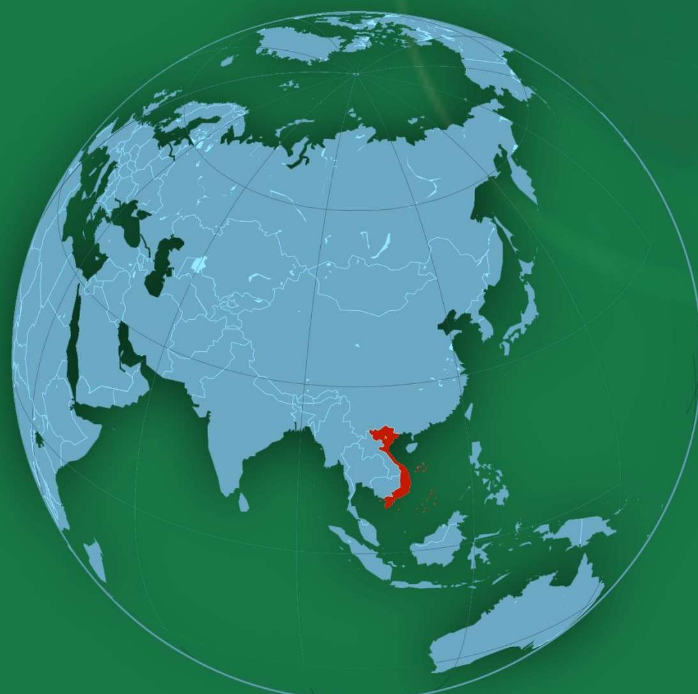
Assoc. Prof. Le Khuong Ninh

PROCEEDINGS
OF THE SIXTH INTERNATIONAL CONFERENCE IN BUSINESS, ECONOMICS AND FINANCE

Volume 1



CAN THO UNIVERSITY PUBLISHING HOUSE
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FOREWORD

On December 12th, 2024, School of Economics - Can Tho University (CSE) hosted the 6th International Conference on Economics, Business and Finance with the theme of sustainable development in economics, business and finance. University of Economics - Hue University, Tay Nguyen University, Thai Nguyen University of Economics and Business Administration, Bac Lieu University, Foreign Trade University Ho Chi Minh city Campus, Sofia University (Bulgaria) and Tunku Abdul Rahman University of Management and Technology Malaysia (TARUMT) are the co-organizers. The conference provided an open platform for scholars and practitioners worldwide to meet and share their latest research findings. All submitted papers were double-blind reviewed by a committee of established researchers. More than 150 delegates attended the conference from 6 countries, including New Zealand, Japan, China, Malaysia, Bulgaria, and Vietnam, in-person and online.

A total of 91 papers were included in the conference proceedings. These papers would provide readers with the latest perspectives in sustainable development in economics, business and finance, locally and globally.

CONTENTS

DETERMINANTS OF CORPORATE TAX AVOIDANCE: A REVIEW OF INTERNAL FACTORS

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ABSTRACT

Tax avoidance is a strategic approach employed by corporate managers to minimize their organizations' tax obligations, and it has garnered significant scholarly attention in developed nations. However, research on tax avoidance in the context of Vietnam is still relatively limited. This paper aims to consolidate the theoretical underpinnings of Corporate Tax Avoidance, specifically emphasizing fundamental concepts, relevant theory, tax avoidance metrics, and the influence of internal factors on Corporate Tax Avoidance. The proposed theoretical framework will serve as a guiding structure for formulating arguments and hypotheses, paving the way for exciting discoveries in future studies on tax avoidance.

Keywords: *Financial Accounting-related factors, Firm characteristics, Internal Corporate Governance, Tax, Tax Avoidance*

JEL codes: H26

1. INTRODUCTION

In Vietnam, taxes serve as the primary source of income for the state, encompassing administrative fees, government funds, state-owned asset revenue, fines, lottery proceeds, and donations. This revenue is critical in funding public services such as healthcare, education, and infrastructure, particularly in developing countries like Vietnam. Tax revenues constitute 80-90% of Vietnam's total state budget revenue (Oxfam, 2017), essential for economic development and social equality. However, tax collection in Vietnam is hindered by widespread tax avoidance and evasion. Reports from the Vietnam Institute for Economic and Policy Research (VEPR) and Oxfam suggest that tax evasion is increasing due to outdated policies, with businesses violating corporate income tax regulations, leading to significant revenue losses (VietNamNews, 2020). From 2010 to 2016, tax revenue declined from 27.3% to 23.7% of GDP, and Corporate Income Tax (CIT) decreased from 6.9% to 4.3% (Nguyen, 2020).

Friedman (1970) argues that companies should prioritize maximizing shareholder wealth, which includes effectively managing corporate income tax expenses (Garbarino, 2011). Companies often use tax avoidance strategies to maximize after-tax income (Lee & Kao, 2018). However, the definition of tax avoidance varies, and terms such as tax aggressiveness, tax planning, tax sheltering, and tax evasion are used interchangeably (Gebhart, 2017; Hanlon & Heitzman, 2010). This paper seeks to clarify tax avoidance concepts, theories, measures, and determinants. It offers a theoretical framework for understanding tax avoidance, including key concepts, relevant theories, measures, internal factors, and implications for future research.

2. CRITICAL CONCEPTS OF TAX AVOIDANCE

Several authors consider tax avoidance or tax aggressiveness as legal methods for reducing tax burdens by adjusting asset, liability, or equity valuation (Braithwaite, 2005; Armstrong et al., 2015; Oyebanji & Oyebanji, 2017). According to Bruce et al. (2007), Hanlon and Heitzman (2010), and Chen et al. (2010), tax avoidance is defined as any action, legal or not, aimed at reducing tax liability, such as utilizing tax incentives, exemptions, or exploiting legislative loopholes.

Slemrod (2004) highlights the complexity in defining the legality of corporate tax avoidance, as it encompasses anything that firms do to reduce their tax liability. Hanlon and Heitzman (2010) argue that while tax avoidance is legal, it can cross into illegality when overly aggressive, leading to new legislation. Slemrod and Yitzhaki (2002) describe tax aggressiveness as a subset of tax avoidance that may transgress legal boundaries. Determining the "cut-off point" where tax avoidance becomes aggressive is the challenge, depending on the researcher's perspective. Lietz (2013) suggests a threshold where a tax position with over a 50% chance of being accepted by the IRS is considered tax avoidance, while lower probability positions are considered aggressive.

Tax planning is a legitimate means of reducing tax burdens through variances in tax rates, economic activities, or tax incentives (Lasser, 1948; Hoffman, 1961; CCH, 1988; Adetola & Oke, 2016). However, according to Tang and Firth (2011), it can involve the exploitation of tax law loopholes, blurring the line between legality and illegality.

As Wilson (2009) and Lisowsky (2010) discussed, tax sheltering is an aggressive form of tax avoidance pushing legal boundaries. According to Lisowsky et al. (2013), it involves tax planning strategies such as tax havens or deductions to decrease taxable income. Lietz (2013) argues that tax sheltering should not be mistaken for tax evasion, as the former operates within legal limits, while the latter is unlawful.

Finally, tax evasion is a blatant illegal method of reducing tax liability, distinct from aggressive tax avoidance, as it involves an intentional violation of the law (Slemrod & Yitzhaki, 2002; Miller et al., 2014; Dover et al., 2015).

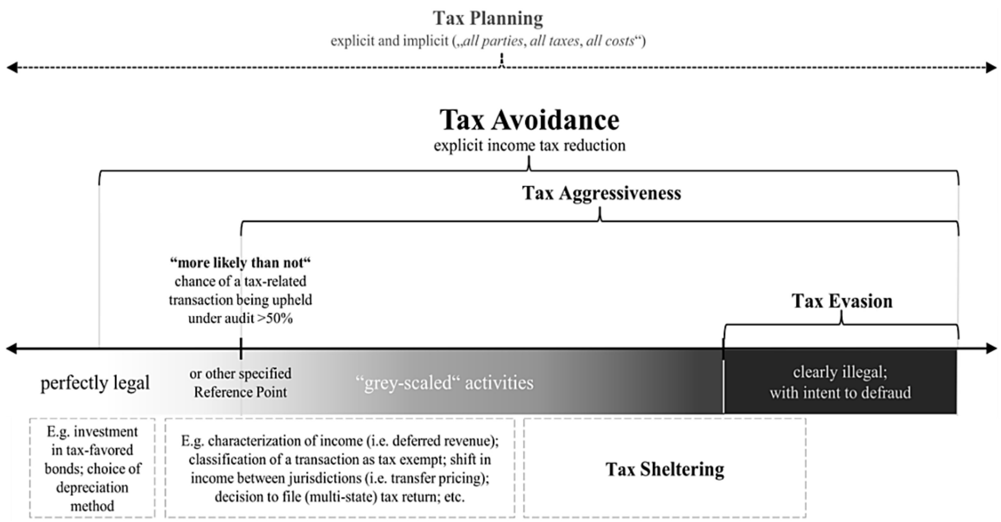

Fig.1: A conceptual framework for corporate tax planning
(Source: Lietz, 2013)

Tax planning involving "subsets" of tax avoidance or tax evasion actions entails business managers intentionally seeking to decrease their tax payments through legal or illegal strategies. Distinguishing between legal and unlawful tax planning is intricate and requires a case-by-case assessment due to the unclear boundary between legal and illegal actions. The competent authorities determine the legal aspects of a taxpayer's tax liability after companies fulfill their tax liability. Tax evasion is the deliberate attempt to reduce tax liability (Slemrod & Yitzhaki, 2002) and may result in legal repercussions such as administrative fines and criminal penalties. Conversely, tax avoidance represents the legal practice of minimizing tax declaration and payment to the state budget by exploiting legal "loopholes" to the advantage of taxpayers.

3. RELEVANT THEORY

Agency theory, a concept often utilized in tax avoidance research, was first introduced by Ross in 1973 and further developed by Jensen and Meckling in 1976. This theory delves into how principals (owners) utilize incentives to align the actions of their agents (managers) with their interests through contracts. According to the theory, owners aim for returns, while managers may prioritize personal benefits. This misalignment can lead to tax avoidance strategies aimed at minimizing tax payments and maximizing profits for the owners.

As a practical application of agency theory, tax planning involves managers engaging in legal tax avoidance to reduce tax payments, often under the encouragement of owners. However, aggressive tax avoidance can pose risks such as penalties and reputational damage if discovered by authorities.

Agency theory sheds light on conflicts between shareholders and managers. Managers may pursue tax avoidance for personal gain, risk management, or, due to information asymmetry, exploiting their knowledge to engage in less transparent tax strategies. This behavior can lead to agency costs, such as legal penalties or reputational harm, which may not align with the long-term interests of shareholders.

In summary, agency theory explains corporate tax avoidance as a result of conflicting interests and incentives within an organization, driven by managers' pursuit of personal gain, risk aversion, or information advantages.

4. MEASURES OF CORPORATE TAX AVOIDANCE

Numerous studies have delved into non-conforming tax avoidance, which pertains to reducing taxable income without affecting accounting income. However, little attention has been paid to conforming tax avoidance, which involves reducing taxable and accounting income (Hanlon & Heitzman, 2010; Lee et al., 2015; Badertscher et al., 2019). Annuar et al. (2014) have classified tax avoidance measures, such as the Tax-to-Profit Ratio (Effective Tax Rate or ETR) and the Book-Tax Difference (BTD), as commonly used benchmarks in prior empirical studies. This article offers an overview of ETR and BTD measures as a basis for establishing criteria for tax avoidance research within the Vietnamese context.

A. Effective tax rate (ETR)

The Effective Tax Rate (ETR), or Accounting ETR, measures a company's average corporate tax rate. It is calculated by dividing the company's tax expenses by its pre-tax accounting income (Hanlon & Heitzman, 2010). Tax expenses include both current and deferred taxes. The current tax is based on taxable income, while deferred tax arises from differences between accounting and tax regulations in revenue and expense recognition. Companies compare their ETR with the statutory corporate tax rate, such as Vietnam's 20%, to evaluate tax avoidance (Lee et al., 2015).

Various ETR measures exist, each tailored to different goals, regulations, and research needs, including:

- Current ETR: The current corporate income tax expense divided by pre-tax accounting income, addressing limitations of the accounting ETR (Salihu et al., 2013).

- Cash ETR: Actual tax paid (from the cash flow statement) divided by pre-tax accounting income (Salihu et al., 2013).

- Cash Flow ETR: Total tax expense divided by net operating cash flow (CFM1) or tax payment divided by net operating cash flow (CFM2) (Zimmerman, 1983; Salihu et al., 2013).

- Long-run ETR: Accumulated tax expense over several years divided by pre-tax accounting income for the same period (Dyreng et al., 2008; Zeng, 2010).

Although widely used to measure corporate tax avoidance, each ETR variation has limitations. They primarily capture non-conforming tax avoidance, focusing on reducing taxable income rather than accounting income. Additionally, excluding data from companies with negative pre-tax income can introduce bias.

B. Book – Tax difference (BTD)

Researchers measure corporate tax avoidance by comparing accounting and taxable income, known as BTD. These two income measures differ due to varying accounting standards, laws, and tax regulations. BTD quantifies tax avoidance by comparing the tax payable on accounting income with taxable income. However, since taxable income data is not publicly available, it is typically estimated by dividing current tax expenses by the statutory tax rate, which may differ from the actual tax liability.

Hanlon and Heitzman (2010) describe BTD as differences in income reporting for accounting and tax purposes influenced by tax avoidance or earnings management. BTD measures encompass:

- Total BTD: The variance between accounting and taxable income.

- Temporal BTD: Calculated as deferred income tax expense divided by the statutory tax rate.

- Total Discretionary BTD: A tax avoidance measure achieved by regressing total BTD against total accrual or multiplying the pre-tax income by the variance between the accounting effective tax rate (ETR) and the statutory tax rate.

- Discretionary Permanent BTD: Calculated as the sum of permanent BTD, adjusted for business attributes unrelated to tax planning.

- Tax Effect BTD: Calculated by subtracting current tax expense from the product of accounting income and the statutory tax rate or considering the tax effects of permanent and temporary differences.

The concept of tax avoidance encompasses various aspects, some of which align with tax regulations while others do not. However, no single aspect fully encompasses the entire concept of tax avoidance (Hanlon & Heitzman, 2010). When researching tax avoidance, cash flow effective tax rate (ETR) can be used to measure conforming tax avoidance. In contrast, non-conforming tax avoidance is better assessed using any effective tax rate (ETR) estimate. It is important to note that some measures might incorrectly conflate earnings management with tax avoidance, as adjustments in financial statements could reflect earnings management rather than actual tax avoidance (Lee et al., 2015). Therefore, caution is needed when interpreting measures such as accounting ETR, current ETR, total BTD, and total discretionary BTD. Additionally, specific modeling measurements may introduce errors that can impact their reliability. For the study of more aggressive tax avoidance, discretionary permanent BTD may be used (Dunbar et al., 2010).

Empirical studies on tax avoidance produce mixed results due to the diverse proxies used. To prevent drawing incorrect conclusions, researchers should clearly define their research focus, understand the limitations of various measures, and consider available data to select the most appropriate measurement. It might be necessary to combine different measures since no single measure fully captures tax avoidance. The choice of measure also depends on the research environment; for instance, ETR-based measures are suitable for jurisdictions with separate tax reporting and frequent rate changes, while conforming tax avoidance measures are better for areas with weak regulation or capital market pressures.

5. IMPACT OF INTERNAL FACTORS ON CORPORATE TAX AVOIDANCE

This section presents a comprehensive review of the research regarding internal business factors that impact tax avoidance. It delves into three elements: firm characteristics, internal corporate governance, and factors associated with enterprises' financial accounting practices.

A. Firm characteristics

Numerous studies have investigated the relationship between different company characteristics and corporate tax avoidance. They have revealed a correlation between various firm features and tax avoidance, including company size, age, profitability (ROA - Return on Assets), capital intensity (represented by tangible assets - PPE or inventory), capital structure (leverage), and the financial distress or bankruptcy status of the company. These studies employ various empirical procedures related to sample selection, time frame, spatial considerations, data collection methods, testing methodologies, definitions of tax avoidance, and diverse measurement approaches, resulting in varying outcomes.

Firm size

Research consistently indicates a positive relationship between a firm's size and tax avoidance. Generally, larger firms have lower effective tax rates (ETR) compared to smaller ones (Zimmerman, 1983; Rego, 2003; Richardson & Lanis, 2007; Desai & Dharmapala, 2008; Wilson, 2009; Dyreng et al., 2010; Chen et al., 2010; Minnick & Noga, 2010; Richardson et al., 2014; Yahaya & Kabir, 2020). This trend is also observed in Vietnam, as reported by Nguyen

(2016), Ha et al. (2017), Phan (2017), Nguyen (2018), Nguyen (2020), and Ha (2021). Two primary reasons account for this trend: larger firms have more significant political influence and resources to influence tax regulations and reduce their tax burden (Stickney & McGee, 1982; Gupta & Newberry, 1997; Mocanu et al., 2020), and they often possess better expertise and resources for tax avoidance (Fauzan et al., 2019). However, some studies, including those by Siegfried (1974), Stickney and McGee (1982), and Porcano (1986), found an inverse relationship, suggesting that smaller firms might engage in more tax avoidance. Similar results were observed by Nguyen and Vu (2021) and Van Cuong Dang and Xuan Hang Tran (2021) for listed companies in Vietnam. Additionally, some studies found no significant relationship between ETR and firm size (Gupta & Newberry, 1997; Mills et al., 1998; Vu, 2020; Taufik & Novita, 2022).

Firm age

The time a company has been in operation and the duration it has been listed on the stock exchange can impact its tax avoidance practices. According to AICPA (1987), recently listed companies may resort to higher levels of tax avoidance to meet income expectations. Conversely, companies with a more extended listing period may have adapted their practices to comply with tax obligations (Richardson et al., 2015; Yahaya & Kabir, 2020). However, a study by Amidu et al. (2019) found that older, more experienced firms tend to engage in more tax avoidance. In Vietnam, Nguyen and Vu (2021) observed that older firms are less likely to engage in tax avoidance. Ha et al. (2017) suggested that a longer listing duration can help firms avoid corporate income tax.

Performance

Profitability significantly impacts a company's effective tax rate (ETR). Return on assets (ROA) and cash flow from operations are used to gauge a firm's financial performance and its ability to generate profit from its assets. Highly profitable firms are believed to be more inclined to reduce their tax burden (Dunbar et al., 2010). Multiple studies (Gupta & Newberry, 1997; Richardson & Lanis, 2007; Minnick & Noga, 2010; Armstrong et al., 2012) have indicated a positive relationship between a company's profitability and tax avoidance. This suggests that firms with higher pre-tax profits are more likely to employ strategies to lower their taxes, thus reducing their ETR. Profitable companies are better positioned to manage their assets, leading to more significant tax incentives, exemptions, and efficient use of deductions and credits, potentially resulting in unintentional tax avoidance.

In a 2018 study, Eichfelder and Hechtner observed that successful companies can afford to hire financial consultants, enabling them to minimize tax obligations. These companies can allocate more resources to tax planning, resulting in lower tax management costs and a reduced effective tax rate (ETR)

(Rego, 2003; Dyreng et al., 2008; Phan, 2017; Nguyen, 2018; Fauzan et al., 2019; Nguyen, 2020; Taufik & Novita, 2022). Conversely, Vu (2020) and Nguyen and Vu (2021) found an inverse relationship between profitability and tax avoidance in Vietnamese companies. This suggests that companies may escalate tax avoidance efforts to boost after-tax profits during declining profits, aligning with the findings of Yahaya and Kabir (2020). However, Renfiana and Dewi (2018) argue that return on assets (ROA) has no significant relationship with tax avoidance behavior.

When evaluating profitability, analysts consider the impact of losses. Dyreng et al. (2019) suggest that losses diminish a company's willingness to pursue future tax avoidance, as companies will only engage in tax avoidance if the benefits exceed the costs (Scholes & Wolfson, 1992). In countries like Vietnam, tax systems allow companies to carry forward losses to offset future taxable income, reducing tax liabilities and the motivation for tax avoidance (Bethmann et al., 2018). Consequently, many studies control for losses and exclude firms making losses from their samples. When companies with losses are included, studies often use net operating loss carryforwards (NOLs) as an indicator, as NOLs encompass current and accumulated losses. Previous research by Manzon and Plesko (2002), Mills (1998), and Nguyen (2020) has shown that NOL carryforwards can reduce the tax base by offsetting losses over time, leading to an impact on a company's Effective Tax Rate (ETR).

Capital intensity

A company's capital intensity or capital utilization, which refers to the combination of its assets, can be assessed using factors such as fixed assets (PPE), inventory scale, and research and development (R&D) costs. This plays a significant role in tax planning. Investment and financial decisions can affect the effective tax rate (ETR). Hanlon et al. (2010) noted that corporate taxes could constrain managers' investment choices due to the uncertainty in tax payments and deductions that must be factored in when calculating the present value of investments.

The term "capital intensity" refers to a company's ownership of fixed assets, such as plants and equipment, with depreciation representing a significant cost element. Companies with high capital intensity are often considered to have more opportunities for tax planning (Dyreng et al., 2008; Phan, 2017; Nguyen, 2018; Amidu et al., 2019; Ha, 2021; Van Cuong Dang & Xuan Hang Tran, 2021). Changes in property, plant, and equipment (ΔPPE) can benefit companies by enabling them to claim depreciation expenses more efficiently (Gallemore & Labro, 2013). The availability of different depreciation methods allows companies with high capital intensity to manage taxes by speeding up or deferring depreciation, taking advantage of temporary differences to reduce tax liabilities in the current period (Fernández-Rodríguez & Martínez-Arias, 2012). However, some studies have reported an inverse relationship between capital intensity and tax avoidance (Gupta & Newberry, 1997; Derashid & Zhang, 2003; Richardson & Lanis, 2007), while others have found no significant relationship (Pratiwi & Siregar, 2019; Vu, 2020; Taufik & Novita, 2022).

Inventory significantly impacts a company's effective tax rate (ETR). Gupta and Newberry (1997) suggested that companies with higher inventory levels are less likely to avoid tax, leading to higher ETRs. Similarly, studies by Richardson and Lanis (2007), Nguyen (2018), and Nguyen (2020) have all established a positive relationship between inventory and ETR. However, Derashid and Zhang (2003) and Vu (2020) did not find a statistically significant impact of inventory on ETR.

It is crucial to consider research and development (R&D) costs when making investment decisions for a company, as they can contribute to reducing the effective tax rate (ETR). Legal frameworks often provide financial incentives to promote R&D investments (Hanlon & Heitzman, 2010). According to Gupta and Newberry (1997) and Richardson and Lanis (2007), R&D costs harm the ETR.

Capital structure

Understanding a company's capital structure is crucial when evaluating its impact on the effective tax rate (ETR). Companies can utilize either debt or equity financing, each with its implications. Although equity financing may be cost-effective regarding capital usage, it has the drawback that dividends paid to investors are not tax-deductible. Conversely, the interest expenses on debt are tax-deductible, often making debt financing more attractive.

The level of leverage, which indicates the use of debt to finance a company's operations, can impact its financial efficiency. Higher leverage increases interest expenses, lowering pre-tax profits and a higher tax burden. High leverage can also suggest complex financial transactions, indicating that companies with more leverage might be able to reduce taxes more effectively (Mills et al., 1998). Research has shown a consistent inverse relationship between leverage and effective tax rates (ETR). As debt levels increase, ETR typically decreases, indicating higher tax avoidance (Gupta & Newberry, 1997; Mills et al., 2005; Richardson & Lanis, 2007; Chyz et al., 2013; Phan, 2017; Nguyen, 2018; Mocanu et al., 2020; Yahaya & Kabir, 2020; Vu, 2020; Nguyen & Vu, 2021).

There are various findings on the connection between leverage and effective tax rates (ETR). Several studies have identified a positive correlation (Hoang & Nguyen, 2019; Nguyen, 2018; Fauzan et al., 2019; Van Cuong Dang & Xuan Hang Tran, 2021; Taufik & Novita, 2022). For instance, in their research, Taufik and Novita revealed that leverage positively impacts cash ETR, indicating that higher debt levels do not always lead to increased tax avoidance. However, they also observed that leverage has an inverse influence on the current ETR, suggesting that higher debt levels can lead to increased tax avoidance through the current ETR, representing a tax deferral strategy. Conversely, Nguyen (2020) did not identify a statistically significant relationship between leverage and tax avoidance. This implies that companies with leverage may engage in tax avoidance to save funds for debt repayment or have little or no incentive to avoid taxes because interest costs provide a tax shield (Badertscher et al., 2011).

Financial Distress

During times of financial struggle, some companies may engage in risky practices such as tax avoidance to alleviate their financial challenges (Eberhart & Senbet, 1993). Financial hardship can prompt companies to adopt risk management tactics, including tax avoidance, to pursue potentially lucrative gains despite the associated risks.

Richardson et al. (2015) found that companies in financial distress tend to avoid tax when the benefits outweigh the costs. This is further supported by research conducted in Vietnam by Ha et al. (2017) and Tran (2018), indicating increased tax evasion in financially troubled companies. Nguyen (2016) also concluded that companies facing financial issues like liquidity problems or defaults are motivated to enhance tax avoidance to generate capital or delay tax payments. Conversely, Nguyen (2019) found that financial deterioration can reduce tax avoidance behavior.

In addition to the factors mentioned above that are commonly used in empirical tax studies, Gupta and Newberry (1997) previously concluded that many characteristics may be less frequently observed, including growth. According to Phillips (2003) and Amidu et al. (2019), companies in a growth phase typically have more tax planning opportunities. Furthermore, companies focused on revenue growth may face increasing tax rates as they expand (Minnick & Noga, 2010).

B. Internal corporate governance

Numerous studies not only investigate the impact of business characteristics but also delve into the influence of corporate governance on tax avoidance behavior within businesses. This is accomplished by considering significant variables such as (1) aligning incentives between management and shareholders, (2) board composition (Kovermann & Velte, 2019), and (3) other relevant factors.

Incentive alignment between management and shareholders

According to agency theory, managerial decisions are influenced by aligning managerial incentives with shareholder interests through equity-based compensation (Jensen & Murphy, 1990). When incentives align with managers' and shareholders' interests, and shareholders prioritize tax avoidance to increase firm value, there may be a positive connection between incentive policies and tax avoidance. Research supports this concept, indicating that higher incentives for CEOs, CFOs, and tax directors often result in increased tax avoidance (Slemrod, 2004; Minnick & Noga, 2010; Armstrong et al., 2012; Rego & Wilson, 2012). Essentially, well-designed incentive schemes can motivate executives to pursue tax avoidance strategies. Armstrong et al. (2015) observed that equity-based incentives positively influence tax avoidance in companies with low levels of tax avoidance. However, they have an inverse relationship in companies with high tax avoidance levels.

The impact of different incentives on tax avoidance has been the subject of various studies. According to Phillips (2003), linking compensation to after-tax profits can lower the Effective Tax Rate (ETR) because managers driven by post-tax profits are strongly motivated to minimize tax costs. This effect has been confirmed for CEOs by Gaertner (2014). Competition among CEOs for promotions can also drive tax avoidance as it encourages risk-taking (Kubick & Masli, 2016). Conversely, Chi et al. (2017) found that substantial future compensation for CEOs can reduce tax avoidance, as it may not incentivize CEOs to take risks for tax purposes.

Some argue that tax avoidance is driven by managers' desire for excessive profits or a lack of transparency within the firm (Desai & Dharmapala, 2006). From this perspective, equity-based incentives may reduce tax avoidance. Desai and Dharmapala (2006) found that a higher proportion of stock-based income decreases tax avoidance, particularly in poorly managed firms. Other corporate governance factors, such as more robust external monitoring, may influence the relationship between incentive compensation and tax avoidance.

Board composition

Shareholders entrust the board of directors with control and management functions, and the board then delegates most management responsibilities to internal executives (Fama & Jensen, 1983). Organizational decisions are often influenced by the personal traits of top leaders, which in turn affect tax avoidance. Dyreng et al. (2010) observed that the individual characteristics of CEOs and CFOs significantly impact levels of tax avoidance, with tax avoidance often changing when a new CEO or CFO is appointed. Chyz (2013) found that having a CEO on the board is associated with higher tax avoidance and powerful CEOs are generally linked to increased tax avoidance (Chyz & White, 2014).

Excessively self-focused CEOs may create a disconnect between the board and shareholders, potentially resulting in more substantial tax evasion. Olsen and Stekelberg (2016) observed that overly self-focused CEOs are likelier to engage in tax evasion. Similarly, Kubick and Lockhart (2016) found that CEOs with high self-confidence are more aggressive in tax avoidance. Hsieh et al. (2018) further demonstrated that combining an overly confident CEO and CFO significantly enhances tax avoidance.

Law and Mills (2017) found that CEOs with military backgrounds engage in less tax avoidance because their sense of government duty conflicts with shareholder interests.

Gender diversity has been found to impact tax avoidance. According to studies by Francis et al. (2014) and Richardson et al. (2016), female CFOs are less likely to engage in tax avoidance than their male counterparts. This suggests that gender diversity may serve as a constraint on tax avoidance. However, Ha (2021) found no such relationship in Vietnamese firms.

The educational background of board members significantly influences tax avoidance. According to Taylor and Richardson (2014), directors with tax expertise tend to engage in higher levels of tax avoidance. Furthermore, Law and Mills (2017) found that male managers and individuals with MBA degrees are generally more inclined to be aggressive in their tax avoidance strategies.

By leveraging their comprehensive understanding of firm operations, internal managers may wield influence over the board of directors and allocate resources for personal gain. To address this, enhancing the board's independence through the inclusion of external directors can foster competition and ensure that the interests of shareholders are aligned (Fama, 1980). While Minnick and Noga (2010) did not uncover a direct correlation between board composition and tax issues, Lanis and Richardson (2011, 2016) demonstrated that firms with more independent board members are less inclined to engage in tax avoidance. Conversely, Nguyen (2018) revealed that the presence of CEOs on the board tends to increase tax avoidance.

Some argue that tax avoidance can benefit shareholders if it does not involve excessive risk. Independent boards may discourage conservative approaches and promote tax avoidance that benefits shareholders. Studies by Richardson et al. (2015) and Ha (2021) have found that firms with more independent board members may be more inclined to engage in tax avoidance.

Other characteristics

Higgins et al. (2015) revealed that business strategy plays a significant role in influencing tax avoidance. Companies following a "prospector" strategy characterized by risk-taking tend to engage more in tax avoidance, while "defender" firms, which seek to minimize risk, are less inclined to do so.

Furthermore, the role of the Audit Committee also impacts tax avoidance. Richardson et al. (2013) found that companies with more independent Audit Committees are less likely to engage in tax avoidance. Hsu et al. (2018) observed that independent financial experts within the Audit Committee reduce tax avoidance for risk-seeking firms but may increase it for risk-averse ones.

Bauer (2016) demonstrated that weaknesses in internal controls are associated with heightened tax avoidance, while Gallemore and Labro (2015) found that companies with more robust internal controls and higher information quality tend to engage in more tax avoidance.

C. Financial Accounting-related factors

Pohan (2013) defines tax avoidance as a company using legal accounting methods to exploit tax law "loopholes" to reduce the taxes owed. Consequently, various aspects of financial accounting, such as differences between accounting and tax books, the diligence of financial and tax reporting, the quality of accounting information, earnings management policies, and accounting conservatism, can influence a company's tax avoidance behavior.

Discrepancies between accounting books and taxes

Shackelford et al. (2001) point out that accounting profits, as depicted in financial statements, often deviate from taxable income reported in tax returns. This disparity arises from the distinct purposes of financial statements, which aim to provide accurate information for investors and reduce information disparities, and tax returns, which achieve economic, budgetary, fair, efficient, and simple tax collection and political goals. Furthermore, financial accounting objectively records transactions, while the tax system focuses on fulfilling tax obligations. There are also incentives to manipulate both financial statements and tax returns.

Research has indicated a widening gap between accounting profits and taxable income linked to tax avoidance behavior. Manzon and Plesko (2002) found that this gap has been increasing over time, attributing factors such as asset depreciation, international operations, employee stock options, and profit management as contributors to this divergence (Desai, 2002).

The aggressiveness in preparing financial statements and tax reports

In 2009, Frank et al. discovered a positive relationship between the aggressiveness of financial reporting and taxes. However, Lennox et al. (2013) provided contradictory evidence, finding that companies exhibiting aggressiveness in taxes were less likely to engage in accounting fraud. In a different context, Heltzer et al. (2012) found no evidence of a relationship between financial reporting and tax reporting. Expanding on the mixed results from previous studies, Hashim et al. (2016) further examined the relationship between abnormal accounting accruals and tax avoidance in Malaysia. Their study's experimental results showed no reliable relationship between accounting irregularities and tax aggressiveness. These findings are significant for financial agencies, tax authorities, and other market participants interested in understanding the relationship between financial reporting decisions and taxes.

Accounting information quality

Maydew (2001) stressed the need for more extensive research into how the quality of accounting information impacts corporate tax avoidance. Following the approaches of Crocker and Slemrod (2005) and Desai and Dharmapala (2006), which applied agency theory to tax research, there has been a shift in focus towards assessing the influence of accounting information quality on tax avoidance. Key measures include financial statement comparability, reflecting the consistency between financial statements of different companies (De Franco et al., 2011), as well as relevance, reliability, transparency, accrual quality (Dechow et al., 1995), and earnings stability (Tucker & Zorawin, 2006).

Improved comparability of accounting information among firms can promote better communication and understanding within industries (FASB, 2010), making it more difficult for companies to engage in tax avoidance. Enhanced comparability also facilitates internal and external monitoring by reducing information collection costs, thus reducing directors' incentive to pursue tax avoidance for personal gain. Qingyuan and Lumeng (2019) found a negative relationship between financial statement comparability and tax avoidance, suggesting that enhanced comparability reduces tax avoidance and improves accounting quality.

Earnings management accounting policies

Earnings management can be defined as the variance between total accruals and non-discretionary accruals. It involves applying specific accounting policies or actions managers choose to impact profit reporting (Scott, 2009). Research by Nguyen (2020) and Thalita et al. (2022) suggests that profit management positively affects tax avoidance. This suggests that managers are incentivized to engage in profit management to reduce tax expenses by employing various methods to decrease the company's reported profit. Essentially, managers use profit management to report lower profits and pay fewer taxes (Amidu et al., 2019).

Accounting conservatism

Accounting conservatism is a practice companies use to cautiously approach economic activities with high levels of uncertainty. Despite being a controversial concept in practice, conservatism is chosen because it is more inclined to recognize a loss than an uncertain gain. The degree of conservatism in accounting during the preparation of financial statements is determined by the board of directors' commitment to transparent, appropriate, and reliable financial reporting (Baharudin & Wijayanti, 2011). This fosters the conservatism principle companies employ to impact financial reporting, ultimately shaping economic decision-making. Consequently, economic decisions made by the board of directors may be linked to tax avoidance. However, Yuniarsih's research results in 2018 indicate that conservatism in accounting does not influence tax avoidance, implying that the conservatism principle does not encourage companies to engage in tax avoidance behavior.

In summary, experimental evidence shows that many internal factors within a company influence corporate tax avoidance. The model of internal factors affecting corporate tax avoidance can be summarized into three elements, as presented in the sections above (see Fig. 2).

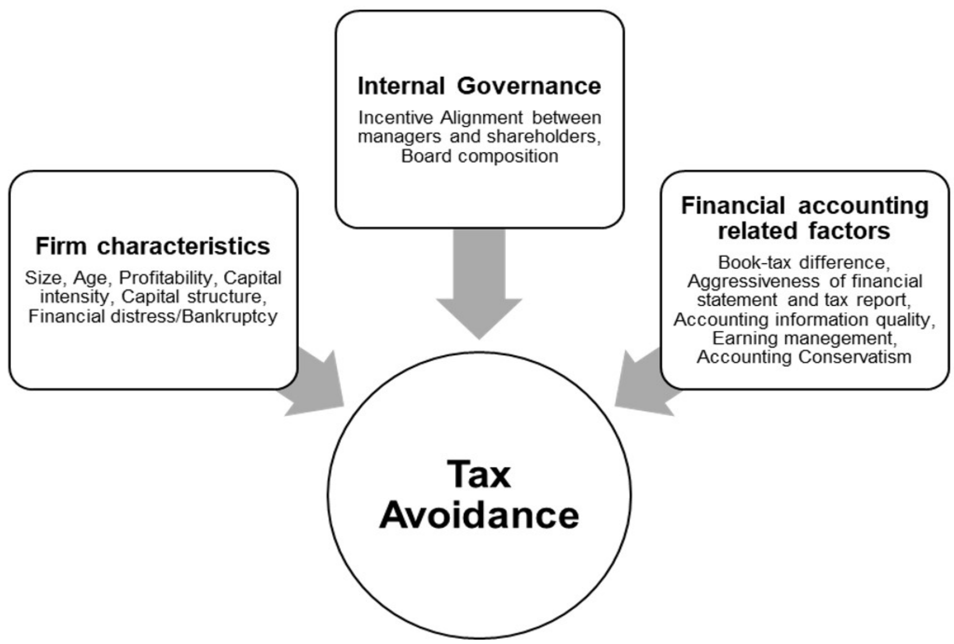

Fig.2: Internal Factors Affecting Tax Avoidance
(Source: Author's compilation)

6. CONCLUSIONS AND RESEARCH IMPLICATIONS IN THE FUTURE

Due to global interest, researching corporate tax avoidance is increasingly vital. The subject's practical significance is pertinent for taxpayers, tax authorities, and policymakers. When researching this area, authors must carefully define their research questions, assess data availability, and consider accessibility to select the most appropriate tax avoidance concept.

In the context of Vietnam, research can assess an enterprise's capacity to minimize its tax responsibilities, resulting in two distinct categories: high-performance tax avoidance and enterprises with no tax avoidance activities. However, due to limitations in data availability and data collection feasibility, these studies may not delve into the specific nature of these activities. Therefore, it is best to adopt the tax avoidance concept based on the definitions provided by various authors such as Dyreng et al. (2008), Hanlon and Heitzman (2010), and Lietz (2013).

Tax avoidance metrics encompass various aspects of tax avoidance, but none fully cover the complete spectrum of corporate tax avoidance. The choice of measurement depends on various factors. Researchers may consider using a combination of ETR-based measures, including accounting ETR, current ETR, cash ETR, and cash flow ETR, to assess the tax avoidance behavior of Vietnamese firms. This selection should align with considerations such as analyzing the prospects and limitations of tax avoidance measures, the legal foundation for calculating corporate income tax in Vietnam involving taxable income and the statutory tax rate, and data availability.

Moreover, tax avoidance can result from reducing tax payments while maintaining pre-tax accounting income (numerator effect) or increasing pre-tax accounting income while retaining tax payments (denominator effect). Metrics for measuring tax avoidance using pre-tax accounting income as a benchmark are often associated with earnings management. On the other hand, tax avoidance metrics using pre-tax operating cash flow as a benchmark generally have less influence on earnings management. As a result, comparing different tax avoidance metrics can offer empirical insights into how different forms of tax avoidance may reflect either numerator or denominator effects.

While extensive research has been conducted globally on this subject, with studies focusing on assessing tax avoidance and examining its relationship with specific factors affecting business enterprises, limited attention has been given to exploring the influence of managerial qualifications, education, management insight, business strategy, alignment of incentives between management and shareholders, and accounting-related aspects of tax avoidance.

In Vietnam, researchers are showing increasing interest in tax avoidance. However, the number of studies in this area is relatively small and tends to have a narrow focus. Vietnamese scholars primarily examine firm characteristics related to tax avoidance, such as size, age, profitability, leverage, capital intensity, capital structure, and financial distress. Limited attention is given to evaluating internal governance factors or aspects of financial accounting. Only a small number of studies briefly touch upon elements such as board independence (Ha, 2021), CEO duality (Nguyen, 2018; Ha, 2021), board size (Ha, 2021), and the impact of earnings management on tax evasion (Nguyen, 2020). This highlights a research gap within the Vietnamese context, indicating the need for future empirical studies to bridge these knowledge gaps and provide more practical policy recommendations tailored to the Vietnamese business landscape.

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