion (Damayanti, T.W., Sutrisno, T., Subekti, I. and Baridwan, Z., 2015). Moreover, Tsakumis et al. (2007) shows that trust in government performance is negatively associated with tax evasion across countries. Accordingly, as if the government performs better, the tax evasion behavior would be reduced.

Ali,.M, Fjeldstad,. O & Sjursen, H. I, (2014) find out that tax compliance attitude was positively correlated with *the provision of public services by the government*. This expresses the role of government performance in providing public projects and services. Besides, The World Value Surveys project supports the efforts of governments to improve tax morale and tax compliance through strengthening and clarifying the links between revenue and expenditure, building taxpayer profiles, *increasing the transparency of tax policy making and modernizing tax administration procedures* to avoid negative interactions among the drivers of compliance (OECD, 2013). GmbH (2010) advises the governments to enhance tax compliance through a *transparent, accountable and efficient manner* by developing a sound state-society relationship and enhancing the legitimacy of the state taking into account the entire public system. Picur & Belkaoui, R. (2006) document that the low level of corruption is positively associated with tax compliance, whereas the *high level of bureaucracy increases tax evasion*. Economic Deterrence Theory basing on the cost and benefit analysis suggests tax evasion decreases if a taxpayer finds the benefit of *the public expenditures for public projects and services as return for tax payments*.

Kircher, Hoelzl & Wahl (2008) suggest that the levels of tax compliance involved many contributing factors *including the perceived of tax system fairness by taxpayers*. Additionally, it's concluded that *the high level of policy fairness is negatively associated with tax evasion* (Richardson, 2006).

Hassan, N. et al (2016) suppose that individual taxpayers need adequate various aspects of tax knowledge in order to fulfill their tax liability responsibly, precisely and timely. Without tax knowledge, they may involve in certain risks being penalized by the tax authority. The Economic Deterrence Theory suggests the form of *better education/knowledge to enhance tax compliance.* Findings from prior researches are mixed. Hassan, N. et al (2016) said that there are many cases of unintentional non-compliance in Malaysia *due to taxpayers' limited knowledge* about tax and poor familiarity with the new tax system. Ali, M., Fjeldstad, O., & Sjursen, I. (2014) come into a conclusion that *tax knowledge and awareness* are found to be positively

correlated with tax compliance attitude. Kasipillai & Jabbar (2003) and Kirchler et al. (2006) document that possessing tax knowledge would lead to higher compliance rates.

To summarize, tax evasion phenomenon would be get worsen due to nine main reasons, including limited tax knowledge, complicated guideline and poor tax service, prolix tax law and regulations, ineffectiveness and non-transparence of tax budget expenditures, inequality of tax policy, unreasonable tax allowances, high tax rates, weak and loose audit regime, low penalty rates. However, there is a lack of research to examine the most and the least important issues to prioritize the solutions. Therefore, this study would address this gap.

3. Methodology

The methodology applied in the thesis is qualitative approach (Creswell, W.J., 2014). For this research, internet survey questionnaire is applied because it can be distributed easily and quickly, then help to save time and cost effectively, managed conveniently and the survey respondents can answer whenever they have free time (Sekaran and Bougie, 2010). Data would be processed by SPSS software, then using mean value and doing a descriptive analysis of reasons on why people evade taxes, the most and the least important reasons would be examined. As a result, a higher mean value mean a more important reason, the highest mean value would stand for the most important reason, while the lowest value could be understood as the least important reason.

Besides, the author designs open-ended questions to interview potential taxpayers to have further in-depth understanding on the underlying issues.

3. 1 Questionnaire

Design the questionnaire

Using likert questions (Flatworldsolution, n.d), respondents are asked to evaluate their examination on reasons developed by prior works and theories. The lilert scores range from 1 to 4, which stand for the least important reason to the most important reason.

Besides, the questions on respondents' genders, ages, education levels, marriage status, employment, and living areas to figure out demographic characteristic of respondents are made.

Testing and finalizing the questionnaire

After the first drafting the questionnaire, the author ask for supervisor who always understand, give advices and support this study process, researchers who have much experiences in conduct survey questionnaire researches, tax experts who are also tax professors in Foreign Trade University, tax officers in Vietnam who understand well the regulations and the reality of law implementations to give comments on the survey design and contents.

After receiving comments from supervisor and experts, some sentences in the questionnaire are reworded to make it become familiar with the life and less sensitive to answer. After that, the author conducts a test with potential respondents who are senior professors at university, accountant and audit consultant, and officers as well. They are randomly chosen by connecting and asking through zalo and email. The author finalizes the questionnaire after testing respondents.

Sampling and Data collection

Survey sample is randomly selected. Responses taken from the sample will be either taken personally or through online platform of Surveymonkey.com. Accordingly, the author has launched the questionnaire on various channels such as social blogs, university alumni association, people community, friends and friends' relationship. As a result, the questionnaire is circulated around Vietnam in one month. The sample size gets 420 respondents. The data is processed by Statistical Package for Social Science (SPSS) software to get the results.

By information given from surveys, the author sorts and finds out most qualitative respondents and contact for further interviews to understand their in-depth opinions.

4. Results and discussion

4.1 Respondents Profile

A total of 420 questionnaires were gathered from the survey. As shown in Table 1, the majority of the respondents (78%) are female, and 22 % of respondents are male. The largest group (68%), in terms of age, is those aged between 23 and 35. Specifically, (26%) is aged between 35 and 55, while (5%) is aged bellow 23, and (2%) is aged above 55. In terms of marital status, the majority of the respondents (74%) are married, (26%) are single. Regarding the level of study, the largest group (61%) get university degree, (32 %) get master degree, (6%) have Doctorate degree, and (1%) graduate high school. In terms of employment, the majority of the respondents (39%) work for private companies, (31%) work for State enterprises, and (24%) work for Foreign enterprises/organizations, (5%) are freelance, and (0.5%) are retired. As for living areas, respondents are majorly living in Northern cities and provinces (70%), and (18%) lives in the Southern and (12%) is at the Central area.

Table 1: Respondents profile

Characteristics		Frequency (N=420)	%
Age	Bellow 23	19	4.52%
	23- 35	284	67.62%
	35 - 55	108	25.71%
	Above 55	9	2.14%
Gender	Male	93	22.14%
	Female	327	77.86%
Marital status	Single	108	25.71%
	Married	312	74.29%
Education	High school	5	1.19%

	College	1	0.24%
	University	255	60.71%
	Master	135	32.14%
	Ph.D.	24	5.71%
Living places	Northern	296	70.48%
	Central	50	11.90%
	Southern	74	17.62%
Employment	State company	131	31.19%
	Private company	165	39.29%
	Foreign company	100	23.81%
	Retired	2	0.48%
	Freelance	22	5.24%

Source: Descriptive frequency results by SPSS

4.2 Data results and discussion

Results are summarized in Table 2 as follows;

Table 2: Reasons why Vietnamese people evade personal income tax

	Not a reason (1)		A part of reason (2)		An important reason (3)		The most important reason (4)		Total	W. A
Ineffectiveness and non-transparence of GP in expenditure	17.97%	69	17.71%	68	24.48%	94	39.84%	153	384	2.86
Complicated guideline and poor tax services	23.91%	88	31.25%	115	27.17%	100	17.66%	65	368	2.39

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Inequality of tax policies	31.32%	114	24.18%	88	21.98%	80	22.53%	82	364	2.36
Prolix and unclear tax law	27.73%	104	31.73%	119	23.73%	89	16.80%	63	375	2.3
Limited knowledge on tax regulations	33.06%	121	33.61%	123	21.58%	79	11.75%	43	366	2.12
Unreasonable allowances	38.32%	141	28.26%	104	20.38%	75	13.04%	48	368	2.08
High tax rates	39.04%	139	31.18%	111	14.33%	51	15.45%	55	356	2.06
Loose and weak tax audit regime	45.30%	164	28.73%	104	15.47%	56	10.50%	38	362	1.91
Low penalty rates	66.07%	222	21.73%	73	8.63%	29	3.57%	12	336	1.5
Other comments										11
Answered										420

Source: Survey Result (2017)

From Table 2, the reason that Vietnamese people focus the most and reaches the highest weighted average score (2.86/4.0) is "ineffectiveness and non-transparency of government performance in tax budget expenditures". There are more than 64% of survey respondents who consider this reason as "an important reason" and "the most important reason". Majority of respondents decide that this is "the most important reason" why they evade tax (39.84%). People majorly don't want to pay for PIT and evade PIT tax because they suppose that their tax contributions into the State budget are not using effectively and transparently. By interviewing, it's to know that it's difficult for a citizen to analysis the effectiveness of the state budget using, but they can say through their belief and acknowledgment on the government's performance. Therefore,

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the most important and crucial reason does not belong to law and regulation matter, but the people's trust into the government.

The second important reason for evading tax is complicated guideline and tax procedures. The weighted average score for this reason reaches the second highest level, at 2.39/4.0. There majority of respondents suppose this is "an important reason" and "the most important and crucial reason" (around 45%). Besides, more than 31% of respondents said that it's "a part of reason". By interviewing, some people said that they don't want to evade tax, but did break the rule because the guideline and procedures for PIT payment are dramatically prolix and complicated. Besides, they did not get good advice and support from tax officers. For some taxpayers, they said that they studied and worked on PIT issues, and they believe on their knowledge on PIT regulations. However, they face inaccurate guidelines from tax officers, which are out of official tax document guidelines, and this leads to troublesome for them during fulfill PIT payment procedures. A lot of interviewees supposed that the current PIT payment procedure is inconvenient for taxpayers; especially it requires taxpayers to use online software to fill in PIT's forms and declare tax, but it still requires them to print out all the forms and then go directly to the tax office to hand in hard copies of forms; besides, taxpayers still have to go to the bank to pay for PIT. For some people, they said that they misunderstand or cannot follow the guidelines of tax procedures. As a result, they unintentionally evade tax, but they don't want to do so.

The third important reason why people evade PIT is "inequitable PIT policy". The weighted average score for this reason reaches the third highest level, at 2.36/4.0. There majority of respondents suppose this is "an important reason" and "the most important and crucial reason" (around 44%). Besides, more than 24% of respondents suppose that it's "a part of reason" for their decision to evade PIT tax. By interviewing, people suppose that the current PIT policy cannot cover all the people's income to impose PIT. For the people who work for companies, the government is possible to collect taxes based on income transferred to labors' bank accounts. However, for the other people who work as freelance, they can receive income in cash, and then they can easily to evade tax.

The fourth important reason for people's tax evasion is prolix and unclear tax law. The weighted average score for this reason reaches the fourth level, at 2.3/4.0. This is the fact that, at present, there are more than 15 main documents including laws, decrees and circulars which are regulating personal income tax in Vietnam, not to mention to many other related documents. Each of these documents consist of more than 14 pages to 60 pages, account for a hundred of thousands words totally. That is really difficult for individuals and researchers also to learn to know the laws and regulations. Besides, the amendment of the laws and regulations happened annually, and then individuals cannot know which one is currently applied when they need to refer to the regulations. Moreover, there are not officially channels to supply the law and regulations with professional orders and logics that individuals who want to find the exact regulations that they need. Once researchers or individuals would like to find laws and regulations, they have only one way that going to the searching website to find with some key words and a lot of relevant documents found, but they don't know which one is the latest and which one is currently applied. Taxpayers and citizens in Vietnam find system of laws and regulations look like a mess that make them really inconvenient and troubling to deal with laws and regulations. That is the reason why a lot of Vietnamese people are afraid of facing legal issues; this is not because it's a difficult problem but the troubling matter.

The fifth reason for evading tax is due to the limited knowledge on tax regulations. The weighted average score is at 2.12/4.0. As for reason of limited knowledge on tax regulations, the majority of respondents suppose that this is "a part of reason" (33.6%); besides, there are around 33% of respondents said that this is not a reason for their decision of tax evasion. By interviewing, the answers told that they have never been trained on tax declaration including in forms' declaration, online software using, tax finalization and return, and tax evasion regulations. They have been trained a little bit general information on PIT law and PIT calculation, and this is not enough to fulfill their PIT payment procedures. According to the interviewees who have a limited knowledge on PIT regulations, when they conduct PIT payment and finalization procedures, they did not get specific and friendly support from the tax officers. Specifically, the tax officers did not guide taxpayers all necessary documents and

evidences at the beginning, each time taxpayers come to see tax officers, they ask again more new documents; therefore, the taxpayers have to travel many times and waste a lot of time for PIT declaration and finalization. Taxpayers felt much unsatisfactory about the working way of tax officers, and even some taxpayers felt that they are asking and granted for money from the officers.

The sixth and seventh important reasons are considered as unreasonable tax allowances and high tax rates. The weighted average score for each reason stands at around 2.0/4.0 respectively. When it comes to unreasonable allowances, the majority of respondents suppose that this is "not a reason" for why they evade PIT (38.32%). By interviewing, even people who consider that low allowances is not a factor of their tax evasion decision, they still hope the government shall increase the tax allowances to encourage people to follow with PIT law and regulations, especially for taxpayers who are living in a big city. People still suppose that the current tax allowance deduction for income from salary and wages are not sufficient and unfair as if it's adopted the same levels for all taxpayers in all areas. Besides, they call for further deduction for family independents, including disease costs. As far as high tax rates are concerned, the majority of respondents told that high tax rate is not a reason for they evade PIT (39.04%). The weighted average score for this factor is 2.06/4.0. Previously, during the law building process, the authority has discussed the roadmap to gradually reduce the tax. In fact, we have only seen the priority treatment for the enterprises, but individuals. Corporate income tax has fallen from 32% to 20% and is expected to decline further. Meanwhile, with individual, the level of tax regulation has not decreased. Through the recent reflections on the inadequacies of the current PIT Law, such as the unreasonable provision of deductions for people with serious diseases, the progressive rates which are too thick as well as tight regulations that tax authorities force taxpayers pay tax. To build up a friendly and reasonable PIT policy, the government and tax authorities should review and think about decreasing the tax rates and finding flexible and effective ways to manage the tax collection to encourage people to pay taxes, rather than force people to do so.

A "loose and weak tax audit regime" is selected to be the eighth important reason. The majority of respondents suppose that the loose and weak tax audit regime is not a reason

for their decision to evade tax (45%). The weighted average score for this factor is 1.91/4.0. By interviewing, this is the fact that people don't know how PIT audit and examination regime is working in Vietnam; however, they evade tax for other reasons and accept for risks of being exposed and getting a fine. Therefore, it's necessary to find out ways to encourage people to pay tax in steading of applying tougher audit and examination rules.

The least important reason for tax evasion is "low penalty rates". The majority of respondents said that low penalty is "not a reason" for their decision to evade tax (66.07%). The weighted average score for this reason is 1.5/4.0. By interviewing, many people told that they don't understand the penalty rates for tax evasion. They decide to evade tax for other reasons and don't care about the penalty rate. Even they know whether it's high or low, they still break the law because they don't have other choices. One again, we can know that strict examination rules and high penalty rates are not decisive factors to people's tax evasion in Vietnam.

5. Conclusion

The study contributes to literature on tax evasion and shows the practical implication for Vietnamese government and tax authority in designing the personal income tax policy in pursuit of addressing tax evasion situation. The descriptive analysis results show that "ineffectiveness and non-transparence of government performance in tax budget expenditure" is the most important reason in the list of nine proposed factors for people's decision to evade taxes in Vietnam. The second decisive reason for the tax evasion behavior is due to "complicated guideline and poor tax services" which is provided by the government and tax authority. In the meanwhile, the two least important reasons are "weak and loose tax audit regime" and "low penalty rates". As a result, government performance related reasons are more important than deterrence related ones in explaining for people's decision to evade taxes.

The study shows that there still exist many problematic issues relating to personal income tax policy in Vietnam, which are in need of solving. However, it seems dramatically difficult to address all the issues at the same time. Therefore, to prioritize solutions for tax evasion improvement in Vietnam, it's advisable for Vietnamese

government to enhance its performance in promoting the efficiency and transparence of tax budget expenditures to build up the trust from taxpayers, and to improve tax services, creating the convenience for taxpayers to fulfill tax liability, rather than imposing tougher sanctions. Besides, simplifying the tax law, designing a fair tax policy, and promoting a better tax education system are other issues that need to consider in the process of improving tax evasion behavior in Vietnam.

This paper is limited with description analysis from taxpayers' perspective. Further regression methods should be applied to confirm on real determinants to tax evasion behavior in Vietnam. Moreover, extended studies on specific issues regarding to effectiveness of tax budget expenditure, transparence of tax budget expenditure, tax services, tax education, tax policy fairness, and tax sanctions as well would be helpful to help Vietnamese government to find the specific solutions to address tax evasion phenomenon.

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