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Solutions to Limit Corporate Income Tax Fraud in Vietnam

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Abstract

Corporate income tax appeared very early in the history of tax development. In developed countries, corporate income tax plays a particularly important role in ensuring stable state budget revenue and income distribution. High or low tax rates applied to entities subject to corporate income tax are different, depending on the perspective on income regulation and the goals set in income distribution of each country in each period. certain historical period. Corporate income tax fraud is always one of the most concerned topics not only in Vietnam but also in many countries around the world. Tax fraud leads to loss of state budget revenue, affects the Government's state budget spending

plans, and even causes serious consequences for the country. This situation has become a painful problem for governments around the world. Although our State has made certain efforts in tax management, the statistics of back taxes and fines due to businesses under-declaring taxes in tax inspections and audits show us fraud. Corporate income tax fraud is becoming more and more sophisticated and complex. The article studies the theory of tax fraud, common forms of corporate income tax fraud in Vietnam, the current situation of corporate income tax fraud by businesses in Vietnam and from there finds out. Solutions to limit corporate income tax fraud in the future.

Keywords: Tax Fraud, Corporate Income Tax, Vietnam

1. Introduction

According to statistics from the Department of E-commerce and Information Technology (Ministry of Industry and Trade), total revenue in the field of e-commerce and information technology in 2022 will reach 4.2 billion USD, in 2021 it will reach about 6 billion USD. and in 2022 will reach about 8 billion USD. Providing smart search and online advertising services (Google, Yahoo, Bing, YouTube, Facebook...) has brought "lucrative" profits to the owners. However, these businesses often do not declare enough or incorrectly declare value-added tax revenue; Do not declare contractor tax for services of some multinational companies such as Google, Yahoo,... that generate services in Vietnam. This causes a loss of tax revenue for the budget, while creating a lack of transparency and accuracy in a sustainable economic development.

In cases where an enterprise has evaded or circumvented a payable corporate income tax, the damage that the state must bear is not only the amount of money that the enterprise has evaded, but also a spillover effect to other businesses. other businesses. When a company A sees a company B successfully evading taxes once, the psychology is that company A will want to evade taxes like company B to gain more benefits, and it will develop as a chain, gradually the number of tax evasion companies will increase. Then the damage to the state will be huge. Therefore, the state and relevant ministries need to come up with better measures to prevent tax loss and corporate income tax or need to be more careful in tax collection.

When a business's tax fraud has been discovered by the government. That means that businesses that cheat on taxes will have the government collect the amount of tax they cheated, plus the accompanying fines. When a business is discovered to be fraudulent, the business not only loses a large amount of money to pay fines to the state, but also has accompanying consequences that entail a lot of damage. For example, that business will be included in the list of businesses with a history of tax fraud, which will lead to the business being closely watched by tax authorities in the following years, if that business calls for it. investment capital, investors who after looking at the company's records see that there has been fraud, their investment decisions will be considered, in addition, the company's customers will also have the ability to refuse. Cooperate and trade with partners who have committed tax fraud. These are extremely severe consequences that businesses must face when they commit tax fraud and are discovered by tax authorities. Corporate income tax fraud can cause businesses to gain immediate benefits, but when discovered, the consequences are unpredictable, even losing business and going bankrupt. The state needs to promote

not only monetary sanctions but also publicize tax-cheating businesses to deter other businesses. Detection and punishment is a necessary step in preventing corporate income tax loss in Vietnam.

The current situation shows that legal documents on corporate income tax still have many legal loopholes and limitations in corporate income tax administration in Vietnam, so research solutions to prevent fraud. Corporate income tax fraud today is very necessary and meaningful.

2. Theoretical basis

Concept of tax evasion

Tax evasion is generally a complex socio-economic phenomenon, affecting not only Vietnam but almost all countries in the world. This is also the subject of many studies with the aim of understanding the mechanism, causes and finding solutions to limit and prevent tax evasion (because completely eliminating this phenomenon is almost "impossible". Feasibility").

In the Cambridge dictionary, there is a definition: "Tax evasion is illegal methods that individuals or businesses use to reduce the amount of tax payable." Vácărel and colleagues (2004, page 431) believe that tax evasion is reducing a small or larger part of taxable amounts. Meanwhile, Julia Kagan (2019) said that tax evasion is an illegal activity in which a person or organization intentionally avoids paying a real tax liability.

It is necessary to distinguish between tax evasion and tax avoidance. Tax evasion is in any case illegal and is done intentionally, by the taxpayer while tax avoidance is the use of legal methods aimed at reducing the amount of tax payable (Julia Kagan, 2019) - such as recording deductions or using tax shields such as depreciation or interest expenses.

Some forms of corporate income tax fraud

Firstly, fraud in declaring revenue and paying taxes: Businesses often declare false revenue or hide revenue to reduce pre-tax profits. Enterprises with losses can carry forward losses to the next year. These losses are deducted from taxable income. The loss carry-forward period must not exceed 5 years from the year following the year in which the loss occurred. However, according to the experience of the tax authority, a business enterprise that has suffered losses for 3 consecutive years is showing signs of bankruptcy because it cannot bear the costs, and these businesses will have to assess taxes or conduct inspections. Settlement. To avoid inspection by tax authorities, businesses often try to declare losses every other year or declare less profit, so the amount of corporate income tax they have to pay is less than in reality.

Second, cheating on reasonable expenses to determine taxable income: For businesses, reasonable expenses play an important role because it is a component to determine taxable income, from which to calculate the amount of taxable income. Corporate income tax payable. Due to limitations on the percentage of reasonable expenses allowed to declare, businesses often declare reasonable expenses to reduce the amount of corporate income tax they must pay.

Third, fraud in using illegal invoices and documents to overstate expenses: There are many forms of fraud in invoices and documents, including purchase and sale invoices, fake invoices, false documents, etc. such as: Using expired, used or fake invoices; Selling goods without issuing

invoices, invoices have differences in the value of goods and services; The selling price on the invoice is lower than the actual selling price to customers,...

Fourth, increase cost of goods sold: Businesses seek to increase cost of goods sold. Some businesses do not evaluate products, do not allocate purchasing costs to inventory, tools and equipment costs, but transfer them all to expenses during the period, in order to maximize cost price. For manufacturing enterprises, cost prices are also raised through the trick of building material norms for a unit of product higher than reality, in order to increase raw material costs, or not establishing material norms for a unit of product. Accounting for the cost of consuming raw materials for production exceeding the norm.

Fifth, fraud on salary costs: Often businesses push the salary costs paid to workers much higher than they actually pay workers or post fake recruitment ads. The addition of a few fake titles for people who do not directly operate production and business to account for remuneration costs in salaries increases costs.

Sixth, depreciation calculated into expenses exceeds the prescribed level: Wrong depreciation level, wrong depreciation rate; There are businesses that get around it by calculating depreciation monthly rather than daily, or businesses that lose money still charge depreciation quickly; Accelerated depreciation of the wrong asset type and nature, depreciation of assets without ownership documents of the enterprise (rented or borrowed assets).

Seventh, some businesses include the costs of services purchased from outside: Accounting for personal consumption expenses such as cars, phones, gasoline, food, etc. also makes it difficult for tax authorities. Identify, differentiate and dissect.

Eighth, fraudulent financial operating costs: Enterprises commit fraudulent financial costs (loan interest) not in accordance with regulations, accounting for loan interest costs contributing to the company's charter capital (in companies capital contribution); Accounting for loan interest expenses exceeding the control rate of 150% of the basic interest rate announced by the state bank; Accounting for loan interest expenses that do not serve the enterprise's production and business activities; Accounting for loan interest expenses during the capital construction investment process; formation of fixed assets into expenses; Accounting for profit and loss from exchange rate differences due to reassessment of receivables and monetary items of foreign currency origin into financial operating expenses is not in accordance with regulations.

Ninth, many businesses create records; Private loan contracts: Increase financial costs and reduce taxable income. Misusing loan capital is also used by many private business owners when borrowing from banks for personal consumption (buying a house, buying a car, investing in stocks, etc.), but still accounting loan interest as expenses. Reasonable and valid fees.

In addition, there are other expenses: Many businesses also improperly account for other expenses such as accounting for vacation pay, Lunar New Year bonuses and other holidays not stated in the Contract. Labor or collective labor agreement.

Besides, there is also cost allocation fraud: Businesses do not properly account and allocate long-term costs according to regulations; Inspection of these businesses shows that there are tools and instruments of great value that can be

used for at least 2 or 3 years, but the business still puts them all into expenses at once through the Expense Account. Short-term prepayment. At the same time, large accruals such as warranty costs and fixed asset repair costs are not fully spent or are not actually spent later, but the enterprise still does not refund them, increasing other income to calculate corporate income tax. Karma.

Enterprises legalize documents on: Provision for bad debts, provision for devaluation of inventory, provision for financial investment; provision for bad debts; Product warranty provisions are not in accordance with regulations. This is fraud at a sophisticated level. There are businesses that set up provisions for bad debts but do not have a record of debt reconciliation, do not have a debt collection letter, or cheat on the debt age to make 100% of the provision for bad debts into expenses. There are businesses that have no income (losses) and still make the above provisions improperly.

Other income such as: Liquidation of fixed assets; Scrap; waste; debts must be paid but the creditor cannot be identified; Collecting fines for contract violations was also ignored by the business and not accounted for in other income. Through checking the detailed books of cash accounts and bank deposits, the tax authorities discovered an increase in money from the companies this clause.

3. Current status of corporate income tax fraud in Vietnam

Citing specific data on the current situation of revenue loss and tax fraud in Vietnam, according to the State Audit Report on audit results in 2021 and 2022 through audit activities shows the situation of taxpayers Under-declaring revenue and misdetermining expenses leading to corporate income tax calculation are still quite common. As a result, in 2022, the State Audit determined that the amount payable to the state budget would increase by 11,365 billion VND, especially through comparison of 1,653 enterprises, the State Audit proposed that the amounts payable to the state budget increase by 2,050 billion VND. billions dong.

According to data from the General Department of Taxation, in the period 2018 - 2022, the tax industry's inspection and examination work discovered a total of 642,423 enterprises violating corporate income tax with a total amount of corporate income tax. The business earned 35,922.09 billion VND and reduced losses of 185,002.2 billion VND. During this period, the number of violating enterprises increased sharply from 31,759 enterprises to 103,211 enterprises and contributed to increasing the amount of tax collected for the state budget from VND 1,783.07 billion in 2010 to VND 7,144.73 billion.

In the ranking of the 1000 largest corporate income tax paying enterprises in Vietnam in 2019 published by Vietnam Report, a paradox is that the FDI enterprise sector appears the most (46%) and is increasingly accounting for of great importance in the scale of Vietnam's economy, but the contribution rate to the total corporate income tax of the entire table is only 37%.

It is quite common for businesses to declare losses for many consecutive years to avoid paying corporate income tax, typically businesses with foreign direct investment (FDI). According to a report by the Foreign Investment Agency, the amount of foreign investment capital FDI flowing into Vietnam continuously increased in the period 2010-2018. Statistics over the past years show that the whole country

has about 50% of FDI enterprises declaring losses, of which many enterprises have suffered continuous losses for many consecutive years. Typically, in Ho Chi Minh City, nearly 60% of over 3,500 FDI enterprises regularly declare losses for many years; Similarly in Lam Dong province with 104/111 FDI enterprises reporting continuous losses; Binh Duong province, one of the provinces that attracts many FDI projects, also has up to 50% of FDI enterprises reporting losses. However, although the revenue and pre-tax profits of FDI enterprises have increased steadily over the years, the proportion of enterprises reporting losses over the years has increased and shows no signs of decreasing. This shows that the transfer pricing situation of the FDI enterprise sector is increasingly increasing and complicated. At the end of December 2019, the General Department of Taxation imposed an administrative tax penalty through tax law compliance inspection on Coca Cola Vietnam Beverage Company Limited with a total amount of more than 821 billion VND. Specifically, the General Department of Taxation issued a decision to collect taxes in the amount of more than 471 billion VND, of which, value added tax was more than 60 billion VND, corporate income tax was more than 359 billion VND, and taxes paid on behalf of water contractors. in addition to nearly 52 billion VND. The tax authority also charged more than 288.6 billion VND in late payment interest and noted that this late payment amount was only calculated until December 16, 2019. In addition, Coca Cola Vietnam was also fined more than 61.6 billion VND for administrative violations. The total amount of money Coca Cola Vietnam collected, fines and late payment fees is more than 821.4 billion VND.

Not only Coca Cola Vietnam, but in 2019, through inspections, tax authorities continuously discovered and issued decisions to collect thousands of billions of VND in tax arrears from many other FDI enterprises. Another "big man" in the beverage industry, Heineken, was charged with arrears and fined up to nearly a thousand billion dong. At the end of 2018, Heineken Asia Pacific Company headquartered in Singapore transferred 100% of its shares at Heineken Vietnam Company - Hanoi to Heineken Vietnam Brewery Company with a transaction value of more than VND 4,800 billion but not taxable. At the end of 2019, through inspection work, the tax authority required this business to pay over 916 billion VND in taxes and late payment interest to the budget.

Previously, many other FDI enterprises also had thousands of billions of dong in tax arrears. According to the General Department of Taxation, the tax evasion method of FDI enterprises is often transferring capital contributions at high prices, or declaring very high input prices leading to losses to avoid taxes. This leads to low tax revenue from businesses and failure to properly fulfill the responsibilities and obligations of an investor when doing business in Vietnam.

Along with the phenomenon of international transfer pricing, domestic transfer pricing is also becoming more and more common, causing large budget losses and distorting the business environment. Domestic transfer pricing often occurs in affiliated transactions between parent companies and subsidiaries of large state-owned corporations and groups, between domestic FDI enterprises that have affiliated relationships and receive benefits. different levels of corporate income tax incentives. For example, in the case of Saigon Beer Alcohol Beverage Joint Stock Corporation

(Sabeco), through audit, it was discovered that this enterprise was evading taxes through internal transfer pricing. Specifically, Sabeco includes 2 dependent accounting factories, subsidiaries and affiliated companies. Production units sell Saigon beer products to Saigon Beer Trading One Member Limited Liability Company (a 100% owned subsidiary of the Corporation). This company continues to sell products to 10 regional commercial joint stock companies with capital contributions from 90–94.92%. Regional trading companies then sell products to level 1, level 2, level 3 agents... which are independent commercial business establishments. Sabeco's complex model of organizing production and consumption of products makes it difficult for tax authorities to determine the price at the exact point in Sabeco's sales chain to calculate tax.

The situation of businesses selling goods without issuing invoices is very common. The regulation of issuing invoices with sold goods is not really a mandatory requirement for businesses, creating loopholes for businesses to declare reduced sales revenue, thereby reducing profits and avoiding corporate income tax. In addition, when issuing invoices, businesses declare a reduction in the value of goods sold to be lower than the actual value paid by customers, which is also an act of tax evasion by businesses and customers, mainly for businesses. Valuable assets such as cars, houses, and land, especially in the field of e-commerce.

4. Solutions to limit corporate income tax fraud in Vietnam

Firstly, strengthen both the quality and quantity of tax inspection work at businesses

If you want to limit fraud, the first thing is to find fraud: From the quality of planning and preparation for inspection work. Choosing the right tax audit subject, thereby including it in the audit plan, is important for the inspection period. If the preparation is more thorough and collects more information about the subject of inspection, it will be highly effective, which means limiting corporate income tax fraud. There are businesses that invite auditors every year, but there are businesses that do not audit for decades and have an uncooperative attitude. This is an object that tax authorities should pay special attention to and inspect regularly.

In addition, tax authorities should strengthen tax inspection and inspection at businesses, have unexpected tax inspections and strengthen cross-checking with third parties. Once inspected, units are often subjective and will not re-inspect, so if there is a surprise tax inspection, it will be easy to detect frauds that businesses intentionally hide.

Tax authorities need to focus on inspecting and examining businesses, industries and fields that often have great risks, businesses with large revenues and high risks through common violations to Ensure increased revenue through inspection and examination. Strengthen coordination with authorities, promptly handle information related to suspicious transactions transferred by the inspection and supervision agency (State Bank); information provided by police and customs agencies related to tax law violations and handling of complaints and denunciations related to tax administration; Review and compare information on income from abroad through international tax information exchange with tax declarations on the system to detect and collect

arrears, if any.

The higher the professional qualifications and professional ethics of tax inspection officers, the better the quality of inspection work and vice versa. If tax inspection officers understand and understand the provisions of tax law and regulations on penalties related to illegal acts, have good accounting qualifications, and have inspection and inspection skills The better the work, the higher the work efficiency. Especially in the current era of information technology, the application of electronic invoices is increasingly widespread in businesses, so officials need to be equipped with good enough information technology qualifications. In addition, the integrity and ethics of inspection officers are important factors. Tax inspection requires strong character, not being tempted by material things. The salary and income regime of officials at tax agencies is also one of the factors affecting the integrity of officials. Adequate remuneration will motivate you to work more effectively and be less swayed by material things. In addition, tax authorities need to organize training sessions and seminars to improve the skills and ethics of officers at the unit.

Second, regulations on each payment through banks

The government needs to promote non-cash payments between businesses, this is one of the important measures in improving the efficiency of tax management of tax authorities for businesses. In the current age of 4.0 technology, in Vietnam banks have provided very convenient online payment services, and businesses have also equipped enough facilities to make payments via banks. without having to go directly to the bank like before.

Third, increase fines for tax non-compliance by businesses

Currently in Vietnam, fines are only in the administrative scope (fines are still low) because sanctions for violating tax laws are not high and do not have a strong impact on compliance awareness. Therefore, the Government needs to increase fines for fraudulent acts of businesses. Any business that repeatedly inspects for non-transparency can have its business license revoked, prohibiting the business owner from naming any other business. In addition to increasing fines, the Government should allow the names of businesses that commit fraud two or more times to be published on the website of the General Department of Taxation to deter other businesses, causing businesses to consider when reporting fraud. make tax fraud decisions.

Fourth, it is necessary to adjust the corporate income tax rate appropriately

The corporate income tax rate in Vietnam is still quite high compared to other countries in the world. Therefore, it is necessary to have a more reasonable tax policy and reduce taxes according to the roadmap. For products that need to be encouraged to produce, taxes should be reduced, but for dangerous and risky products, taxes should be increased.

Fifth, promote education

Introduce ethics subjects to students. Especially students studying tax-related fields, they will be the future taxpayers and tax collectors of Vietnam. It is necessary to create an ideology that one should not and must not cheat on taxes right from the time they are still in school. This will be a very effective measure in the future when that generation of students enters the labor market with the mindset and ideology of not cheating on the state's taxes.

5. Conclusion

Along with the development of society, violations of corporate income tax compliance are increasingly common in all industries across the country. The actions of businesses are tending to become increasingly sophisticated and complex, using all tax evasion tricks, causing serious budget loss for the state. Facilitating these actions of businesses must include limitations in corporate income tax management. In the current legal environment in Vietnam, when loopholes in legal documents related to corporate income tax still exist, tax revenue loss is inevitable. Therefore, to limit corporate income tax evasion, it is necessary to implement synchronous solutions to achieve the highest efficiency.

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