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The Impact of State Ownership on Tax Avoidance Behavior of Listed Companies in the Vietnamese Stock Market

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Abstract
This paper investigates the impact of state ownership on corporate tax avoidance among Vietnamese listed firms during 2015–2022. Drawing on agency theory, the study emphasizes the dual role of the state as both regulator and shareholder, which may either constrain or facilitate tax planning depending on institutional settings. Using 2,350 firm-year observations and applying robust regression techniques to address heteroskedasticity and autocorrelation, the results show that state ownership is negatively associated with tax avoidance, indicating that government shareholders limit aggressive strategies due to reputational and fiscal considerations. Financial leverage also reduces tax avoidance, while firm growth increases it, reflecting different financing incentives and expansion pressures in a transitional market. Audit quality, proxied by Big4 auditors, surprisingly shows a positive relationship, suggesting larger firms may exploit auditor expertise to engage in more sophisticated tax planning, whereas auditor switching has no significant effect. Overall, the findings enrich the literature by providing novel empirical evidence from Vietnam, a frontier market where the state still plays a dominant role in corporate governance. The study contributes to debates on the ownership–tax avoidance nexus, highlights the interplay between capital structure and governance mechanisms, and offers policy implications for regulators seeking to strengthen compliance, enhance transparency, and ensure equitable tax enforcement in emerging economies.

Keywords: State Ownership, Tax Avoidance, Corporate Governance, Auditor Quality, Vietnam

1. Introduction

The relationship between ownership structure and corporate tax behavior has emerged as a critical topic in corporate finance and governance research, particularly in the context of emerging markets where state ownership remains substantial. Tax avoidance—defined as the strategic reduction of tax liabilities through legal planning and exploitation of regulatory loopholes—plays a dual role in corporate decision-making. On the one hand, tax avoidance can enhance firm value by increasing after-tax cash flows and creating additional resources for reinvestment. On the other hand, it introduces opacity and potential agency problems, as managers may use complex tax strategies to conceal opportunistic behavior or extract private benefits. Understanding the determinants of tax avoidance, therefore, is central to both academic inquiry and policy design.

State ownership occupies a unique position in this debate. From the perspective of agency theory (Jensen & Meckling, 1976) [10], state shareholders are expected to reduce managerial opportunism through monitoring and political oversight. This view suggests that state ownership should limit excessive tax avoidance, as governments acting as both regulator and shareholder may prioritize tax compliance to secure fiscal revenues and uphold legitimacy. By contrast, resource dependence theory and political economy perspectives point to the possibility of conflicting objectives. State-controlled firms may engage in tax planning not only to improve financial outcomes but also to align with broader policy goals, such as supporting employment, attracting foreign capital, or financing politically motivated projects. Moreover, in transitional economies like Vietnam, where the state simultaneously acts as owner, regulator, and beneficiary, the balance between tax compliance and tax planning becomes particularly complex. The empirical evidence remains inconclusive. International studies reveal diverse outcomes: some suggest that state ownership constrains tax avoidance by enforcing transparency and compliance (Wang, 2012; Chen *et al*., 2010) [16, 1], while others find that state-owned enterprises (SOEs) exploit political connections and regulatory leniency to pursue aggressive tax strategies (Faccio, 2006; Wu *et al*., 2020) [6, 17]. The divergence of findings highlights the importance of context. In developed markets, strong institutional environments may encourage state-owned firms to conform to higher standards of corporate governance and social responsibility. In contrast, in emerging economies with weaker enforcement and institutional voids, SOEs may leverage their political ties to shield themselves from tax scrutiny. Vietnam represents a particularly compelling case for examining this issue. Despite substantial progress in privatization and market reforms, state ownership continues to play a dominant role in many listed firms across key industries. The government has actively pursued equitization programs, yet state investors frequently retain significant control, either directly or indirectly, shaping both strategic decisions and day-to-day operations. At the same time, tax avoidance has become increasingly visible in public discourse, with concerns about revenue losses, fairness, and corporate accountability. Against this backdrop, investigating how state ownership influences tax avoidance behaviors in Vietnamese listed firms provides not only empirical insights but also practical implications for regulatory reforms, governance practices, and fiscal sustainability.

This study contributes to the literature in several ways. First, it extends the understanding of the ownership–tax avoidance nexus by focusing specifically on state ownership, a factor that embodies both political and economic dimensions. Second, it situates the analysis within the institutional context of Vietnam, thereby enriching the global debate on how ownership structures interact with governance environments in shaping corporate behavior. Third, by employing firm-level panel data and advanced econometric techniques, the research offers robust evidence on whether state ownership constrains or facilitates tax avoidance. The findings are expected to inform policymakers seeking to balance the goals of revenue mobilization, corporate competitiveness, and governance improvement in emerging markets.

2. Literature Review

Research on corporate tax avoidance has expanded significantly over the past two decades, drawing attention to its implications for firm value, agency costs, and regulatory effectiveness. While tax avoidance is often framed as a rational response to tax incentives, the literature emphasizes that ownership structure, particularly state ownership, shapes the extent and nature of such activities.

Early studies established the duality of tax avoidance outcomes. Desai and Dharmapala (2006) [4] argued that tax avoidance may increase firm value only when governance mechanisms are strong enough to prevent managerial diversion of tax savings. In weak governance settings, tax avoidance may instead exacerbate agency problems. This perspective laid the foundation for subsequent research exploring how different ownership types affect corporate tax behavior. State ownership and tax avoidance. Several studies suggest that state ownership constrains tax avoidance by aligning corporate strategies with government interests in maintaining fiscal revenues. Chen *et al*. (2010) [1], examining Chinese firms, found that state-controlled enterprises exhibit lower levels of tax aggressiveness compared to privately controlled firms, attributing this to political pressure and reputational concerns. Similarly, Wang (2012) [16] documented that in economies with substantial government influence, SOEs face greater scrutiny, which limits their ability to exploit tax loopholes. These findings support the view that state ownership reinforces compliance and transparency. However, contrasting evidence highlights the opposite dynamic. Faccio (2006) [6] and Wu, Wang, and Yin (2020) [17] reported that politically connected firms, including SOEs, often receive preferential treatment in enforcement, enabling them to pursue aggressive tax strategies with reduced risk of penalties. In transitional economies, where institutional enforcement remains weak, state shareholders may prioritize firm survival, employment, or industrial policy goals over strict tax compliance. This creates room for SOEs to engage in tax avoidance, justified under the banner of national development objectives. Comparisons with other ownership types. Institutional and foreign investors are generally associated with greater monitoring capacity and demand for transparent financial reporting, thereby curbing excessive tax avoidance (Khurana & Moser, 2013; Chen, Chen, Cheng, & Shevlin, 2010) [11, 1]. Managerial ownership, by contrast, may increase tax avoidance if managers seek to maximize short-term returns, but can also align interests with shareholders when incentive structures are properly designed (Desai & Dharmapala, 2009) [5]. The comparison suggests that the effect of state ownership on tax avoidance is neither uniform nor linear, but depends on the broader institutional environment and the interplay with other shareholder groups.

The Vietnamese context. In Vietnam, research on this nexus remains limited but growing. Le and Phan (2017) documented significant variation in tax avoidance across ownership types in Vietnamese listed firms, noting that state-controlled enterprises face less pressure from external investors and therefore adopt different tax strategies. Nguyen and Nguyen (2020) [14] highlighted that foreign ownership tends to reduce tax avoidance through stronger governance practices, while state ownership shows a more complex pattern, influenced by political objectives and regulatory leniency. These findings echo international debates, suggesting that the Vietnamese case is shaped by both political economy considerations and the evolving corporate governance framework. Synthesis. Overall, the literature presents a fragmented picture. In developed markets with robust institutions, state ownership appears to constrain tax avoidance due to reputational and regulatory concerns. In contrast, in emerging and transitional economies, the evidence is mixed: while some studies report that SOEs comply more with tax regulations, others indicate that political connections afford them the flexibility to engage in aggressive tax planning. The divergence underscores the importance of context-specific investigations. Vietnam, where state ownership remains pervasive despite ongoing privatization, provides a fertile ground to test these competing perspectives.

3. Theoretical Framework and Hypotheses Development

3.1 State Ownership and Tax Avoidance

State ownership plays a central role in shaping corporate tax strategies due to the state's dual position as both regulator and shareholder. On the one hand, state-owned enterprises (SOEs) may exhibit lower levels of tax aggressiveness because governments seek to secure fiscal revenues, maintain legitimacy, and avoid reputational costs (Chen *et al*., 2010; Wang, 2012) [1, 16]. On the other hand, SOEs often benefit from political connections and preferential treatment, which may shield them from regulatory enforcement and create opportunities for aggressive tax planning (Faccio, 2006; Wu *et al.*, 2020) [6, 17]. In Vietnam, where state ownership remains substantial despite ongoing privatization, the actual effect is an open empirical question.

Hypothesis 1: State ownership has a significant impact on corporate tax avoidance in Vietnamese listed firms.

3.2 Control Variables and Tax Avoidance

Besides ownership, several firm characteristics and governance mechanisms are closely linked to tax behavior. Financial leverage (LEV) influences tax avoidance through the deductibility of interest expenses. While higher debt can substitute for tax planning by lowering taxable income (Modigliani & Miller, 1963) [13], financial pressures may also encourage more aggressive strategies (Lim, 2011) [12]. Firm growth (GROWTH) tends to increase the demand for internal financing, making high-growth firms more inclined to minimize taxes to retain resources for expansion (Chen *et al.*, 2010) [1]. Auditor quality (BIG4) serves as a governance safeguard; high-quality auditors are generally expected to constrain aggressive tax strategies due to their expertise and reputational concerns (DeAngelo, 1981; Francis, 2004) [3, 7]. Finally, auditor switching (AUDSWAP) may weaken monitoring if firms change auditors for more lenient oversight, potentially leading to higher tax avoidance (Choi, Kim, & Zang, 2010) [2].

Hypothesis 2: Financial leverage is significantly associated with corporate tax avoidance.

Hypothesis 3: Firm growth positively affects corporate tax avoidance.

Hypothesis 4: Firms audited by Big4 audit firms engage in less tax avoidance compared to firms audited by non-Big4 auditors.

Hypothesis 5: Auditor switching is positively associated with corporate tax avoidance.

4. Findings and Discussion

The result of descriptive statistics are shown in Table 1.

Table 1: Descriptive statistics

	N	Mean	Std. Dev.	Min	Max
TA	2350	-.0101	.1242	-.7864	.2000
GOV	2350	13.9407	24.7163	0	99.27
LEV	2350	.4499	.2223	.0032	1.2950
GROWTH	2350	.2044	1.9259	-1	47.5879
BIG4	2350	.2332	.4230	0	1
AUDSWAP	2350	.3477	.4763	0	1
SIZE	2350	27.7842	1.6652	23.4861	33.9665

Source: Author's calculation

Table 1 reports the descriptive statistics of all variables for the full sample of 2,350 firm-year observations. The dependent variable, tax avoidance (TA), has a mean value close to zero (–0.010) with a standard deviation of 0.124, ranging from –0.786 to 0.200, indicating substantial variation in tax planning behavior across firms. State ownership (GOV) averages 13.94%, but exhibits wide dispersion with values ranging from 0% to 99.27%, reflecting the diverse role of the state in Vietnamese listed companies. Regarding control variables, financial leverage (LEV) shows a mean of 0.45 with moderate variation, while firm growth (GROWTH) averages 0.20 but has a very high standard deviation (1.93) due to extreme cases, suggesting heterogeneous patterns of expansion and contraction. Firm size (SIZE) remains relatively stable, with a mean of 27.78 and limited variation across firms. In terms of audit characteristics, 23.32% of firms are audited by Big4 auditors, while 34.77% experienced auditor switching (AUDSWAP) during the sample period. Overall, the descriptive statistics reveal considerable heterogeneity in ownership, financial structure, and governance features across the dataset.

Correlation analysis is to examine the correlated variables. The results are shown in Table 2.

Table 2: Results of correlation analysis

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) TA	1.000					
(2) GOV	0.090	1.000				
	***					
(3) LEV	-0.376	-0.207	1.000			
	***	***				
(4) GROWTH	-0.004	0.006	-0.043	1.000		
(5) BIG4	0.038	-0.018	-0.042	0.231	1.000	
	*			***		
(6) AUDSWAP	-0.039	0.030	0.074	-0.015	0.014	1.000
	*		***			

The results indicate that all correlation coefficients among the independent variables are below 0.5, with the highest value observed between institutional ownership and state ownership (0.455). Most of the coefficients are statistically significant at conventional levels (1%, 5%, or 10%). Therefore, it can be concluded that there is little possibility of multicollinearity among the explanatory variables in the model. The study tests for multicollinearity among the independent variables using the Variance Inflation Factor (VIF).

Table 3: Summary of testing the defects

Period	Model	Modified Wald test	VIF	Wooldridge test	Conclusion
		Groupwise heteroskedasticity	Multicollinearity	Autocorrelation	
2020-2024	TA	chi2 (420) = 14324669.99 Prob > chi2 = 0.0000	VIF < 2 Mean VIF: 1.09	F(1, 419) = 11.094 Prob > F = 0.0009	Heteroskedasticity; first-order autocorrelation

The diagnostic tests for the 2020–2024 period reveal evidence of heteroskedasticity and first-order autocorrelation in the TA regression model. The Modified Wald test indicates heteroskedasticity with chi2(420) = 14,324,669.99 (p = 0.0000). Multicollinearity is not a concern, as all VIF values are below 2, with a mean VIF of 1.09. However, the Wooldridge test confirms autocorrelation (F(1,419) = 11.094, p = 0.0009), suggesting that OLS estimates may be inefficient, thus FGLS estimation is employed.

Table 4: Structural Equation Modeling (SEM) Results

	2020-2024
	TA
GOV	-0.00001***
BIG4	0.00045**
LEV	-0.0677***
GROW	0.00151***
AUSWAP	-0.00429
Constant	0.14064***
Number of observations	2350
Mean dependent var	0.065
SD dependent var	0.08
Chi-square	509.67
R-square	0.034

Source: Author's calculation

The regression analysis for the period 2020–2024 provides important insights into the determinants of corporate tax avoidance among Vietnamese listed firms. The findings indicate that state ownership (GOV) has a negative and highly significant relationship with tax avoidance ($p < 0.01$). This result implies that a higher proportion of state ownership tends to constrain aggressive tax planning, possibly due to reputational concerns, political oversight, and the dual role of the government as both owner and tax collector. The evidence supports the argument that state-controlled firms prioritize compliance to maintain legitimacy and secure fiscal revenues.

In contrast, the variable representing audit quality (BIG4) is positively associated with tax avoidance at the 5% level. This unexpected finding suggests that firms audited by Big4 auditors may engage in more sophisticated tax planning, benefiting from their expertise in designing complex but legal tax strategies. While Big4 auditors are generally associated with stronger monitoring and higher audit quality, in the Vietnamese context this relationship may reflect the capacity of larger firms—those more likely to be audited by Big4—to exploit advanced tax planning opportunities. Financial leverage (LEV) exhibits a negative and highly significant effect on tax avoidance, which is consistent with the tax-shield hypothesis. Firms with higher debt levels already benefit from interest deductibility, thereby reducing the incentive to pursue additional tax avoidance strategies. This finding is aligned with prior research that identifies debt financing as a substitute for aggressive tax planning. Firm growth (GROW) shows a positive and significant association with tax avoidance, indicating that rapidly expanding firms are more inclined to minimize tax liabilities in order to retain resources for reinvestment. This reflects the financing needs of growth-oriented firms and highlights how expansion pressures drive aggressive financial strategies. By contrast, auditor switching (AUDSWAP) does not have a statistically significant impact on tax avoidance, suggesting that changes in audit firms neither systematically enhance nor reduce tax aggressiveness during the period of analysis.

Overall, the regression model demonstrates significant explanatory power, as indicated by the chi-square statistic of 509.67 ($p < 0.01$), although the R^2 value of 0.034 shows that tax avoidance is influenced by multiple other factors beyond the scope of this model. Taken together, these results highlight the complex interplay between ownership, capital structure, firm dynamics, and governance characteristics in shaping corporate tax behavior in Vietnam.

5. conclusion

This study investigates the determinants of corporate tax avoidance in Vietnamese listed firms during the period 2020–2024, with a particular focus on state ownership. The empirical findings provide several notable insights. First, state ownership is negatively and significantly associated with tax avoidance, suggesting that government shareholders tend to constrain aggressive tax planning. This result is consistent with the notion that SOEs face reputational and political pressures, while the state, as both regulator and owner, has limited tolerance for excessive tax avoidance.

Second, financial leverage is found to reduce tax avoidance, consistent with the tax-shield effect of debt financing. Firms with high levels of debt already benefit from interest deductibility, which diminishes the need for additional tax planning strategies. Third, firm growth exerts a positive influence on tax avoidance, indicating that growth-oriented firms are more motivated to minimize tax burdens in order to reinvest in expansion opportunities. Fourth, the role of audit-related factors reveals mixed evidence: while the presence of Big4 auditors is positively associated with tax avoidance, suggesting that larger firms may exploit auditor expertise for sophisticated tax planning, auditor switching shows no significant relationship with tax avoidance.

Overall, the findings highlight the complexity of corporate tax behavior in a transitional economy. They confirm that ownership structure, financial policies, and growth dynamics jointly shape the incentives and constraints surrounding tax avoidance. Importantly, the evidence from Vietnam demonstrates that state ownership continues to play a disciplining role in moderating aggressive tax strategies, in contrast to the mixed findings reported in other emerging markets.

From a policy perspective, these results suggest that strengthening governance mechanisms and enhancing transparency in both state-owned and privately controlled firms are crucial to ensuring equitable tax compliance. For regulators, the findings underscore the importance of balancing fiscal objectives with the promotion of fair competition. For corporate managers, the study highlights how ownership characteristics and capital structures influence tax planning decisions, which must be carefully aligned with long-term value creation and reputational considerations.

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