

Evaluating Tax Compliance Cost on SME Performance in Vietnam

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Abstract

This study focuses on the burden of tax compliance of small and medium enterprises (SMEs) in Vietnam which is a vital component of Vietnamese economy, accounted for 45% GDP and 31% of total State budget revenue, attract more than 5 million employees. Based on a quick survey on the compliance cost and their impact on the performance of Vietnamese SMEs, we try to make a contribution not only for researchers but also for legal and taxation system to improve the transparency of accounting information system, and internal control of the firms. The result of our study suggests that among those tax compliance cost in the SMEs: external, internal tax cost, and miscellaneous tax cost, the internal tax cost accounted for the major expenses in tax compliance in Vietnam, after that the miscellaneous tax cost also a significant cost for complying with tax regulation. External costs were evaluated at low percentage compared to the left component of tax procedure cost. With this result, study have shown some tax compliance cost type making burden for SME as well as evaluating issue in tax system in Vietnam.

Keywords: compliance cost; internal cost; external cost; miscellaneous tax; tax procedure cost.

Introduction

Vietnam is one of the fastest growing developing countries in Asia, located specifically in the middle of South East Asia region, sharing border with China, Laos, and Cambodia. The total area is at 310,060 square kilometres, and a population of about 93 million in which 34% of total population living at urban area. Regarding to the economy, Vietnam has been transforming from being a largely agricultural economy to an increasing industrialized economy that focuses on manufacturing and service factor. Association with the strong development, Vietnam has to face with many challenges and limitations which still incurred with the developing countries.

According to the world-bank organization review on Vietnamese market, it is clearly stated that poverty is contributed a significant portion of the whole population, especially in rural areas. The wealth gap between the rich and the poor is more extended. In the financial sector, the fiscal imbalance, and unresolved assets quality in banking sector require highly attention. However, the private sector is a star and an engine for the economic growth compared to other sector in the economy.

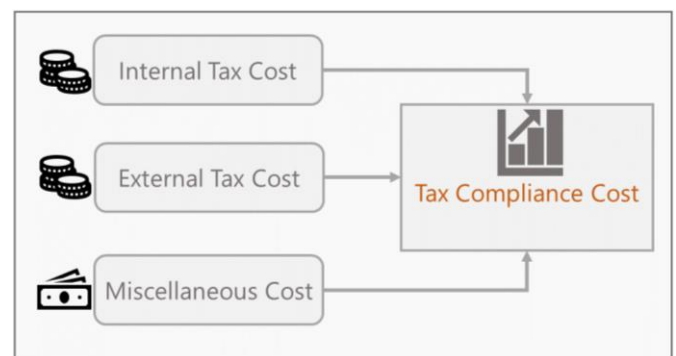


Figure.1. Scheme of tax compliance costs

The Vietnamese government continues to show commitment to reform. Vietnam's 2011 – 2020 Socio-Economic Development Strategy (SEDS) is a 10-year strategy which highlights the need for structural reforms, environmental sustainability, social equity and emerging issues of macroeconomic stability. And the private sector, particularly the Small and medium enterprise will be the main rocket to fuel the whole economy.

Like the rest of the world, the taxation plays an important economic role in Vietnam, and contributes

TABLE 1
THE CLASSIFICATION OF THE SMES BASED ON THE CAPITAL SIZE AND TOTAL LABOR

| Size Sector | Very small enterprises | Small-sized enterprises | | Medium Sized enterprises | |
|---|------------------------|-------------------------|------------------|--------------------------|------------------|
| | Number of Labour | Total Capital | Number of Labour | Total Capital | Number of Labour |
| I. Agriculture, forestry & Fishery | <10 people | < VND 20 Billion | 10-200 | 20-100 Billion VND | 200-300 |
| II. Industry and construction | <10 people | < VND 20 Billion | 10-200 | 20-100 Billion VND | 200-300 |
| III. Trade & Service | <10 people | < VND 10 Billion | 10-50 | 20-50 Billion VND | 50-100 |

significantly to the State budget. Taxation in Vietnam categorized into some main types: Corporate income tax, Value added tax, Personal income tax, and others taxes.

In the 21st century, SMEs has been given due recognitions for exerting a crucial role towards fostering the economic growth, development in several countries, especially in developing countries. Prior to the year 2018, the small and medium enterprises in Vietnam are defined by satisfying 2 factors: the average number of employees and total capital (Decree 56/2009/ND-CP).

However, per the tax perspective, the definition of small and medium enterprises is based on the average number of employee and total revenue of preceding year. According to Circular 78/2014/TT-BTC dated 18 June 2014, guiding the corporate income tax regulation, the average number of employees per tax perspective is at the same with the rate in the investment law, while the total revenue is lower than twenty (20) million in order to determine the size of the enterprises. From 2018, according to the law on supporting SME, two indicators perspectives are combined into one in order to support the SME, including: the average number of employees contributing social insurance of no more than 200 and meet one of the following two criteria (Table 1) - total capital shall not exceed VND100 billion; and total revenue of the preceding year shall not exceed VND 300 billion.

According to the statistics number of Chamber of Commerce and Industry of Vietnam, recently, the SME not only contributes to 45% GDP and 31% of total State budget revenue, but also attracts more than 5 million employees. Furthermore, following the Vietnam annual business report by the Chamber of Commerce and Industry of Vietnam, in 2014 for the criteria of ownership, the number of SME was belonged significantly to non-state and private enterprises. Regarding to the total capital contributed and number of employees, the number of SME was nearly 98% of total enterprises in both criteria.

The SMEs provide the wide range of job opportunities for people, and is a key factor to increase income for labor, and help to mobilize social resources for development investment, poverty reduction simultaneously. The amount of fund source remains at the high proportion in the population, thus in case we have some appropriate

mechanism for exploiting these capitals in order to create material wealth and benefits for the whole society. The SMEs not only contribute to the dynamic economy in the market mechanism, but they also help to speed up the transition of economic structure, especially to the agricultural sector village. Diversification the number of entities joining the economy may accelerate the market, play a crucial factor to reduce Vietnam's inflation at the lower. And Vietnam rural economy has been shifting to processing and service industry, while the SMEs usually implement and cover the services, trade or construction or repairing maintenance. Moreover, SMEs are the place to nurture the entrepreneurial talent, and create and train entrepreneurs, help them get familiar with the business environment. Especially, the start-up wave has increased significantly in recent year, and attracted many young people to participate in. Hence it clearly shows that the SME plays a vital role regarding to the economic impact and social impact.

The World Bank also concludes that the improvement in the process of tax declaration and payment, associate with fundamental reform in inspection, examination and refund, result in the score of Vietnam's Tax Payment Index and Vietnam's General Payment Index is enhanced significantly which increase by 81 levels compared to the Business Environment Report 2017 and ranked fourth in the ASEAN6. This result is supported by the strong and continuous improvement in administrative procedure reform. Vietnam Tax department has implemented both legitimation and tax administration.

Although in 2019, Vietnam made paying tax easier and the cost for tax reducing by the minimizing the administrative process of complying with tax obligation. Vietnamese government has together performed several improvements in tax legitimation relating to the tax declaration period, specifically:

For Corporate tax income purpose: Circular **78/2014/TT-BTC**, Circular **151/2014/TT-BTC**, Circular **119/2014/TT-BTC**, Circular **96/2015/TT-BTC**, Circular **45/2013/TT-BTC**

For Value-added tax income purpose: Circular **219/2013/TT-BTC**, Circular **26/2015/TT-BTC**, Circular **39/2014/TT-BTC**

For Income tax issue: Circular **111/2013/TT-BTC**, Circular **92/2015/TT-BTC** and other document guidance by the Government.

However, pertaining to the above amendment and enhancement in the tax regulation, the result for these improvement processes are not seemed to be efficient and sufficient for tax payer.

The number of documents required for each item are different and consumed high cost of compliance by internal employees. It can be generally explained that these procedures contribute to the high tax compliance timing burden for the SMEs. As the similar documentation has been mentioned in the OECD (Organization for Economic Cooperation and Development) that less frequent filing offers the SMEs approach to reduce the tax compliance cost.

Furthermore, the Government will provide assistance for the SME regarding to capital factor, taxation factor, technology factor, human resources supporting and others. The Government also emphasizes that SME will be the main contributor of the whole country in the next several years, and target the SME is the rocket for the economy.

However, the issue of tax compliance costs is quite complicated, including the costs of bribes, tax evasion, psychological costs (anxiety or frustration) which cause damage to taxpayers, etc. These costs are difficult and not usually available for the author; hence these data may not be possible to be collected, but the cost of tax compliance is an objective issue that needs to be explored in order to partially find and contribute appropriate solutions to reduce the burden. Thus, with author ability, the data which will be collected and analyzed are limited and may not appropriate recently. The approach of dividing cost and methodology to carry out research are based on the published international studies and research, and other supporting from lecturer to fulfill the research.

Vietnam is approaching to a more dynamic and integrated economy with the developing in GDP and living standard, together with the improvement in regulation and business environment. The SMEs in Vietnam are important factor of the developing economy which contribute high amount of revenue and increase the living social welfare. However, even the fact that SMEs are crucial to the economy, the SMEs definitions are not clearly defined by the law at this point of time, and there are lack of supported policy and tax incentive for them to facilitate and expand their business activities. One of these burden for the SME is the Corporate Income Tax compliance burden which are further presented in the below part for having clear and appropriate view on such procedure expenses.

The paper is organized as follows. Apart from introduction in section 1, a literature review will be presented in the section 2. Section 3 presents methodology in the research. In the next section, we show the results and discuss about the burden of Corporate Income Tax (CIT) in Vietnamese SMEs. Author conclude the topic in the last section.

Literature Review

There are several studies relating to tax compliance cost facing by the SMEs in many countries. The term "tax compliance cost" has different interpretations, a consensus as to the precise meaning of compliance cost, according to Sandford (1995) the tax compliance cost was defined as these costs which incurred by tax payers, or businesses for achieving the requirement in complying with a given structure, and level of tax. They include the cost of collection, remitting, and accounting for tax on the profits of business and other related cost. Eragbhe and Modugu (2014) carried out research for tax compliance cost in Nigeria, interpreted that the tax compliance cost was the amount of resources expanded by tax payer, exclude the amount of tax liabilities, in complying with the requirements of the relevant tax regulations. These tax compliance cost in their research were:

- The administrative cost,
- Timing spent for tax compliance
- Internal-external cost,
- Computational and tax planning cost,
- Commencement cost, accounting and tax cost.

As their result, the tax compliance cost in the SMEs factor in Nigeria was considerably high and took long time period for complying with the regulations. According to the study of the Corporate Income Tax compliance cost of Smalls and Medium Enterprises in Thailand by Papaporn C. (2013) the PHD of Curtin Business School in Thailand, by applying both the quantitative approach and qualitative approach for carried out the research such as questionnaires, interview... and divided the tax compliance cost in his research into 3 categories including: (i) internal tax cost, (ii) external tax cost, and (iii) miscellaneous tax cost. In both quantitative and qualitative results, the highest tax compliance cost per his research was in miscellaneous cost such as: transportation, software and training cost because of the requirement of tax filing. His study was conducted among more than 200 sample includes Limited company and Partnership in Thailand. As his result, the highest tax compliance cost for the SMEs was in the wholesale business with regard at all criteria of the research. Moreover, according to his research, there were several reasons which result in high tax compliance cost in Thailand: technical knowledge of tax was complicated, the available of guidance was still limited, the cost for hiring the tax professional for declaring tax, the final important additional reason was the informal business transactions of the SMEs which have to deal with Tax authority if challenges. Papaporn C. (2013) also pointed out the limitation in conducting his research included:

- The data was used to analysis was the primary data which could not be respond correctly and appropriate since the tax revenue data was not published,

TABLE 2
INTERNAL TAX COMPLIANCE COST SURVEY

| | Number of respondents | Percentage |
|---|-----------------------|------------|
| Fees and charges on updating and prepare knowledge for the CIT regulation (Including access to new tax laws and updated tax laws) | 16 | 24.24% |
| Wages for internal staff for completing the CIT procedure | 48 | 72.73% |
| Expenses dealing with tax authority | 33 | 50% |
| Administrative penalties upon late tax submission | 16 | 24.24% |
| Other expenses (Management expenses regarding to digital signature, applying technology in tax compliance) | 13 | 19.70% |

- The tax knowledge understanding of some respondents was still limited, and

- The sample may not sufficiently represent for the SMEs in Thai land...

Furthermore, Hijattulah A. (2009) has carried out another research in tax cost compliance of the SMEs in Malaysia. His sample in the research includes many sectors include SMEs and non-SMEs and collecting data through questionnaire, pilot interview and survey implementation. In his research, there were 3 categories of tax compliance cost which was evaluated: internal tax cost, external tax cost, and additional compliance tax cost such as (travelling, printing document). The highest average of tax compliance cost in Hijattulah research was the internal tax cost which amount to 52% of total tax cost, and the external and additional tax cost were in the second and third position respectively. Notwithstanding with the above factor, one of his finding was that the SMEs were more concentrated on tax incentive rather other field of tax such as: tax audit, tax fairness...According to the interim report of Tax committee in South Africa, they conducted a research on the tax burden in the SMEs among the large sample, and found that time consuming in tax compliance was the major burden for the SMEs in complying with taxes even the government has issues several support and guidance to facilitate the tax compliance procedure. Further in this research, it was suggested that for the purpose of minimizing tax compliance cost, the Tax authority should reduce the meeting and inspection procedure, and request bulk data whenever there was high probability of significant impact related to tax compliance cost.

Mustafa (2002) has measured the tax compliance cost compared to the company tax obligations, specifically, for Malaysian SMEs, the compliance cost amounted to more than 1% of total tax payable, and admitted that the tax structure was more complicated and complex, which would be resulted in higher compliance cost for the SMEs to meet the requirement of tax regulation. Jeff Pope (2001) divided the tax compliance cost into external and internal tax cost, and he conducted his research in the international tax case and figured that the compliance tax cost shall be more concentrated in each country and put into the applicable policy in order to grant more support to the tax payer. Abdul

(2008) has carried out research of the effect of self-assessment system on tax compliance cost in the SMEs in Malaysia, one of his result is that internal cost (timing spent and wage rate for employees) and external cost (financial audit and tax professional fees) amounted to more than 90% of total compliance cost in Malaysia, and the SMEs with capital less than RM250,000 shall be the main suffered object. These costs increased as the relative size of employees become larger.

Gurd (1998), Schoonjans, Cauwenberge, Reekmans & Simoens (2011) admitted that the SMEs suffered the burden of compliance tax cost higher than direct tax liabilities, and insufficient ability to deal with many bureaucratic and legal knowledge requirements. Also, in their research in 2011, the tax compliance cost in corporate income tax and value-added tax portion just amounted to 65% of total cost compared to other tax (Environment tax...). This can be explained by the requirement of filling in Malaysia and supporting document attached. In the case of United Kingdom, Hansford & Hasseldine (2012) has performed the study in calculating the tax compliance cost in UK with the sample of member of ACCA associate, as a result, the internal tax compliance cost were relative higher than the external tax cost, and increasing as the firm size expand in number of employees and production. The compliance cost for VAT and CIT were the major contribution for high level of tax compliance cost. In Australia case, the compliance cost in VAT accounted for more than 50% of total cost compliance in the research conducted by Lignier (2012). He further illustrated that from 1995 to 2010, the compliance burden has been raised up, specifically the SMEs had to afford with the amendment in tax requirement by higher external cost in hiring tax professional bodies to perform the tax declaration and review at the company.

In summary, there have been several studies which had been conducted in order to measure and determine the tax compliance expenses internationally. They indicated tax compliance burden for the SMEs around the world, and suggest the Government to recognize the problem and focus on tax reform. In Vietnam, there are not many researches focuses on the tax compliance expenses, one of these is the research carried out by Le (2014) on the CIT compliance cost in Ho Chi Minh city, Vietnam. She has conducted her research on the financial year 2014 follow the

regulation in such period which Vietnam made paying

TABLE 3

NUMBER OF RESPONDENTS APPLYING FOR EXTERNAL TAX SERVICE

| | Percentage |
|-----------------------------------|------------|
| Tax accounting service | 7.58% |
| Tax consulting service | 30.30% |
| Payroll service | 15.15% |
| Using internal accounting service | 46.97% |

higher taxes for companies by increasing employer's social security contribution rate according to research "Doing business 2017" by World Bank organization. She also achieved some specific results regarding these procedure expenses in these periods. However, according to research

by World Bank (2017), from 2015, Vietnam has enacted a number of tax regulations which made paying tax less costly and easier for tax payer by decreasing the tax procedure and compliance. Although there were many researches regard to tax compliance burden around the world, while in Vietnam, such researches are still limited and not sufficient for the topic. Therefore, identifying the tax procedure burden after these updated and reformed procedures come into effect in Vietnam, Vietnam is the purpose of this study. The result of this study may suggest and contribute to further reduce the CIT compliance expenses in developing country such as Vietnam.

Regarding about Tax compliance cost, the general definition of compliance cost is interpreted as the general cost that the SMEs has to bear for the purpose of complying with the effective regulations. In this section, we evaluate and examine the category of tax compliance cost in 3 criteria: There are several studies relating to tax compliance cost facing by the SMEs in many countries. The term "tax compliance cost" has different interpretations, a consensus as to the precise meaning of compliance cost, according to Sandford (1995) the tax compliance cost was defined as these costs which incurred by tax payers, or business... for achieving the requirement in complying with a given structure, and level of tax. They include the cost of collection, remitting, and accounting for tax on the profits of business and other related cost. Eragbhe and Modugu (2014) carried out research for tax compliance cost in Nigeria, interpreted that the tax compliance cost was the amount of resources expanded by tax payer, exclude the amount of tax liabilities, in complying with the requirements of the relevant tax regulations. These tax compliance cost in their research were:

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TABLE 4
NUMBER OF RESPONDENTS APPLYING FOR EXTERNAL TAX SERVICE

| | Number of Respondents | Rate | Mean |
|--|-----------------------|--------|------|
| Stationary expenses | 40 | 60.61% | 2.51 |
| Cost for collecting supporting document, invoice | 45 | 68.18% | 3.78 |
| Expense for document storage | 48 | 72.73% | 3.54 |
| Travelling expenses | 30 | 45.45% | 2.92 |

suggested that for the purpose of minimizing tax compliance cost, the Tax authority should reduce the meeting and inspection procedure, and request bulk data whenever there was high probability of significant impact related to tax compliance cost.

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further illustrated that from 1995 to 2010, the compliance burden has been raised up, specifically the SMEs had to afford with the amendment in tax requirement by higher external cost in hiring tax professional bodies to perform the tax declaration and review at the company.

In summary, there have been several studies which had been conducted in order to measure and determine the tax compliance expenses internationally. They indicated tax compliance burden for the SMEs around the world, and suggest the Government to recognize the problem and focus on tax reform. In Vietnam, there are not many researches focuses on the tax compliance expenses, one of these is the research carried out by Le (2014) on the CIT compliance cost in Ho Chi Minh city, Vietnam. She has conducted her research on the financial year 2014 follow the regulation in such period which Vietnam made paying higher taxes for companies by increasing employer's social security contribution rate according to research "Doing business 2017" by World Bank organization. She also achieved some specific results regarding these procedure expenses in these periods. However, according to research by World Bank (2017), from 2015, Vietnam has enacted a number of tax regulations which made paying tax less costly and easier for tax payer by decreasing the tax procedure and compliance. Although there were many researches regard to tax compliance burden around the world, while in Vietnam, such researches are still limited and not sufficient for the topic. Therefore, identifying the tax procedure burden after these updated and reformed procedures come into effect in Vietnam, Vietnam is the purpose of this study. The result of this study may suggest and contribute to further reduce the CIT compliance expenses in developing country such as Vietnam.

Regarding about Tax compliance cost, the general definition of compliance cost is interpreted as the general cost that the SMEs has to bear for the purpose of complying with the effective regulations. In the next sections, we evaluate and examine the category of tax compliance cost in 3 criteria.

Internal tax cost

Internal cost generally is incurred inside the business relation, mainly in the accounting and administration department of the company, it consists of all internal tax work in office hours and the appropriate tax rate plus overhead cost Pope, Fayle, & Chen (1994). In the research

carried out by Eragbhe & Modugu (2014) divided the internal tax cost in 5 elements:

- (i) Time spend on filling and keeping record
- (ii) Cost incurred in filling process
- (iii) Cost incurred for researching and studying the new updated tax regulation
- (iv) Time by internal staff for addressing audit
- (v) Overhead cost.

Regarding to factor inside the internal tax cost, Hanefah, Ariff & Kasipillai (2002) noted that internal cost in the tax compliance composed of:

- Timing spent by staff in accounting and collection,
- Preparing supporting document and information for professional advisers,
- Training staffs for acquire tax knowledge
- Dealing with tax authority.

Jeff Pope (2001) had made a figure to illustrate the elements of internal tax cost:

- Self-employed cost
- Monetary cost: Staff cost and Miscellaneous cost

Tran-Nam, Evans & Walpole (2000) further illustrated that internal tax cost was substantially more important than external cost in Australia. We can infer from the above perspectives that internal cost exert an important part to build up the tax compliance cost for SMEs.

Briefly, based on such definition and categories of internal tax cost, this research will measure such tax compliance cost burden by dividing into 2 criteria: expenses and timing spending in following and solving with internal tax procedure cost such as: wages for internal accounting staff, expenses dealing with tax authority, management expenses for serving such procedure purpose...

External tax cost

External tax costs are defined as the payment to acquire the professional service: lawyers, accountants, investment adviser from outside company (Hanefah, Ariff, & Kasipillai, 2002). Other author has the same definition of external tax cost such as Jett Hope (2001), Papaporn Chunchatrachai (2013), Hansford & Hasseldine (2012). External costs of tax compliance are primarily expenditures that taxpayers incurred while seeking tax advice or outsourcing compliance activities Lignier & Evans (2012) such as:

- Tax service
- Non-tax service
- Payroll service

According to Mr Jabbar & Pope (2009) research, the external cost is generally classified as compliance are a straightforward monetary cost charged by external tax professional solely on tax activities. He further indicated that hiring tax professional bodies were common in Malaysia and the fees may not different with other financial service for carrying out the tax inspection and filing. Trepelkow & Verdi (2014) has also classified the external cost was one element of compliance cost, and defined the external cost as payment paid by a business to third parties in order to comply with its tax obligations. The commissioning of third

parties presumes a charge or payment for the service rendered. Hansford & Hasseldine (2012) presented that for the SMEs, acquiring service from tax professional could create more favorable tax position advantage.

In this type of external tax compliance cost, the author will determine such cost including hiring external accounting services, and timing to fulfill tax procedure, keeping up with new and changing in tax regulation, others....

Miscellaneous cost

Miscellaneous cost is defined as other cost except internal staff cost that are incurred inside of the business in relation to the corporate income tax such as: stationery, postage, travelling, software and computers cost Papaporn Chunchatrachai (2013). He also found that high miscellaneous cost shall be the significant factor affecting the tax compliance cost in Thailand. Not only Papaporn (2013), Hijattluah (2009) also concluded that additional cost except internal and external cost could be the main contributor to the high tax compliance cost in Malaysia. In his studies, the additional cost includes: Postage, stationery, travelling, printing and telephone cost of the business. However, Jeff Pope (2001) has included the miscellaneous cost into the internal cost of the Company to measure the tax cost. Other studied conducted by Tran-Nam, Evans & Walpole (2000) also provides that portion of their miscellaneous expenses include: tax preparation fees, safe deposit box rental, etc).

Therefore, in this study the author will apply the criteria of the miscellaneous cost which will be applicable in Vietnam market in order to find the time and cost burdens for the SMEs for complying with tax requirement. Such miscellaneous are measured include stationery expenses, travelling cost, expenses for document storage... the result is employed for finding the large actual miscellaneous expenses in the SMEs.

Proposed Method

This research will be conducted about the Tax compliance for SMEs in Vietnam especially in Vietnam. The SMEs in Vietnam are subject to the research since the SMEs play a crucial important role in developing country; also, in Vietnam the tax procedures are still complex and complicated. The SMEs in every country are the vulnerable subject which will suffer high tax compliance cost. Further to that, there are not enough research regarding to tax procedure expense for SMEs in Vietnam to have an appropriate view on the expenses which are absorbed by the SMEs.

Although there are several types of tax in Vietnam such as: Value-added tax, Personal Income Tax, Corporate income Tax, Excise tax, Import-export tax... however the tax compliance in Corporate Income tax will be the main

concentration of this study. CIT is a direct tax which is imposed on the net profit of a legal entity at the end of the accounting period. Although the definitions and categories of the SMEs are not clearly applied consistently between each Ministry in Vietnam. Therefore, for the purpose of this study, the SMEs, which are classified by the size of entity, defined by the regulation of the Vietnam Ministry of Planning and Investment will be the subjects to carry out research.

Furthermore, in this study, the size of the SMEs follows this regulation association with the regulations stipulated in Tax law are employed in order to have more accurate and appropriate information for this research. The survey is designed to suit with the purpose of this study to identify the CIT compliance burden for the SMEs in Vietnam.

Research objectives

The research objectives of the study are:

- To identify the tax-compliance burdens of the SMEs when applying the Vietnam taxation system, especially the corporate income tax.
- To use the estimation and findings to place the issues within a taxation policy context and suggest appropriate policy implication

Research methodology

The author will choose to apply the quantitative approach for the research for such case in the compliance cost. Other researcher also has employed the quantitative method to carry out the research on the tax compliance cost (Lignier & Evans (2012), Nam, Evans & Walpole (2000), Trepelkow & Verdi (2014), Papaporn Chunchachatrachai (June 2013), Hijattulah Abdul Jabbar (2009), etc.

The research was conducted within 2 months from September to November 2019. There were 100 questionnaires which have been sent to the respondents, however only 66 questionnaires were received (at 66%). Vietnamese and English version are prepared, however only Vietnamese version are distributed to the respondent since the English are not popular in Vietnam. The English version will be attached in this study for reference.

Due to limited time and resource to carry out this research, and the quantitative approach would be applied in this research, the result of those questionnaire shall be evaluated, assessed and concluded as the result of the study.

Survey data can be obtained in several ways includes: questionnaires (either administered personally, by mail, web), and interviews (face to face, or through telephone).

Survey research is the most widely and frequently employed method in the social sciences Babbie (2017). He also stated that one of overall advantage of survey research is the feasibility of obtaining a wide range of standardized information from a large population, which is cost beneficial. However, there were several limitations for survey research as such: the unwilling to response of people, lack of in-depth information, or technical term could create the difficulties for survey research as also point out in Babbie research (2017). Despite these limitation and difficulties, the survey research is seemed to be the popular method to conduct research in social field, and also in business research. Lignier & Evans (2012) has applied the electronic survey in computing the tax compliance cost in his studies. They admitted that the advantage of this survey was the quicker response from target people, and applied over wide geographical area, association with cost beneficial regarding to the fees of printing and mailing survey. However, the limitation in this type of survey includes requirement of Internet which may not be provided in several area. Other author such as Schoonjans, Cauwenberge, Reekmans & Simoens (2011) also applied the electronic Internet-based survey. However, Jabbar & Pope (2009) performed the research based on the traditional survey questionnaire technique, with support from tax professional, tax expert, even the tax officer for the purpose of clearly understanding the questionnaire. It could be implied that the technical term together with some in-depth knowledge may affect the result of response in this research. The traditional survey questionnaire also employed by Hanefah, Ariff & Kasipillai (2002), Jeff Pope (2001), Trepelkow & Verdi (2014) in collecting data for computing the cost of tax compliance.

In this study, together with the perspectives and consideration of the expert in the tax field, we perform the quantitative approach by conduct the survey research method which will be employed in order to satisfy the purpose of researching the tax compliance cost.

Questionnaire design

Jeff Pope (2001) indicated that some information should be composed in the questionnaires: time spent on tax affair of the company employee and employer, fees paid to tax professional bodies, and any miscellaneous cost incurred. Besides that, the nature and additional cost should be taken into account when conducting questionnaires. Abdul Jabbar (2009) has developed the questionnaire for his survey including 16 questions for tax compliance cost and characteristics of SMEs in Malaysia.

In this study, electronic questionnaire and traditional questionnaires will be employed both in order to have the highest and quality response rate from the respondent.

Business writing principles that have been adopted in the current study compose the use of simple words, question wordings and technical term explanation (but modified to suit the current study). Considerate that the electronic survey could be carried out to increase the sample size, and more important with no significant additional costs.

Furthermore, the final questionnaires, which will be delivered, are prepared in both English and the Vietnamese language. It is common to make available in both language version since Vietnamese people do not perform business transaction and communicate in English frequently and Vietnam is also a developing country. To some extent, some people may not feel comfortable of the technical term in tax field. Additionally, the Vietnamese language version was considered necessary to substantially reduce the length of the questionnaire and, more important is to get the reasonable response result.

The basis for designing the research questionnaire is the above assessment and dividing the tax compliance cost for the SMEs in Vietnam, specifically: Internal tax cost, external tax cost and miscellaneous cost. However, determining and figuring the accurate expenses spending on tax procedure need significant effort and human resources. Hence, with limited time and ability to perform the study, the time and expenses are designed on hierarchical scale such as (very small, small, normal, large, very large...). Moreover, the

document and studies in various researches together with the effective CIT regulation will be considered to have the questionnaire completed. Since the limited in the time and capability of the author, together with the available information provided, the questions cover part of the Company expenses relating to tax compliance in the Company. There are three parts in the questionnaire:

Section A: General information – the question in this section were about the SMEs legal structure, geographical location, ownership type, main business activities, the number of labor employed, the total revenue of the year 2016, and the general compliance of tax in the Company. The question was designed to be straightforward to the point and expected the answers to be clearer and easier for the respondents.

Section B: Tax Compliance Costs - This was the main part of the questionnaire. The questions were about the time, money spent, and the difficulties of the SMEs regarding to comply with corporate income tax in the 2016 tax year, including internal, external and miscellaneous expenses. The internal cost composed of factor in complying with tax regulation such as: time filing requirement, fees for keeping recording and updating technical knowledge in tax field... The external cost consists of the question to require the

respondent whether they seek the assistance of tax professionals or tax agents in understanding and complying with the Corporate Income Tax law. For the purpose of analysis, respondents were asked to give their comment and the average cost per year spent on professional charges. The miscellaneous cost was designed for including several expenses incurred during the working of fulfilling the tax requirement such as travelling, printing, stationery, and extraordinary expenses dealing with tax department... Some questions were applied the five-point scale to ask the respondent of the compliance cost in the SMEs.

Section C: The questionnaire concluded by asking the respondents to give their comments in relation to the suggestion and recommendation to improve the tax compliance, and reduce the tax compliance cost for the SMEs.

Population and sample

Since the research project focused on the cost of tax compliance with corporate income tax, the survey population was mainly concentrated on SMEs including limited companies and others. The sampling methods were adapted to determine a group of representative units from a population. Reid (1996) further indicated that samples are not meant to represent large populations, and purposeful samples of respondents were used because they could provide important information, not because they are representative of a larger group. A sample of entities from Vietnam (Vietnam) would be determined and to cover the tax compliance cost which the SMEs may routinely incurred during their business process. There is no comprehensive list of taxpayers publicly available in Vietnam. Hence personal income tax, excise tax, Value-added tax and other tax imposed by the Government which affected specific activities and products were excluded from this study.

The framework of the SMEs definition in this research followed the definition provided by the Tax Department since the overall SMEs classification were widely accepted in Vietnam. Firstly, because the SMEs categories by the Tax authority were easily assessed and determined by self-entities. Secondly, the definitions were more specific and regarding to tax purpose. Although there were slight differences between the definitions of Tax Department with other Ministries, for the purpose of this study, the definition of SMEs in Tax regulation shall be applied accordingly.

The current study considered a sample size consists of 100 questionnaires which have been sent to the respondents, however only 66 questionnaires were received (at 66%). The main respondents are the accountant in the company. Two applicable approaches were to send questionnaires through social accountant network, and employ online survey for

getting answer from accounting and auditing online sources. Furthermore, interviewing tax specialist were conducted, but the number of interviewees was limited since the tax procedure field for the SMEs in Vietnam were not concentrated sufficiently, and the tax procedure were considered still complicated and unrealistic several procedures. The author also seeks the colleague's advice in tax field to have accurate adjustment and additional parameters for the questionnaires.

Results and discussion

Regarding to the internal cost for complying to the tax procedure, in total received sample, there is 80% people and organization do not use the external accounting service for tax procedure because of several reasons such as the Company has enough accountants for fulfilling such tax work (62.5%), while 12.5% illustrates the higher external tax cost lead to employing only the internal accounting staff, and the left 5% sample is represented for the tax compliance work is not difficult hence using only internal staff for such work. Furthermore, among the total collecting sample, 20% respondent has selected the external tax work.

According to the survey, the SMEs in Vietnam mainly incurred several expenses for tax procedure of

CIT criteria. The detail is based on the above evaluation and categories which present such cost as shown in Table 2.

Result of assessing the tax compliance cost from scale 1 – 5 with rate 1 is very low, while rate 5 is very high

For the first factor: cost for updating and preparing tax knowledge is amounted to only 24.24% of total respondent to be recognized the incurring cost in your business. This may indicate that the updating tax knowledge are not concentrated in the SMEs, while under Vietnam circumstances, the tax law has been amended several times. This could lead to non-updated to the regulation, and the accountant may misunderstand and wrong treatment with some tax procedure. Furthermore, this result is indicated by the cost for updating. 34.85% of respondent select the cost for updating tax regulation at the low cost, while 50% spend at the normal cost, only 15.15% apply high cost for this criterion. This result may impact the fact that the SMEs accountant may not updated and prepared enough to the effective regulation, and these causes high cost spending on tax procedure which may be eliminated by the tax authority. However, recently, many sources of updating tax law is free, and not charge fees such as Internet, or legal firm issuance paper... hence which may result in lower this cost, and the dependent of accountant on this type of source for updating and preparing tax updated regulation.

The second criteria is the salary for internal accounting staff in the Company. According to the survey, the percentage of respondent regarding to this factor is about nearly 72.73%. It can be understood that the accountant in the Company play a vital role related to tax compliance. Since the SMEs depend solely on the accountant to declare tax accordingly, which lead to mainly internal cost of tax compliance relating to wages paid to the accountant. Specifically, 28.78% of total people choose the cost for salary paid for internal accounting at the high level, while only 10.60% records this criterion as low cost. The rest amount is belonged to acceptable cost for the SMEs. Hence, it is generally accepted that the internal accounting wages consume high expenses as their opinion, since it could be difficult to fulfil tax procedure in the Company, and the management need to hire more internal accountant to complete these requirements which lead to high cost for wages for them.

The third criteria incurring in the SMEs is the expenses dealing with tax authority which is amounted up to 50% of all selection. This amount is higher compared to other criteria of internal cost. It is because the tax regulations in Vietnam are updated regularly which the SMEs may find it difficult to complete its procedure accordingly, thus they have to pay some under-table to the tax authority in order to overcome these errors. Specifically, there are about 18.18% of selection recognize the cost for dealing with tax authority at the low level, while the percentage recording at high expenses is more than double the number of low costs as at 39.39%. It is represented for the large expense spending for tax inspection team. In can be further inferred that the SMEs in Vietnam usually face with the tax issue which include the tax compliance requirement. The mistakes during the completion of tax compliance may occur regularly and hard to find appropriate method such as declaring tax deductible expenses and revenue under CIT regulation. Hence the SMEs want to cover those errors, and paid directly to the tax officer in order to cover those mistakes.

The administrative penalties for late tax submission is come at the fourth position which at 16 respondents at 24.25% of the SMEs incurring such expenses in this tax year period. The tax submission are the requirement of the Vietnam tax authority which specify for each type of tax declaration with one of their purposes is to be convenient for tax department to take control and adjustment for business activities inside Vietnam boarder. Specifically, regarding to CIT regulation, the company shall submit the CIT finalization at the period of 90 days from the end of the company financial year. While the process of fulfil the form under current regulations are not easy to achieve, together with requirements in such other criteria of the business such as Financial statement,

and other required report by the government. These create the expenses and fee for the SMEs to pay penalties for late tax submission. Among that, only 12.5% respondent agree that these penalties are at very low level, compared to 31.25% sample indicate the high expenses for the late tax submission. Remain selection is at normal level; hence these can be inferred that the administrative penalties for late tax submission and payment could generate obstacle for the SMEs to comply with tax requirement.

The other cost includes the management expenses regarding to digital signature, applying technology in tax compliance.... are recorded at 19.70% incurred such cost. Furthermore, the impact on such cost for the SMEs according to the survey is mostly at the normal phase, while the rest of respondent is divided at 2 stages which 7.58% with the opinion at very low level, while 30.30% recording at very high level. It is since to some companies, the expenses for such cost are small and the company staff is familiar and equipped enough tax knowledge. While other SMEs realize such expenses at high level because of the complex and complicated of tax procedure such as the digital signature or employing the supported technology for tax declaration...

The section for external cost included the second part of questionnaires design. It demonstrates the type of external cost of tax compliance in the SMEs together with the overall cost for such service. Among several type of external cost for the SMEs, the questionnaire is designed for suit with the reality of external service in Vietnam. The detail is presented Table 3.

In the questionnaires, three services have been mentioned such as: External accounting service, consulting service and payroll service. According to result of the survey, 30.30% of total SMEs were asked has employed the external tax accounting service together with 15.15% using the payroll service. While the number of using tax consulting service in the SMEs just 7.58%. However, the amount recording for not using external service amount to almost 50%, which clearly show that for the SMEs, hiring external services are not popular.

Among those who employed the external service, nearly 50% of respondent indicate the tax field is complex, and required huge amount of knowledge and experience, thus they choose to hire the external tax service in order to comply with tax regulation. While timing to fulfil tax procedure and keeping up with new and changing in tax regulation also account for the reason for using outside tax service at 6.45% and 12.90% respectively. For the remaining selection, the response consists of both timing and keeping up with changes above. It may imply the fact that with the SMEs who renting external tax service, they realize the

difficulty and time consuming of the tax compliance, and the penalties if wrong treatment in the tax field, hence they decide to use outside service to ensure the accurate treatment and limit mistakes carried by the internal staff.

Furthermore, with regard to the cost for hiring external tax service, pursuant to the research result, it illustrates that the cost for using outside tax service is normal at 54.74%, while reporting high cost at 40% for the SMEs. In general, the external tax service is quite expensive compared to the scale of some companies. Furthermore, in such criteria, nearly 67% selection has reported the higher cost for outside service rather than internal service, but they still employ the outside tax service for their company. Hence, it can be denied that the SMEs in Vietnam are more aware of the importance of complying tax procedure and paying tax to the State Budget.

To sum up, in this section, the cost for external tax service are evaluated. Overall, these costs also contribute highly to the tax compliance cost for the SMEs such as hiring external accountant service, or payroll service. Since the nature of the SMEs together the business size, the renting such service may not be preferable which represent into the number of respondents choosing such criteria. Moreover, the expenses for such service are recorded at the high level, and these circumstances lead to the outside tax service consumes higher cost than internal.

The miscellaneous cost in the tax compliance of the SMEs

This section indicates the miscellaneous cost to the SMES relating tax procedure consist of some factors: Stationary expenses, Cost for collecting supporting document, invoice, Expense for document storage, Travelling expenses. The details of the respondents is summarized in Table 4.

In this section, only four (04) elements of miscellaneous expenses are selected in order to conduct the research. Among 4 elements, the number of respondents answered highest is the expenses for document storage at 72.73% choose this factor. At this point, this expenses also have high mean point at 3.54 point. It is represented that the high tax compliance cost for such item. Since for business size of the SMEs, the amount of fund spending on document storage is quite high compared to other activities. Further to recent CIT regulation, the Company has to store the supporting document for maximum 10 years long, while the expenses for keeping such items increase over time to time, since the document needed for any expenses or revenue shall be recorded and storage.

The second position number of respondents is the cost for collecting supporting document, invoice, contract... at 68.18% selection, but this element has the highest mean

variance (3.78). According to Vietnamese tax law, any expenses or income shall be supported by supporting document such as invoice, list of detail, receipts, invoice. Hence, the accountant staff has to collect and prepare these documents for tax purpose. In case the tax authority carries out the inspection at the Company, these documents are required to provide, if not the punishment with the administrative penalties would levy on such amount. Furthermore, with the SMEs have the factories or other branches in other province, the supporting document shall return to headquarter to declare and pay CIT under current tax regulation. These requirements make the Company difficult to collect and prepare when possible. Or even the mistakes of the supplier including do not issue invoice appropriately, do not supply the goods and service at the time of stipulated in the contact, time to send invoices to the Compan, which lead to high compliance cost for the SMEs.

The third and fourth position is for travelling expenses and stationery expenses. As can be seen in the above table those 2 criteria have mean point below normal level (3) of cost. The stationery stays at 2.51, and the travelling is at 2.92 point. Among these, the stationery has low mean for such criteria since the stationery cost in the Company include telephone, fax, photocopying, pen, paper, print ink... which may not expensive in the market. But for the purpose of filing requirement, the stationery expenses are still a problem of the SMEs. In reality, through observation, in many SMEs, the paper is limited and strictly control in order to limit the cost together with increase the effective and efficiency in printing supporting large document for the Company. The last option is travelling expense. Since the electronic submission through Internet is not developed and popular in Vietnam, in major part of SMEs, travelling to the tax department to pay tax and submit tax return occur regularly. Some explained these circumstances that the bank charge fee when paying taxes hence they choose to go directly to the tax department for such procedure, also the submitting tax declaration experience the similar situation. Many accountants would like to direct submit the tax return to the Tax officer rather than through Internet, which make them feel comfortable and secured.

Briefly, the miscellaneous expenses for the SMEs in Vietnam are also considered as consuming high cost for compliance to tax filing requirement and others. According to the survey, the highest cost refers to the cost of collecting document for tax purpose, the second point is document storage, and 2 last position are belonged to storage and travelling expenses. In addition, the causes which lead to high portion of miscellaneous cost for the SMEs as research in this study include 3 criteria: Request for supporting document for explaining to the tax authority; Requirement

for supporting document for internal accounting control; Requirement for the purpose of management.

Conclusions

In this study we attempted to provide useful insights into the tax-compliance burdens of the SMEs when applying the Vietnam taxation system, especially the corporate income tax. This study has shown that in the SMEs, there are 3 type of cost incurred during the tax compliance which included: internal tax cost, external tax cost and miscellaneous tax cost. Three pools of expenses contribute the large expenses for compliance. In which, the internal tax cost and miscellaneous tax cost placed in the first and second position at 48.48% and 33.33% respectively, while the amount for external cost is just 18.18%. Some internal cost reach at significant point at the SMEs such as wages for internal staff for completing the CIT procedure; and expenses for dealing with tax authority. The miscellaneous cost is also assessed as major contribution for high tax compliance cost such as document storage, cost for collecting supporting document, invoice, stationery expenses. Furthermore, Vietnam is a developing country, the hiring external accounting service is still limited, and the distribution and range of external service also are not popular to each SME, which lead to the external cost is quite low. It is implied the fact that the tax compliance expenses with regarding to updating tax knowledge, special treatment for some typical cases shall be recorded incorrectly.

The second objective is obtained through analysis the causes of incurring large expenses for tax procedure, we can conclude that the effort should come from both the SMEs and Tax authority to join hand for having proper and appropriate solution. The SMEs is recommended to have better internal control inside the company, and increasing the awareness of fulfilling tax obligation for the country. Whereas, the Vietnam tax department also need to further reform and complete the current administrative procedure follow the international practice. As such reducing the tax requirement for filing and preparing supporting document, limited criteria for declaring for the SMEs, applying technology in solving the problem arising from the SMEs... The Ministry of Finance must coordinate with other ministries, agencies and localities in a strict manner, with specific solutions, regularly monitored for the purpose of having accurate and appropriate solution for each type of business.

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Data

The Data has been declared as a part of the supplementary material.