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ORIGINAL ARTICLE

(Dis)obeying the law: corporate tax morale in developing countries

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Abstract

Ensuring high tax compliance is one of the key objectives of every tax system. Yet, while tax non-compliance is known to be significant among small and medium-sized enterprises (SMEs), the motivations underlying it remain surprisingly underexplored, particularly in the context of developing countries. This article introduces a novel theoretical framework for understanding the tax morale of corporate taxpayers, identifying five endogenous and six exogenous motivations for tax (non-)compliance. The proposed framework is informed by an innovative methodological approach using a triangulation of primary data, including 42 interviews and 86 court cases, with a focus on value-added tax and corporate income tax. This article addresses for the first time a crucial question: why is compliance with tax law among SMEs so low, particularly in developing countries? It empirically demonstrates that SMEs' tax behaviour is influenced by psychological factors, identifying the existence of corporate tax morale that *prima facie* runs counter to both the legal fiction that holds that SMEs are separate legal entities and the standard tax policy assumption that VAT is a full neutral tax for businesses.

1 INTRODUCTION

Non-compliance with tax law is neither a new problem, nor one limited to a specific country or legal system. On the contrary, tax non-compliance is both a universal and a persistent phenomenon.[1] Indeed, obeyance of tax law cannot be presumed, and is far from inevitable.[2] Tax non-compliance includes a whole spectrum of activities, from the less serious, such as unintentional errors, negligence, under-reporting incomes, and failure to register, to the criminal (organized fraud), such as the use of phantom businesses and smuggling, and it is regarded as a major problem worldwide. In the United Kingdom (UK), for example, one of the highest-income countries worldwide, the 2022–2023 tax non-compliance gap was estimated to be £39.8 billion.[3] In developing countries, though precise numbers are often unavailable due to the significant difficulties of estimating the size of the informal economy as well as capacity challenges of tax administrations, non-compliance is estimated to be much higher. In Vietnam, for example, a low–middle-income country, nearly £0.8 billion is estimated to have been lost due to corporate income tax (CIT) evasion alone during the same period.[4]

Despite the ancient roots of tax non-compliance, and its enormous implications for countries' public finances, theoretical investigation into its underlying causes began only in the late 1960s and early 1970s, with the rise of expected utility theory, the economics of crime, and tax evasion models.[5] In these research frameworks, deterrence – through detection probability, penalties, and tax rates – was the cornerstone of understanding tax (non-)compliance.[6] Though these frameworks informed the prevailing thinking for the next decades, there is now growing awareness that, beyond fear of detection and a welfare maximization approach to tax evasion, taxpayers are motivated to (dis)obey tax laws by a range of other factors, which are not predicted by the deterrence models.

Seeking a more realistic insight into how and why taxpayers may decide to comply, and a deeper understanding of voluntary compliance, an extensive body of literature from a range of disciplines (from economics, to psychology, to political science) has emerged in the last two decades around the concept of tax morale – namely, individuals' (un)willingness to pay taxes and their non-pecuniary motivations for tax (non-)compliance.[7] Yet, this literature has so far centred almost exclusively on personal income tax (PIT) compliance in developed countries. This is due primarily to three factors. First, the revenue-gathering potential of PITs is high in developed countries, where they are often the most important taxes, and certainly much higher than in developing countries – a somewhat ill-defined term, generally used by the United Nations (UN) and other international organizations to refer to nations characterized by a relatively low standard

[1] C. Adams, *For Good and Evil: The Impact of Taxes on the Course of Civilization* (1993).

[2] J. Alm, 'What Motivates Tax Compliance?' (2019) 33 *J. of Economic Survey* 353, at 353.

[3] HMRC, 'Official Statistics Tax Gaps: Summary' *Gov.uk*, 2023, at <https://www.gov.uk/government/statistics/measuring-tax-gaps/1-tax-gaps-summary>.

[4] P. Lenain, 'Tax for Development: Does Vietnam Need Tax Reform' *Council on Economic Policies*, 11 July 2022, at <https://www.cepweb.org/tax-for-development-does-vietnam-need-tax-reform/>.

[5] G. Becker, 'Crime and Punishment: An Economic Approach' (1968) 78 *J. of Political Economy* 169; M. Allingham and A. Sandmo, 'Income Tax Evasion: A Theoretical Analysis' (1972) 1 *J. of Public Economics* 323.

[6] A. Sandmo, 'The Theory of Tax Evasion: A Retrospective Review' (2005) 58 *National Tax J*. 643, at 644.

[7] E. Luttmer and M. Singhal, 'Tax Morale' (2014) 18 *J. of Economic Perspectives* 149, at 150.

of living, poor health and education infrastructure, and a less developed industrial base[8] – where their revenue-gathering potential is often quite small. Second, data availability, both historical and otherwise, tends to be much higher in developed countries than in developing countries, where not only is historical data sparse, but data gathering also often faces additional challenges. Third, when considering motivations, it is conceptually more natural to discuss PITs, rather than other taxes, where the taxpayer is often a legal entity – and thus, in principle, not conditioned by psychological factors – or where the taxpayer is the consumer, such as in the case of value-added tax (VAT) and excise taxes. Non-compliance with other taxes such as VAT and CIT, not only in developing countries but also in developed countries,[9] has therefore remained largely unexplored until now. As a result, the prevailing assumption is that either non-compliance with VAT and CIT, in both developed and developing nations, is not subject to psychological considerations or, if it is, the motivations are identical to those observed for the more widely studied PIT non-compliance.

Filling this research gap, particularly insofar as developing countries and small and medium-sized enterprises (SMEs) are concerned, is critical for three key reasons. First, VAT and CIT, in particular, are major revenue sources; in developing countries, and in many developed countries, VAT tends to be the most important tax from a revenue-gathering perspective, while CIT is often the second most important tax in developing countries, or the third in developed countries.[10] Non-compliance with these taxes is therefore particularly problematic, and both are known to be vulnerable to fraudulent activities; indeed, contrary to popular belief, tax non-compliance is known to be particularly widespread with respect to SMEs – thus to VAT and CIT – rather than to the PIT of individual taxpayers. In the UK, for example, the latest report by the National Audit Office estimates that SMEs in the retail sector accounted for 81 per cent of tax evasion in 2022–2023.[11] Second, though the taxpayers in VAT and CIT are technically the legal entities, in practice for SMEs the motivations of their owners are crucial for tax compliance attitudes. For example, there is already some empirical evidence indicating that SME owners and employees differ in their attitudes to compliance with tax laws; owners tend to be more critical of tax systems, citing business constraints, whereas employees tend to focus on the link between PIT compliance and public services.[12] A recent empirical study conducted in two developed countries – France and the United States (US) – also indicated that individuals believe that tax evasion is widespread among SME owners, despite overwhelmingly regarding it as unacceptable.[13] Third, motivations for tax non-compliance in developed countries may differ substantially from those in developing countries, not least as non-compliance is known to be shaped by cultural values[14] and passed

[8] T. Khokhar and U. Serajuddin, ‘Should We Continue to Use the Term “Developing World”?’ *World Bank Blog*, 16 November 2015, at <https://blogs.worldbank.org/en/opendata/should-we-continue-use-term-developing-world>.

[9] M. Livingston, *Tax and Culture: Convergence, Divergence, and the Future of Tax Law* (2020) 27.

[10] P. Bachas et al., ‘Tax Equity in Low- and Middle-Income Countries’ (2024) 38 *J. of Economic Perspectives* 55; OECD, *Consumption Tax Trends 2024: VAT/GST and Excise, Core Design Features and Trends* (2024), at <https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/11/consumption-tax-trends-2024_57c7322a/dcd4dd36-en.pdf>.

[11] National Audit Office, ‘Small Businesses Evading Tax Leave HMRC Billions Out of Pocket’ *National Audit Office*, 9 September 2024, at <https://www.nao.org.uk/press-releases/small-businesses-evading-tax-leave-hmrc-billions-out-of-pocket/>.

[12] C. Kogler and E. Kirchler, ‘Taxpayers’ Subjective Concepts of Taxes, Tax Evasion, and Tax Avoidance’ in *Ethics and Taxation*, ed. R. van Brederode (2020) 191.

[13] M. Mendoza Aviña et al., ‘Outgroup Bias and the Unacceptability of Tax Fraud’ (2023) 22 *Political Studies Rev.* 223.

[14] L. Andriani et al., ‘Is Tax Morale Culturally Driven?’ (2022) 18 *J. of Institutional Economics* 67.

through generations.[15] For example, adherence to Confucianism – often overlooked in Western countries[16] – may deter taxpayers from tax fraud,[17] and immigration has been found to have a negative effect on overall tax morale in developed countries, due to the importation of attitudes to tax compliance from developing countries.[18]

This article presents the first ever study into the tax morale of corporate taxpayers in developing countries, by examining the VAT and CIT compliance attitudes of SME owners in these countries. The natural relationship between VAT compliance and CIT compliance justifies analysing them together. VAT invoices serve as evidence for sales and expenses, and thus under-reporting sales for VAT decreases liability to CIT; understanding VAT fraud is therefore essential for addressing CIT fraud.[19] Drawing on insights from across the disciplines of economics, psychology, sociology, political science, and criminology, and based on new empirical evidence, this article examines attitudes towards tax compliance, whether the decisions of corporate taxpayers/remitters are influenced by tax morale, and, if so, the determinant factors for the tax morale of these taxpayers in developing countries. The empirical evidence was gathered through the use of a novel methodology, which relied on a combination of two sources of empirical data: interviews with SME owners and court cases from open-access databases. The article then presents a new theoretical framework for understanding the tax morale of these taxpayers, identifying a set of five endogenous and six exogenous motivations for the decisions by SME owners to (dis)obey VAT and CIT law.

For this purpose, it uses Vietnam as a case study. Vietnam is a paradigmatic example of a developing country that suffers from low tax revenue, weak transparency, a large shadow economy, widespread tax governance problems, and extremely high tax compliance costs. These issues are prevalent across all 152 developing countries.[20] At present, in line with traditional views on tax compliance, the Vietnamese government employs primarily monetary punishments (penalties and fines) to reduce non-compliance, and focuses largely on large corporations as the main tax revenue source,[21] as confirmed by high-ranking tax officials, and consequently neglects SMEs. Common problems, as well as similar responses and reactions to those problems, constitute fertile ground for focused generalizations,[22] which we explore here using the case of Vietnam.

The article proceeds as follows. Section 2 provides an analysis of the existing literature on tax morale, tracing the historical evolution of various theoretical frameworks on individual tax morale and identifying distinct motivations behind tax (non-)compliance, while highlighting underexplored areas in relation to the tax (non-)compliance of SMEs specifically. Section 3 introduces

[15] M. Halla, 'Tax Morale and Compliance Behavior: First Evidence on a Causal Link' (2012) 12 *B. E. J. of Economic Analysis and Policy* 1.

[16] G. Hofstede et al., *Cultures and Organizations: Software of the Mind* (2010, 3rd edn) 354.

[17] X. Tang et al., 'Confucianism and Corporate Fraud' (2022) 17 *International J. of Emerging Markets* 1425.

[18] J. DeBacker et al., 'Importing Corruption Culture from Overseas: Evidence from Corporate Tax Evasion in the United States' (2015) 117 *J. of Financial Economics* 122.

[19] R. de la Feria, 'Tax Fraud and Selective Enforcement' (2020) 47 *J. of Law and Society* 240, at 244.

[20] T. Besley and T. Persson, 'Why Do Developing Countries Tax So Little?' (2014) 28 *J. of Economic Perspectives* 99, at 103. The list of identified 152 developing countries is set out by the UK Home Office: Home Office, 'Countries Defined as Developing by the OECD' *Gov.uk*, 26 April 2021, at <https://www.gov.uk/government/publications/countries-defined-as-developing-by-the-oecd>.

[21] The Deputy Director of Ho Chi Minh City's Department of Taxation confirmed that large corporations that make a significant contribution to tax revenue would be given preferential treatment. A. Hong, 'Doanh nghiệp nộp thuế lớn sẽ được đối đãi như khách VIP' ['Businesses that Pay Large Amounts of Tax Will Be Treated like VIPs'] *Tuổi Trẻ Online*, 22 September 2022, at <https://tuoitre.vn/doanh-nghiep-nop-thue-lon-se-duoc-doi-dai-nhu-khach-vip-20220922153100767.htm>.

[22] R. E. Stake, *The Art of Case Study Research* (1995) 7.

the proposed theoretical framework, based on the empirical evidence collected through 42 online semi-structured interviews and an analysis of 86 court cases. Methodological considerations are also set out, establishing a template for carrying out research into an underexplored topic that poses significant challenges. Section 4 concludes with reflections on the normative implications of the proposed corporate tax morale framework – namely, its implications for tax policy formulation and tax law design in developing countries.

2 | (DIS)OBEYING TAX LAW: CURRENT VIEWS ON INDIVIDUAL TAX MORALE

The foundational elements of the tax morale literature can be traced back to the expected utility maximization theory, rooted in the economic approach to crime and punishment in the late 1960s.[23] Applying it to individual tax evasion in the early 1970s, scholars soon recognized the limitations of what became known as the deterrence model, particularly the lack of attention to non-pecuniary factors.[24] The model presumes that taxpayers always act rationally and only consider levels of enforcement and financial (dis)incentives, including audit probability, penalty rates, and tax rates, when deciding whether to comply.[25] However, there was strong empirical and historical evidence to the contrary. For example, the model predicts that higher tax rates increase compliance, yet empirical data and historical tax revolts, across all tax types, suggest otherwise; the 1990 Community Charge in the UK, introduced by Margaret Thatcher and commonly known as the Poll Tax, sparked nationwide protests and strong non-compliance, ultimately leading to its abolition.[26] The model also predicts that high audit probability and fines lead to increased compliance, yet there is now evidence that taxpayers often misjudge audit rates, with these misperceptions influencing their behaviours more than actual audit rates,[27] and that subjection to previous audits, which did not result in assessment of additional income, may decrease compliance.

To enhance its accuracy, various new variables have been added to this initial model. One of the most important additions has been the inclusion of third-party reporting as a key factor in driving tax compliance, basically by making taxpayers' incomes and transactions more observable to tax authorities.[28] A further key addition has been the inclusion of compliance costs as another motivation for tax (non-)compliance;[29] gross compliance costs include time, money, and resources spent meeting administrative requirements,[30] as well as psychological costs – namely, the stress and anxiety experienced by taxpayers in dealing with the process of tax procedures.[31]

[23] Becker, op. cit., n. 5.

[24] Allingham and Sandmo, op. cit., n. 5, p. 326.

[25] Alm, op. cit., n. 2, p. 355.

[26] T. Besley et al., 'Norms, Enforcement, and Tax Evasion' (2023) 105 *Rev. of Economics and Statistics* 998.

[27] E. Kirchler, *The Economic Psychology of Tax Behaviour* (2007) 111.

[28] D. Pomeranz, 'No Taxation without Information: Deterrence and Self-Enforcement in the Value Added Tax' (2015) 105 *Am. Economic Rev*. 105; L. Lederman, 'Statutory Speed Bumps: The Roles Third Parties Play in Tax Compliance' (2007) 60 *Stanford Law Rev*. 695.

[29] B. Tran-Nam and C. Evans, 'The Impact of Cedric Sandford on the Discipline of Tax Compliance Costs' (2002) 17 *Aus. Tax Forum* 389.

[30] C. Evans and B. Tran-Nam, 'Tax Compliance Costs in New Zealand: An International Comparative Evaluation' (2015) 20 *New Zealand J. of Taxation Law and Policy* 339, at 342.

[31] J. Molero and F. Pujol, 'Walking inside the Potential Tax Evader's Mind: Tax Morale Does Matter' (2012) 105 *J. of Business Ethics* 151.

There is now an extensive literature examining these costs and their connection to other possible drivers, such as tax law complexity,[32] professional fees, tax treatments, appeal procedures, and fairness perceptions.[33]

Nevertheless, the most important developments in understanding tax compliance have come from a partial departure from the rational deterrence model, and a realization in the last two decades that taxpayers do not always act in a fully rational manner, or at least not in a manner fully predicted by those models.[34] For example, the neoclassical model predicts that zero deterrence or fear of detection leads to non-compliance, yet the local German Protestant church tax case proves otherwise.[35] Motivations for tax (non-)compliance can now be typically categorized into two groups – namely, extrinsic and intrinsic factors,[36] reflecting the perspective of individual taxpayers. Extrinsic motivations drive behaviour through the lens of economic cost–benefit analysis, as predicted by the rational deterrence model, whereas intrinsic motivations stem from personal satisfaction, fairness perceptions, and social identity or reputation, and reflect tax morale, defined as the internalized and self-driven motivation to pay taxes.[37] These motivations are often interrelated, and can influence each other or overlap.[38] For example, individuals may believe that tax penalties are extremely severe (extrinsic factor), and that belief may in turn affect their fairness perceptions (intrinsic factor). Nevertheless, various factors have now been identified as key determinants of tax morale.

First, several studies have focused on the significance of *trust in government and tax administrations*.[39] Trust can be measured by confidence in input factors, such as legislative and executive branches, political parties, and tax laws,[40] and output factors, such as public tax services and government expenditures,[41] and it can be influenced by social capital.[42]

32 V. Tanzi, 'Corruption, Complexity and Tax Evasion' (2017) 5 *eJ. of Tax Research* 144; K. Krause, 'Tax Complexity: Problem or Opportunity?' (2000) 28 *Public Finance Rev.* 395.

33 J. Andreoni et al., 'Tax Compliance' (1998) 36 *J. of Economic Literature* 818, at 851; S. Eichfelder and C. Kegels, 'Compliance Costs Caused by Agency Action? Empirical Evidence and Implications for Tax Compliance' (2014) 50 *J. of Economic Psychology* 200.

34 D. Halpern, *Inside the Nudge Unit: How Small Changes Can Make a Big Difference* (2015).

35 N. Dwenger et al., 'Extrinsic and Intrinsic Motivations for Tax Compliance: Evidence from a Field Experiment in Germany' (2016) 8 *Am. Economic J.: Economic Policy* 203, at 204.

36 R. Ryan and E. Deci, 'Intrinsic and Extrinsic Motivations: Class Definitions and New Directions' (2000) 25 *Contemporary Educational Psychology* 54; J. Alm et al., 'Combining Psychology and Economics in the Analysis of Compliance: From Enforcement to Cooperation' (2012) 42 *Economic Analysis and Policy* 133.

37 M. McKerchar et al., 'Indicators of Tax Morale: An Exploratory Study' (2013) 11 *eJ. of Tax Research* 5; D. Onu et al., 'The Dynamics of Internalised and Extrinsic Motivation in the Ethical Decision-Making of Small Business Owners' (2018) 68 *Applied Psychology* 177.

38 J. Farrar and C. Hausserman, 'An Exploratory Investigation of Extrinsic and Intrinsic Motivations in Tax Amnesty Decision-Making' (2016) 2 *J. of Tax Administration* 47, at 47.

39 E. Kirchler et al., 'Enforced versus Voluntary Tax Compliance: The "Slippery Slope" Framework' (2008) 29 *J. of Economic Psychology* 210; L. Batrancea et al., 'Trust and Power as Determinants of Tax Compliance across 44 Countries' (2019) 74 *J. of Economic Psychology* 102191.

40 A. Koumpias et al., 'Trust in Government Institutions and Tax Morale' (2021) 77 *FinanzArchiv/Public Finance Analysis* 117, at 120.

41 V. Castaneda-Rodriguez and G. Lisi, 'Can Public Efficiency Increase Tax Morale? Evidence from 18 Latin American Countries' (2024) 25 *Economics of Governance* 209; B. Rothstein and D. Stolle, 'The State and Social Capital: An Institutional Theory of Generalised Trust' (2008) 40 *Comparative Politics* 441, at 448.

42 J. Fischer and B. Torgler, 'Social Capital and Relative Income Concerns: Evidence from 26 Countries' (2013) 51 *Economic Inquiry* 1542.

Second, and related to the trust aspect, the positive correlation between tax morale and *institutional quality* has also been examined. High-quality social institutions can reduce informality,[43] while weak institutions, low institutional quality, poor institutional responsiveness, or institutional failings may all negatively impact on trust in governments and decrease tax morale.[44]

Third, there is also now extensive evidence on the role of *attitudinal factors*, such as norms and fairness perceptions, as key drivers of tax morale,[45] though the findings are not always fully consistent.[46] Nevertheless, the role of norms is now well established.[47] Norms explain why individuals obey tax laws despite their personal interests being negatively affected (personal norms),[48] and why individuals may feel constrained and decide to comply where there is low acceptance of tax non-compliance among a specific reference group (social norms).[49] Historically, laws that conflict with prevailing social norms can be difficult to enforce.[50] Recent empirical evidence regarding the growing unacceptability of tax evasion in developed countries may therefore prove critical for increasing overall levels of compliance in the medium term.[51] Similarly, the role of fairness perceptions on tax morale has now been well established.[52] Three different types of fairness perceptions have been found to influence individual tax morale (namely, distributive, procedural, and retributive justice) at three levels (namely, individual, group, and societal),[53] with each potentially having effects on tax (non-) compliance.[54]

[43] B. Torgler and F. Schneider, 'The Impact of Tax Morale and Institutional Quality on the Shadow Economy' (2009) 30 *J. of Economic Psychology* 228.

[44] E. Nichelatti and H. Hiilamo, 'The Effect of Citizens' Perception of Governance on Tax Compliance: A Cross-Country Analysis Study for 32 Sub-Saharan Countries' (2024) 36 *European J. of Development Research* 1198; A. Allam et al., 'National Culture and Tax Evasion: The Role of the Institutional Environment Quality' (2023) 52 *J. of International Accounting, Auditing and Taxation* 100559; L. Feld and B. Frey, 'Tax Compliance as the Result of a Psychological Tax Contract: The Role of Incentives and Responsive Regulation' (2007) 29 *Law and Policy* 102; C. Williams, 'An Institutional Theory of Tax Non-Compliance in Bulgaria: A Tax Morale Approach' (2020) 1 *Economics Alternatives* 33.

[45] I. Ajzen, 'The Theory of Planned Behavior' (1991) 50 *Organizational Behavior and Human Decision Processes* 179; M. Kornhauser, 'A Tax Morale Approach to Compliance: Recommendations for the IRS' (2006) 8 *Florida Tax Rev.* 601; D. Onu, 'Measuring Tax Compliance Attitudes: What Surveys Can Tell Us about Tax Compliance Behaviour' (2017) 23 *Advances in Taxation* 173; K. Gangl et al., '"How Can I Help You?" Perceived Service Orientation of Tax Authorities and Tax Compliance' (2013) 69 *FinanzArchiv/Public Finance Analysis* 487; M. Orviska and J. Hudson, 'Tax Evasion, Civic Duty and the Law-Abiding Citizen' (2002) 19 *European J. of Political Economy* 83.

[46] Kogler and Kirchler, op. cit., n. 12, p. 195.

[47] J. Alm, 'Devising Administrative Policies for Improving Tax Compliance' (2023) 70 *Can. Tax J.* 43, at 49. For a theoretical review of the roles of social norms in predicting tax compliance behaviour, see D. Onu and L. Oats, 'The Role of Social Norms in Tax Compliance: Theoretical Overview and Practical Implications' (2015) 1 *J. of Tax Administration* 113.

[48] P. Reckers et al., 'The Influence of Ethical Attitudes on Taxpayer Compliance' (1994) 47 *National Tax J.* 825.

[49] M. Wenzel, 'Motivation or Rationalisation? Causal Relations between Ethics, Norms, and Tax Compliance' (2005) 26 *J. of Economic Psychology* 491; R. Cialdini and M. Trost, 'Social Influence: Social Norms, Conformity, and Compliance' in *The Handbook of Social Psychology*, eds D. Gilbert et al. (1998) 151.

[50] D. Acemoglu and M. Jackson, 'Social Norms and the Enforcement of Laws' (2017) 15 *J. of European Economic Association* 245, at 245–246.

[51] Mendoza Aviña et al., op. cit., n. 13.

[52] R. de la Feria, 'Tax Fairness: Reconceptualising Taxation and Inequalities' in *Taxation and Inequalities*, ed. R. de la Feria (2025) 3. See also S. Sheffrin, *Tax Fairness and Folk Justice* (2013).

[53] M. Wenzel, 'Tax Compliance and the Psychology of Justice: Mapping the Field' in *Taxing Democracy*, ed. V. Braithwaite (2003) 41.

[54] M. Marshall et al., 'In All Fairness: A Meta-Analysis of the Tax Fairness–Tax Compliance Literature' (2024) 36 *Behavioral Research in Accounting* 105.

Fourth, *cognitive and affective elements*, such as framing or mental accounting, which have been found to generally impact taxpayers' decision-making processes,[55] may also affect tax morale[56] and taxpayers' decisions to comply with tax law.[57]

Fifth, recent literature has also explored how *cultural values* influence tax morale.[58] Cultural values are defined in various ways and lie at the intersection of various disciplines such as economics, law, sociology, and history.[59] The effects of cultural values on tax morale can be examined through a comparative law approach or the concept of legal transplantation, employing different methods of persuasion to ensure compliance.[60] However, most existing work on tax and culture does not focus extensively on tax (non-)compliance. Instead, it emphasizes the tax behaviours and attitudes of tax elites involved in the process of tax law design and drafting,[61] as well as the culture of tax collection.[62] Recent developments in this area have explored how cultural values influence tax morale, particularly through the lens of Geert Hofstede's cultural framework. For example, studies focusing on Hofstede's five cultural dimensions – namely, power distance, uncertainty avoidance, individualism versus collectivism, masculinity versus femininity,[63] and long-term versus short-term orientation – have analysed Confucian dynamism[64] and the cultural values of familism.[65] In this context, various cultural elements have been identified as relevant for tax morale. These include trust, attitudes to redistribution,[66] national pride or patriotism,[67] religions and traditional beliefs,[68] constitutional and political changes,[69] ethnic diversity,[70] and

[55] A. Tversky and D. Kahneman, 'The Framing of Decisions and the Psychology of Choice' (1981) 211 *Science* 453; D. Kahneman and A. Tversky, 'Prospect Theory: An Analysis of Decision under Risk' (1979) 47 *Econometrica* 263; J. Elster, 'Emotions and Economic Theory' (1998) 36 *J. of Economic Literature* 47.

[56] A. Lewis et al., 'Individual, Cognitive and Cultural Difference in Tax Compliance: UK and Italy Compared' (2009) 30 *J. of Economic Psychology* 431; G. Coricelli et al., 'Cheating, Emotions, and Rationality: An Experiment on Tax Evasion' (2010) 13 *Experimental Economics* 226.

[57] E. Kirchler and B. Maciejovsky, 'Tax Compliance within the Context of Gain and Loss Situations, Expected and Current Asset Position, and Profession' (2001) 22 *J. of Economic Psychology* 173; J. Cullis et al., 'Tax Framing, Instrumentality and Individual Differences: Are There Two Different Cultures?' (2006) 27 *J. of Economic Psychology* 304; R. Christian and J. Alm, 'Empathy, Sympathy, and Tax Compliance' (2014) 40 *J. of Economic Psychology* 62.

[58] R. Cummings et al., 'Tax Morale Affects Tax Compliance: Evidence from Surveys and an Artefactual Field Experiment' (2009) 70 *J. of Economic Behavior & Organization* 447.

[59] See further B. Nerré, 'The Concept of Tax Culture' (2001) 94 *National Tax J.* 288. For a discussion on law and culture, see D. Nelken, 'Thinking about Legal Culture' (2014) 1 *Asian J. of Law and Society* 255, at 257–260.

[60] D. Nelken, 'Towards a Sociology of Legal Adaption' in *Adapting Legal Cultures*, eds D. Nelken and J. Feest (2001) 40.

[61] Livingston, op. cit., n. 9, p. 27.

[62] A. Mumford, *Taxing Culture: Towards a Theory of Tax Collection* (2000).

[63] G. Hofstede, *Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations across Nations* (2003).

[64] B. Husted, 'Wealth, Culture, and Corruption' (1999) 30 *J. of International Business Studies* 339; M. Cheng et al., 'Cultural Norms and Tax Compliance: Evidence from China' (2024) 227 *J. of Economic Behavior & Organization* 106720.

[65] F. Pampel et al., 'How Institutions and Attitudes Shape Tax Compliance: A Cross-National Experiment and Survey' (2019) 97 *Social Forces* 1337, at 1339.

[66] H. Kleven, 'How Can Scandinavians Tax So Much?' (2014) 28 *J. of Economic Perspectives* 77.

[67] K. Gangl et al., 'Patriotism's Impact on Cooperation with the State: An Experimental Study on Tax Compliance' (2016) 37 *Political Psychology* 867.

[68] Dwenger et al., op. cit., n. 35.

[69] A. Mohlmann, 'Persistence or Convergence? The East–West Tax Morale Gap in Germany' (2014) 70 *FinanzArchiv/Public Finance Analysis* 3.

[70] A. Belmonte et al., 'Tax Morale, Aversion to Ethnic Diversity, and Decentralization' (2018) 55 *European J. of Political Economy* 204.

fraud tolerance.[71] For example, societies where individuals express a preference for a large welfare system tend to experience lower rates of tax non-compliance, while others where culturally greater importance is given to individual achievements and material success tend to have higher levels of tolerance for tax evasion.[72] Cultural values have also been linked to differences in tax morale based on demographic factors, such as gender,[73] education,[74] and tax knowledge.[75] For example, women and married couples tend to have higher levels of tax morale than men and single individuals.[76]

Finally, some of the above factors can in turn be influenced by other factors outside the tax system, including political alignment[77] or voting rights,[78] thus indirectly affecting tax morale. For example, political alignment may trigger cognitive biases; individuals are known to be more willing to comply with tax law when it is enacted by the party that they support or voted for, hinting at possible cognitive dissonance or motivated reasoning.[79]

The above literature has emerged almost exclusively in the context of compliance with PITs in developed countries. Compliance with other taxes and tax compliance in developing countries have so far both been largely left unexplored. As a result, the prevailing assumption is that either compliance with other taxes is not subject to psychological considerations or, if it is, the motivations behind non-compliance with those taxes, such as VAT and CIT, in both developed and developing nations are identical to those observed for the PIT compliance. To put this another way, the assumption is that there is no such thing as corporate tax morale for the simple reason that companies are not individuals and thus their tax behaviour is solely determined by the presence and effectiveness of deterrence mechanisms. Alternatively, if SMEs' tax behaviour is determined by tax morale, the assumption is that the determinant factors should be the same as those identified for individual tax morale, and that there are no differences between tax morale in developed countries and tax morale in developing countries. Four key factors challenge this assumption.

First, while the status of corporations as separate legal entities (*personae fictiae*) is one of the most enduring and widely accepted legal fictions,[80] in practice – at least insofar as SMEs are concerned – the line between the legal entity and the owner/manager is often blurred. Empirical evidence suggests that not only do SME owners intuitively humanize their brands and see their

71 W. Knechel and N. Mintchik, 'Do Personal Beliefs and Values Affect an Individual's "Fraud Tolerance"? Evidence from the World Values Survey' (2022) 177 *J. of Business Ethics* 463.

72 G. Tsakumis et al., 'The Relation between National Cultural Dimensions and Tax Evasion' (2007) 16 *J. of International Accounting, Auditing and Taxation* 131.

73 J. Hasseldine and P. Hite, 'Framing, Gender and Tax Compliance' (2003) 24 *J. of Economic Psychology* 517; C. Bazart and M. Pickhardt, 'Fighting Income Tax Evasion with Positive Rewards' (2011) 39 *Public Finance Rev*. 124.

74 E. McCaffery and J. Baron, 'Thinking about Tax' (2006) 12 *Psychology, Public Policy, and Law* 106.

75 E. Hofmann et al., 'Preconditions of Voluntary Tax Compliance: Knowledge and Evaluation of Taxation, Norms, Fairness, and Motivation to Cooperate' (2008) 216 *J. of Economic Psychology* 209; M. Bornman and P. Ramutumbu, 'A Conceptual Framework of Tax Knowledge' (2019) 27 *Meditari Accountancy Research* 823.

76 I. Horodnic, 'Tax Morale and Institutional Theory: A Systematic Review' (2018) 38 *International J. of Sociology and Social Policy* 868, at 875.

77 J. Cullen et al., 'Political Alignment, Attitudes toward Government and Tax Evasion' (2021) 13 *Am. Economic J.: Economic Policy* 135.

78 J. Alm et al., 'Changing the Social Norm of Tax Compliance by Voting' (1999) 52 *Kyklos* 141.

79 N. Epley and T. Gilovich, 'The Mechanisms of Motivated Reasoning' (2016) 30 *J. of Economic Perspectives* 133, at 140; D. Redlawsk, 'Hot Cognition or Cool Consideration? Testing the Effects of Motivated Reasoning on Political Decision Making' (2002) 64 *J. of Politics* 1021.

80 S. Schane, 'The Corporation Is a Person: The Language of a Legal Fiction' (1987) 61 *Tulane Law Rev*. 563.

businesses as an extension of themselves,[81] but SMEs' business decisions, such as financing options, are also determined by the behavioural factors and responses of their owners.[82] In this context, it is not unreasonable to assume that SMEs' tax behaviour is also determined by the same psychological factors that characterize individual tax morale. This would be a particularly reasonable assumption as regards income tax, where the line between the earnings of owners and of their companies is inevitably blurred. Yet, even as regards VAT, where businesses are mere tax remitters rather than taxpayers, it is not difficult to envisage how the blurring of the line between owners and companies may influence the latter's tax behaviour; consumption taxes paid at the moment of purchase can be easily confused by SME owners as part of their business' earnings, and thus by extension their own, triggering a feeling of loss aversion at the moment of remittance.

Second, presuming that there is evidence for corporate tax morale, attitudes may be still different when businesses have to deal with different types of taxes, and with different tax procedures. Thinking about tax complexity, for example, the fact that SME owners have to deal with more than one tax may mean that their perceptions are different and thus affect their tax decisions and tax morale more acutely.[83] Indeed, we know that perceptions of tax complexity and firms' behaviours may be variant in relation to different taxes,[84] dependent on their salience,[85] situational contexts,[86] or design,[87] and can be affected by the frequency of amendments, poorly drafted tax laws and regulations, and inappropriate legal traditions.[88]

Third, informality is widespread in developing countries, and this may be an indication of lower corporate tax morale among SME owners, who are the main collectors (and incidental generators) of tax revenue in those countries.[89] In this framing, tax evasion can be viewed as a modern version of political resistance,[90] so informality may be seen as, for example, a form of questioning regulators' legitimacy,[91] a reflection of different types of institutional settings and cultural values,[92] or the result of the influence of political factors on tax morale.[93]

81 E. Centeno et al., 'The Interplay between SME Owner-Managers and the Brand-as-a-Person' (2019) 28 *J. of Product & Brand Management* 555.

82 P. Kijkasiwat, 'The Influence of Behavioral Factors on SME Owners' Intention to Adopt Private Finance' (2021) 30 *J. of Behavioral and Experimental Finance* 100476.

83 A. Borrego et al., 'Tax Professionals' Profiles Concerning Tax Noncompliance and Tax Complexity: Empirical Contributions from Portugal' (2017) 15 *eJ. of Tax Research* 424; B. Kamleitner et al., 'Tax Compliance of Small Business Owners: A Review' (2012) 18 *International J. of Entrepreneurial Behaviour and Research* 330.

84 T. Budak and S. James, 'The Level of Tax Complexity: A Comparative Analysis between the UK and Turkey Based on the OTS Index' (2018) 44 *International Tax J.* 23.

85 A. Mumford, 'Tax Complexity, Tax Salience and Tax Politics' (2015) 24 *Social and Legal Studies* 185.

86 J. Slemrod, 'The Etiology of Tax Complexity: Evidence from US State Income Tax Systems' (2005) 33 *Public Finance Rev.* 279, at 279.

87 J. Pantya et al., 'Work Performance and Tax Compliance in Flat and Progressive Tax Systems' (2016) 56 *J. of Economic Psychology* 262.

88 R. Krever, 'Taming Complexity in Australian Income Tax' (2003) 25 *Sydney Law Rev.* 467.

89 J. Alm et al., 'Nudges, Boosts, and Sludge: Using New Behavioral Approaches to Improve Tax Compliance' (2023) 11 *Economies* 223.

90 Cullen et al., op. cit., n. 77.

91 K. Murphy, 'Regulating More Effectively: The Relationship between Procedural Justice, Legitimacy, and Tax Non-Compliance' (2005) 32 *J. of Law and Society* 562.

92 B. Torgler, 'Tax Morale and Direct Democracy' (2004) 21 *European J. of Political Economy* 525.

93 Besley and Persson, op. cit., n. 20.

Fourth, the availability, access, and transmission of tax information may be different for different types of taxes, and for different types of taxpayers,[94] and this may affect tax morale. For example, the tax knowledge of SME owners is known to accumulate through different channels from individual taxpayers,[95] and the type of tax information to which they have access may affect self-awareness,[96] competence,[97] trust in government,[98] or fairness perceptions.[99]

Identifying and understanding corporate tax morale in developing countries, particularly insofar as SME owners are concerned, is therefore critical.

3 | (DIS)OBEYING TAX LAW: A NEW MODEL OF CORPORATE TAX MORALE

Our proposed theoretical framework for understanding the tax morale of corporate taxpayers, particularly SMEs, is informed by primary data. Using known individual tax morale motivations as a starting point, the framework presents a new approach to classifying these motivations, based on how they relate to the functioning of the tax system; motivations that originate from within the tax system are characterized as endogenous, while those that originate outside the tax system are characterized as exogenous. As set out in Figure 1, the framework confirms the existence of corporate tax morale, identifying five endogenous and six exogenous motivations for corporate tax (non-)compliance.

3.1 | Research methods: online semi-structured interviews and court cases

To identify and examine corporate tax morale, we employ qualitative methods, drawing data from 42 online semi-structured interviews and 86 published court cases. The novelty of this methodology lies in its combination of two sources of empirical data: interviews with SME owners and court cases from open-access databases. The complementarity of these two methods is necessary, particularly when researching a difficult field, such as tax (non-)compliance. While online semi-structured interviews are commonly used for collecting data on sensitive topics, information from court cases is also critical, as it allows for triangulation of information, providing a broader generative context that may corroborate, or extend beyond, the experiences of selected interviewees.[100] By examining court cases, we can uncover the details of tax disputes,

[94] J. Alm et al., 'Tax Compliance, Social Norms, and Influencers' (2024) Tulane Economics Working Papers 2413; D. Gioacchino and D. Fichera, 'Tax Evasion and Social Reputation: The Role of Influencers in a Social Network' (2022) 73 *Metroeconomica* 1048.

[95] K. Devos, *Factors Influencing Individual Taxpayer Compliance Behaviour* (2013).

[96] K. Eriksen and L. Fallan, 'Tax Knowledge and Attitudes towards Taxation: A Report on a Quasi-Experiment' (1996) 17 *J. of Economic Psychology* 387.

[97] B. Freudenberg et al., 'Tax Literacy of Australian Small Businesses' (2017) 18 *J. of Aus. Tax* 21.

[98] M. McKerchar, 'Understanding Small Business Taxpayers: Their Sources of Information and Level of Knowledge of Taxation' (1995) 12 *Aus. Tax Forum* 25.

[99] M. Kasper et al., 'Tax Policy and the News: An Empirical Analysis of Taxpayers' Perceptions of Tax-Related Media Coverage and Its Impact on Tax Compliance' (2015) 54 *J. of Behavioral and Experimental Economics* 58.

[100] A. Skarpelis, 'Life on File: Archival Epistemology and Theory' (2020) 43 *Qualitative Sociology* 385, at 395.

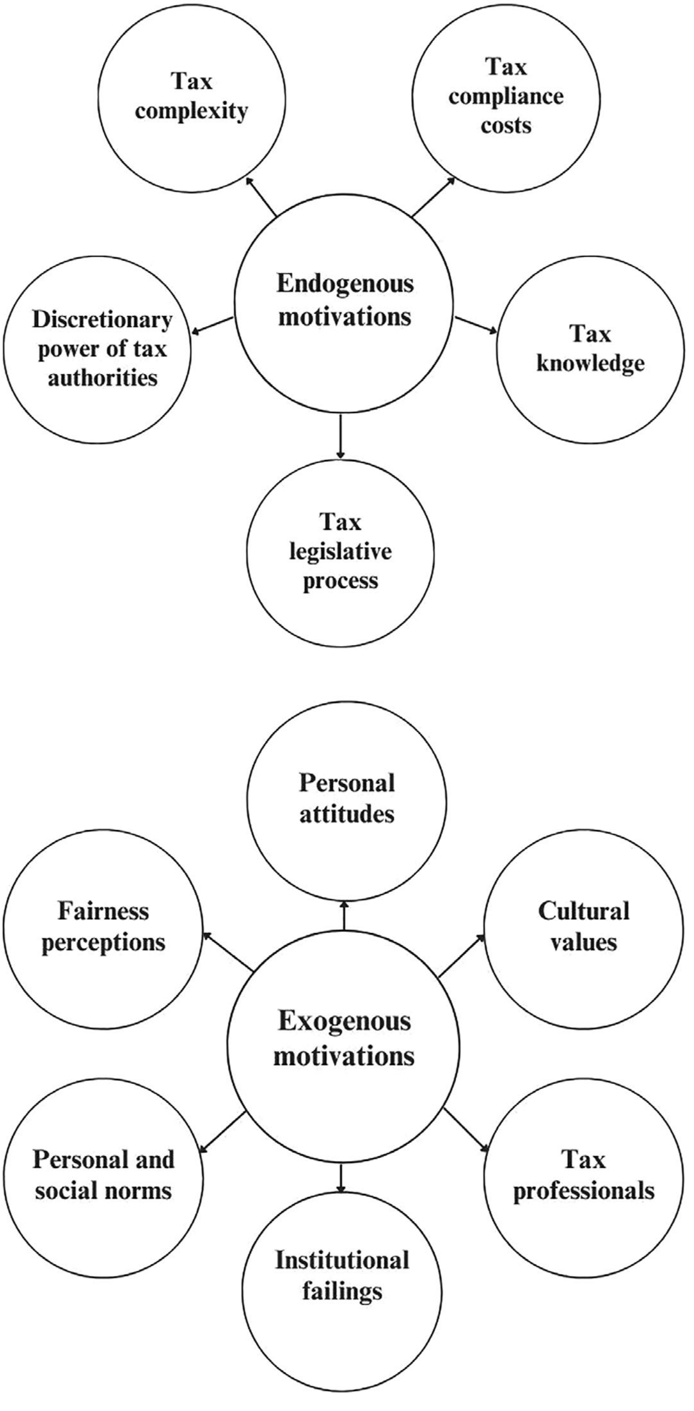


FIGURE 1 Corporate tax morale: a theoretical framework

including the interactions between business taxpayers, tax authorities, and courts, the areas of the law more likely to be litigated, and the consequent litigation level and intensity, as well as the decisions made and arguments presented by tax authorities – all factors that may, in turn, affect the tax morale of SME owners.

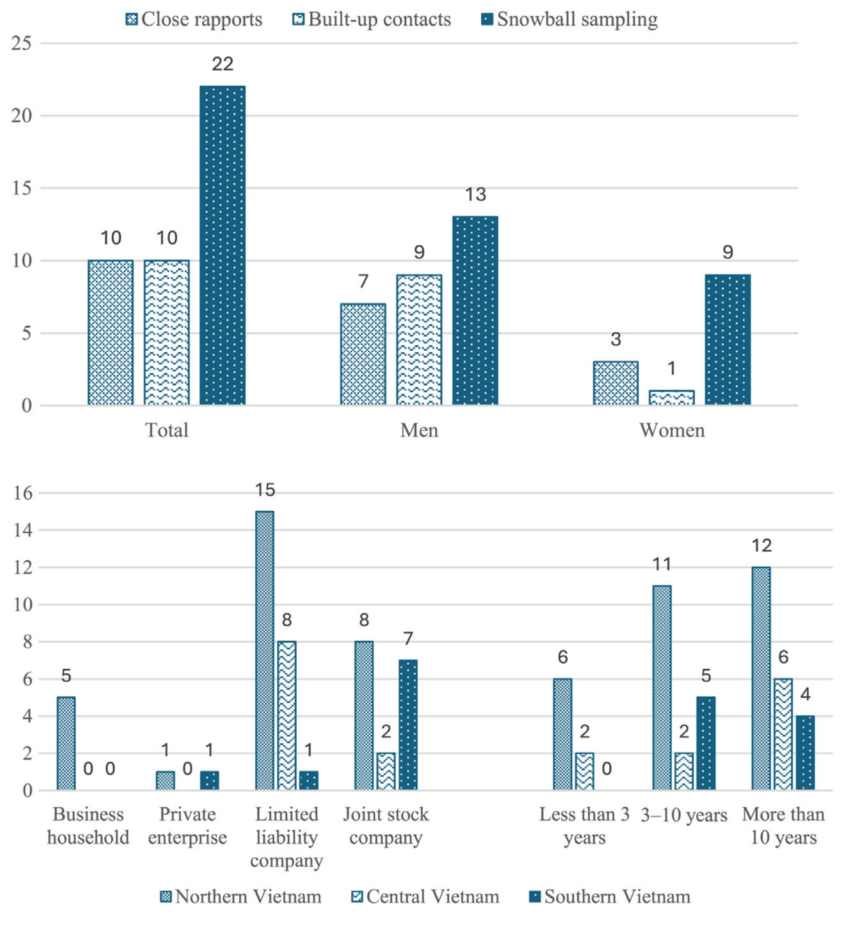


FIGURE 2 Interviewees and their SMEs: key characteristics

Online semi-structured interviews, widely used in social science research,[101] provide insights into interviewees' knowledge, reflections, and real-world responses.[102] The convenience of online interviews encouraged open discussions, even on sensitive topics such as tax (non-)compliance,[103] and facilitated interviewee recruitment. The process of recruiting interviewees played a vital role in the success of this study. The official classification of businesses by the Vietnamese government by size and industry types,[104] as set out in Table 1, was followed, focusing on business-to-customer (B2C) firms that pay CIT and VAT, so as to better explore the tax compliance of transactions with private consumers – regarded as higher-risk transactions – and only interviewing the owners of these firms. As shown in Figure 2, we successfully recruited a total of 42 interviewees, through a mixture of close rapports, built-up contacts, and snowball sampling.[105]

[101] H. O'Connor and C. Madge, 'Online Interviewing' in *The SAGE Handbook of Online Research Methods*, eds N. Fielding et al. (2017) 416.

[102] J. Salmons, *Qualitative Online Interviews: Strategies, Design, and Skills* (2015).

[103] C. Paechter, 'Researching Sensitive Issues Online: Implications of a Hybrid Insider/Outsider Position in a Retrospective Ethnographic Study' (2012) 13 *Qualitative Research* 71.

[104] Decree No. 80/2021/ND-CP.

[105] A comprehensive list of interviewees is included in Appendix 1.

TABLE 1 Official classification of businesses by the Vietnamese government

	Agricultural		Industrial and construction		Commercial and services	
	No. of employees	Annual revenues (VND billion)	No. of employees	Annual revenues (VND billion)	No. of employees	Annual revenues (VND billion)
Micro-sized enterprises	1–10	0–3	1–10	0–3	1–10	0–10
Small-sized enterprises	11–100	>3–50	11–100	>3–50	11–50	>10–100
Medium-sized enterprises	101–200	>50–200	101–200	>50–200	51–100	>100–300

FIGURE 3 SMEs by size and location

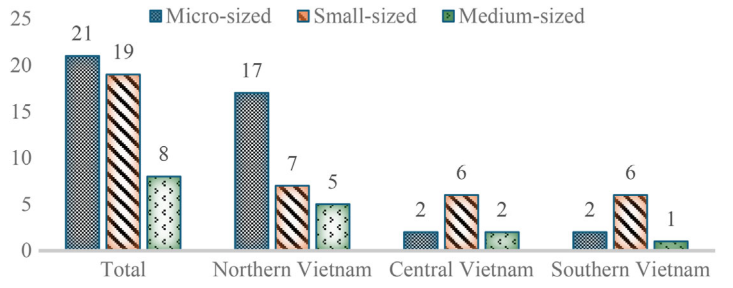
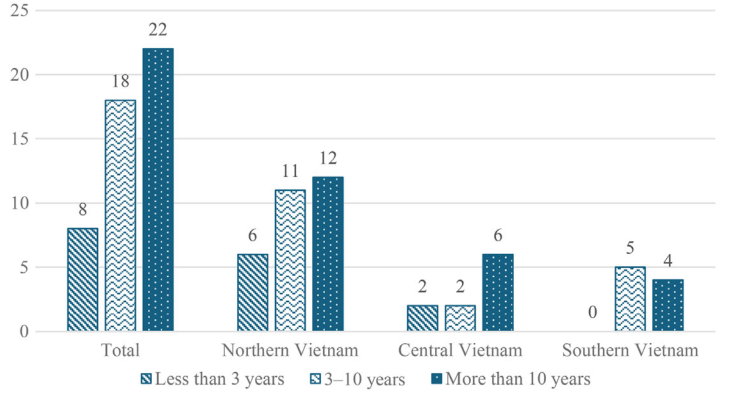


FIGURE 4 SMEs by age



The 42 interviewees were categorized into three groups: close rapports, built-up contacts, and snowball sampling, including 29 men and 13 women. The close rapports group (ten interviewees) included friends and former students with whom we already had strong relationships. The members of the built-up contacts group (ten interviewees) were selected from 78 suitable attendees of tax support projects launched on Facebook before the interviews. The members of the snowball sampling group (22 interviewees) were recruited through referrals. The first two groups played a key role in identifying 19 of the final 22 cases, while the remaining three cases were recommended by tax researchers and government officials. As expected, Facebook was the most used platform, followed by Zalo (Vietnam's equivalent to WhatsApp); other platforms included Zoom, Viber, and Telegram.

Of the 42 interviewees, 26 were from Northern Vietnam, while the Central and Southern regions had eight interviewees each. Figure 3 disaggregates the number of SMEs by size and geographical location. The total number of companies was 48, most of which had been established for more than three years, as shown in Figure 4. It is worth noting that some interviewees owned multiple separate companies. Just over half of these businesses (24) were limited liability companies.

The interview consisted of two parts: a background questionnaire on interviewees and their companies, followed by targeted questions on motivations for tax (non-)compliance. Based on a proxy for tax non-compliance and the hypotheses for endogenous and exogenous motivations, interviewees first answered six questions on informality, then eight on the abuse of tax discretion and tax officials' performance. Additional questions covered trust in governments, fairness perceptions, norms, and self-control. The final section of the questionnaire explored experiences with tax compliance costs and tax professionals. Interview questions were ordered so as to allow tax non-compliant behaviours to reveal themselves gradually over the course of each interview.[106]

[106] The full questionnaire is included in Appendix 2.

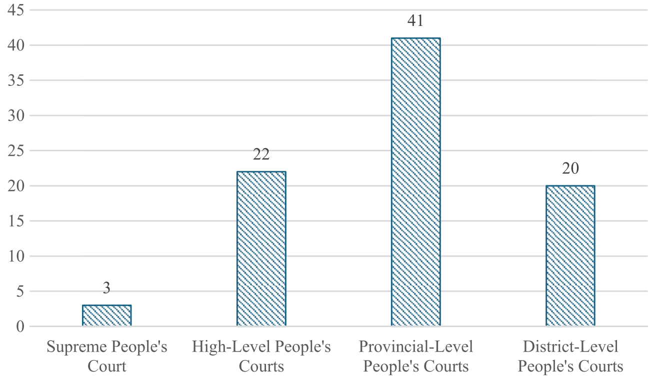


FIGURE 5 Number of cases by court levels

Court cases, like interviews, are a key data source for social science research,[107] and in this study offer unbiased insights into SMEs' tax behaviour.[108] These cases were used both to inform the design of the interview questions and to supplement interview data, revealing tax dispute processes, fairness perceptions, the power of tax authorities, and compliance costs.[109] Previously confidential tax cases became public after 2017, under the 2013 Constitution's transparency mandate,[110] opening up new opportunities for rich legal research. Data was sourced from the Vietnamese Supreme People's Court and major Vietnamese legal libraries, and resulted in the identification of 86 VAT and CIT cases over the period between 2008 and 2021, categorized by keywords and SME details such as firm type, industry, and annual revenues.[111] The Vietnamese court system is divided into four levels: the Supreme People's Court, three High-Level People's Courts, Provincial-Level People's Courts, and District-Level People's Courts. In 2015, the three High-Level People's Courts were established as part of Vietnam's ongoing judicial reform. The number of cases by court levels is shown in Figure 5.

3.2 | Endogenous motivations

The empirical evidence confirms the existence of five endogenous motivations for corporate tax (non-)compliance.

The first is *tax complexity*. Interviewees confirmed the impact of legal complexity – which includes challenges relating to the interpretation, comprehension, and practical application of tax laws – on their tax morale.[112] In line with previous evidence on individual tax morale,[113] legal

[107] V. Parisot et al., 'Court Files as Data in Sociological Family Research: Methodology and Methods for a Little-Tapped Kind of Data Material' (2021) 22 *Forum: Qualitative Social Research* 1.

[108] L. Lederman, 'Which Cases Go to Trial? An Empirical Study of Predictors of Failure to Settle' (1999) 49 *Case Western Reserve Law Rev*. 315, at 327.

[109] B. Tran-Nam and M. Walpole, 'Tax Disputes, Litigation Costs and Access to Tax Justice' (2016) 14 *eJ. of Tax Research* 319.

[110] Resolution No. 03/2017/NQ-HĐTP by Judges' Chambers of the Supreme People's Court on 16 March 2017.

[111] A comprehensive list of Vietnamese tax cases is included in Appendix 3.

[112] Interviewees No. 13, No. 17, and No. 21. For definitions of tax complexity, see C. Evans and B. Tran-Nam, 'Tax Complexity' in *Comparative Taxation: Why Tax Systems Differ*, eds C. Evans et al. (2017) 209.

[113] J. Alm and C. McClellan, 'Tax Morale and Tax Compliance from the Firm's Perspective' (2012) 65 *Kyklos* 1; E. Ahmed and V. Braithwaite, 'Understanding Small Business Taxpayers: Issues of Deterrence, Tax Morale, Fairness and Work Practice' (2005) 23 *International Small Business J.: Researching Entrepreneurship* 539, at 544.

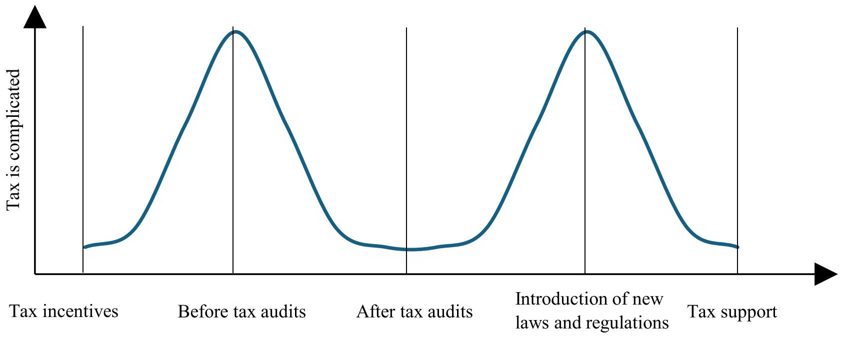


FIGURE 6 Changes in SME owners' perceptions of tax complexity

complexity increases tax compliance costs and perceptions of unfairness among SME owners. Interviewees also expressed the belief that tax complexity affects the performance and reliability of tax authorities,[114] a perspective that is confirmed by several tax cases.[115] The most important divergence as regards previous evidence on individual tax morale is the finding that perceptions of legal complexity may not be static, as previously assumed. Rather, as demonstrated in Figure 6, they depend on a range of contextual factors, including the existence of tax incentives, the occurrence of tax audits, the availability of tax support, and the introduction of new tax laws and regulations. There was also a notable variance in perceptions among owners of medium-sized firms, particularly those who were shareholders in larger corporations, versus those of small-sized firms.[116] Consequently, the tax morale of SME owners can change over time, depending on their perceptions of tax complexity at that particular moment, in a specific context.

The second endogenous motivation for the tax (non-)compliance of SME owners is *tax compliance costs*. The findings are aligned with the literature on the tax compliance costs of different taxes, industries, or firms' sizes;[117] on how they are naturally interlinked with other drivers of tax non-compliance, such as the labour costs of tax professionals, the impacts of tax services, the appeal procedure, and fairness perceptions;[118] and on the relationship between informal entrepreneurship and high tax compliance costs in developing countries.[119] Interviewees confirmed that a high tax compliance burden is a key reason why they choose not to register their start-ups while they test the potential of their businesses.[120] These corporate taxpayers expressed the belief that informal entrepreneurship is widely accepted, and that the tax evasion of start-up

[114] Interviewees No. 13, No. 17, and No. 21.

[115] Case No. 86/2018/HCST on 26 November 2018 by the People's Court of Ba Ria – Vung Tau Province; Case No. 1443/2020/HC-ST on 9 September 2020 by the People's Court of Ho Chi Minh City.

[116] Interviewees No. 3 and No. 26.

[117] J. Slemrod, 'Small Business and the Tax System' in *The Crisis in Tax Administration*, eds H. Aaron and J. Slemrod (2004) 69.

[118] C. Evans et al., 'Small Business and Tax Compliance Costs: A Cross-Country Study of Managerial Benefits and Tax Concessions' (2014) 12 *eJ. of Tax Research* 453; K. Blaufus et al., 'The Income Tax Compliance Costs of Private Households: Empirical Evidence from Germany' (2019) 47 *Public Finance Rev*. 925.

[119] C. Williams et al., 'Informal Entrepreneurship in Developing Economies: The Impacts of Starting Up Unregistered on Firm Performance' (2016) 41 *Entrepreneurship Theory and Practice* 773.

[120] *Inter alia*, Interviewee No. 29.

SMEs is less harmful than that of large corporations.[121] While these perceptions are likely the result of self-interest followed by motivated reasoning, they nevertheless strengthen the social norms of tax non-compliance,[122] indirectly decreasing levels of tax morale.

The third endogenous motivation is *tax knowledge*. When it comes to tax non-compliance, there is a long journey from an intention not to comply with taxes to actually committing evasion; tax knowledge plays a significant role in this journey. Similarly to individuals as regards PIT, the tax knowledge of SME owners is gathered through different channels, and information may affect their self-awareness, competence, and views on redistributive policies. There are, however, some differences in how it affects corporate tax morale compared to individual tax morale. Interview data highlights two different ways in which tax knowledge may affect the tax (non-)compliance of SME owners, especially of newly established companies:[123] (1) they may not pay sufficient attention to tax issues during the early stages of business set-up; and (2) they are often overdependent on accountancy professionals.[124] This results in a situation whereby non-compliance starts with low levels of tax knowledge and unintentional tax mistakes, yet ends with low tax morale and deliberate tax evasion. Only three of the 42 interviewees stated that improving their tax knowledge is their primary solution to understanding tax procedures and complying with tax laws.[125]

The fourth endogenous motivation for tax (non-)compliance is the *tax legislative process*. SME owners' tax morale is shaped by this process, which includes policy formulation and law drafting.[126] One interviewee strongly criticized the process, stating that '[n]o debate took place when the National Assembly discussed the tax laws [of SMEs] in the last meeting … Obviously, no member acknowledged SMEs' difficulties.'[127] While participation is perceived as an opportunity to contribute, most view it as futile in light of governance challenges; interviewees expressed low expectations as regards parliamentary accountability, pre-legislative tax policy review, or judicial supervision.[128] Some believed that tax laws are shaped by large corporations and lobby groups, leaving SMEs with little influence.[129] As a result, the implementation of tax laws is often perceived as impractical, with one interviewee likening SME owners to 'guinea pigs in the lab',[130] thereby diminishing their trust in government and negatively impacting their tax morale.

The fifth and final endogenous motivation for tax (non-)compliance is the *discretionary power of tax authorities*, whether coercive or legitimate.[131] In line with studies on individual tax morale,[132]

[121] *Inter alia*, Interviewee No. 27.

[122] P. Godfrey, 'Toward a Theory of the Informal Economy' (2011) 5 *Academy of Management Annals* 231.

[123] Interviewees No. 1, No. 10, No. 17, No. 24, No. 25, No. 27, No. 30, No. 36, and No. 38.

[124] Interviewees No. 1 and No. 38.

[125] Interviewees No. 10, No. 11, and No. 18.

[126] A. Swistak, 'Tax Penalties in SME Tax Compliance' (2016) 40 *Financial Theory and Practice* 129, at 132; P. Mason et al., 'Why Pay Our Fair Share? How Perceived Influence over Laws Affects Tax Evasion' (2020) 42 *J. of the Am. Taxation Association* 133.

[127] Interviewee No. 35.

[128] Interviewees No. 11, No. 13, and No. 40. See also B. N. Son, 'The Law of China and Vietnam in Comparative Law' (2017) 41 *Fordham International Law J.* 135.

[129] Interviewees No. 17 and No. 27.

[130] Interviewee No. 27. See also R. Gordon and V. Thuronyi, 'Tax Legislative Process' in *Tax Law Design and Drafting*, ed. V. Thuronyi (1996) 1, at 9.

[131] B. Hartl et al., 'Does the Sole Description of a Tax Authority Affect Tax Evasion? The Impact of Described Coercive and Legitimate Power' (2015) 10 *PloS One* 0123355.

[132] Alm et al., op. cit., n. 36.

both interview and case law data reveals significant concerns over the abuse of tax law enforcement discretion by the executive branch, and its negative effect on tax morale. This discretion is particularly problematic when tax laws lack precision; unclear tax law provisions enhance the discretionary power of the executive branch.[133] There is evidence that tax authorities often disregard Ministry of Finance guidelines, failing to notify companies before inspections[134] and exceeding legal maximums for inspection frequency[135] – an issue that even drew the attention of the previous Prime Minister.[136] Many SME owners feel that their rights are violated,[137] and that tax officials are harsher towards SMEs, fuelling perceptions of tax enforcement unfairness, and thus discouraging tax compliance.[138]

3.3 | Exogenous motivations

The first exogenous motivation for corporate tax (non-)compliance is *personal attitudes*. Though attitudinal factors are known to be critical for individual tax morale, it may appear counter-intuitive to think of them as relevant to corporate tax morale.[139] Yet, interview data shows that SME owners are strongly motivated by attitudes. Indeed, a wide range of emotions was expressed by interviewees,[140] from satisfaction with tax officials,[141] to anger towards tax authorities' communication tone and approach.[142] Interviewees who had had direct involvement with tax authorities expressed particularly strong emotions. Interestingly, the mere reference to terms associated with tax authorities seemed to trigger strong negative emotions; some interviewees used words such as 'frightened' or 'extremely dislike' at the mention of terms such as 'tax inspector' in hypothetical questions,[143] even when they had had no prior contact with local tax officials.[144] However, again there may be an element of self-interest and motivated reasoning; interviewees reported that they are relieved if tax officials are supportive in communications, but that they stop fully declaring income or sales if they feel that they are harshly treated, forced to pay taxes or penalties.[145]

The second exogenous motivation for corporate tax (non-)compliance is *cultural values*. Evidence of adherence to Confucianism – an often unfamiliar value system in Western societies, resulting largely from historical and sociological context[146] – was found, but, as opposed to

[133] M. James, 'Humpty Dumpty's Guide to Tax Law: Rules, Principles and Certainty in Taxation' (2010) 21 *Critical Perspectives on Accounting* 573. In the case of the UK, legal imprecision increases the power not only of the executive branch but also of the judicial body.

[134] Case No. 496/2020/HC-PT on 8 September 2020 by the High-Level People's Court in Ho Chi Minh City.

[135] Case No. 525/2018/HC-PT on 8 November 2018 by the High-Level People's Court in Hanoi, where the local tax authority was found to have violated both administrative circulars and tax law rules.

[136] Instruction No. 10/CT-TTG on 22 April 2019; Official Dispatch No. 1199/TCT-KTNB on 23 March 2020.

[137] Case No. 11/2018/HC-ST on 8 November 2018 by the People's Court of Dong Thap Province.

[138] Interviewees No. 2 and No. 4.

[139] Onu, op. cit., n. 45, p. 182.

[140] J. Olsen et al., 'Emotions and Tax Compliance among Small Business Owners: An Experimental Survey' (2018) 56 *International Rev. of Law and Economics* 42, at 44.

[141] Interviewee No. 18.

[142] Interviewees No. 20 and No. 27.

[143] Interviewees No. 5, No. 24, No. 27, No. 28, No. 30, and No. 36.

[144] Interviewees No. 5 and No. 24.

[145] Interviewees No. 17 and No. 27.

[146] Hofstede et al., op. cit., n. 16, p. 354.

previous studies on corporate (non-tax) fraud, interview data shows a negative influence of Confucianism on tax morale. In the Vietnamese feudal system, government officials were referred to as 'parents of the people',[147] a perception that can be traced to Confucian scholars.[148] One interviewee thus compared tax authorities and tax officials to 'parents', and stated that SMEs always follow their orders without expressing any personal feelings in front of them, reflecting Confucian values of parenting;[149] yet, this corporate taxpayer chose to engage in informality as a form of resistance.[150]

Third, the tax (non-)compliance of SMEs is influenced by the involvement of *tax professionals*. One of the most significant empirical findings is that accountants, whether tax or non-tax professionals, play a central role in complying with tax laws,[151] and are also used as a method of avoiding working directly with tax officials and local tax authorities.[152] Interview data highlights three primary roles of accountants working with SMEs: tax information spreaders or advisers, tax preparers, and tax non-compliance facilitators. Each of these roles, and the trust that SME owners place in their accountants in fulfilling them, ultimately affects tax compliance and tax morale levels.[153] Outsourcing tax matters to part-time experienced accountants can reduce money and time spent.[154] Yet some interviewees stressed that, without industry-specific experience, accountants may struggle to address their enquiries accurately, potentially leading to unintentional tax violations.[155] This finding is in line with a previous study demonstrating the impact of unqualified or poorly qualified accountants on compliance with accounting standards in Vietnam.[156] In the social media era, accountants may also distribute misinformation or untested and unqualified advice, from Facebook tax groups and online forums,[157] or even from tax officials.[158] Believing in false information, accountants may, for example, misinterpret the treatment of tax-deductible and non-deductible items or misunderstand VAT exemptions, leading to incorrect tax filings.[159] Online platforms allow this type of incorrect information to spread more swiftly among accountants,[160] leading to a higher number of tax law violations.

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[147] N. N. Huy and T. V. Tai, *The Lê Code: Law in Traditional Vietnam* (1987) 178.

[148] P. D. Nghia, 'Confucianism and the Conception of the Law in Vietnam' in *Asian Socialism and Legal Change: The Dynamics of Vietnamese and Chinese Reform*, eds J. Gillespie and P. Nicholson (2005) 76, at 82–83.

[149] T. Nguyen et al., 'The Psychology of Vietnamese Tiger Mothers: Qualitative Insights into the Parenting Beliefs and Practices of Vietnamese Australian Mothers' (2014) 20 *J. of Family Studies* 48.

[150] Interviewee No. 27.

[151] E. Doyle, 'Encouraging Ethical Tax Compliance Behaviour: The Role of the Tax Practitioner in Enhancing Tax Justice' (2023) 85 *Law and Contemporary Problems* 137.

[152] Interviewees No. 4, No. 9, and No. 33. See also J. Frecknall-Hughes et al., 'The Influence of Tax Authorities on the Employment of Tax Practitioners: Empirical Evidence from a Survey and Interview Study' (2023) 97 *J. of Economic Psychology* 102629.

[153] Interviewee No. 8. See also G. Stone, 'Power, Dependence and Frustration: A Study of Power in Australian Accountants' Advisory Relationship with Small Business' (2015) 23 *Meditari Accountancy Research* 250.

[154] Interviewee No. 7.

[155] Interviewees No. 1 and No. 10.

[156] S. Dang-Duc, 'Compliance with Accounting Standards by SMEs in Transitional Economies: Evidence from Vietnam' (2012) 12 *J. of Applied Accounting Research* 96.

[157] Interviewee No. 34.

[158] Interviewees No. 20 and No. 24.

[159] K. Thomas and E. Scharff, 'Fake News and the Tax Law' (2023) 80 *Washington and Lee Law Rev.* 803, at 803.

[160] Interviewees No. 11 and No. 32.

The fourth exogenous motivation for tax (non-)compliance is perceived *institutional failings*. In line with previous literature on individual tax morale,[161] corruption, which is considered to be a result of formal institutional failings, was often cited by interviewees as a reason for tax non-compliance and low tax morale.[162] Several interviewees argued that 'petty corruption' – largely stemming from poor tax services,[163] government failures, and the perceived coercive power of tax authorities – is widely accepted. It is also clear from interview data that perceptions of corruption can be influenced by news and media reporting. Interviewees reported concerns that the media focus on 'grand corruption' stories effectively downplays the severity of the petty corruption that they experience.[164] While attitudes towards petty corruption varied, some interviewees saw corruption as beneficial, and try to bribe tax officials, often to evade CIT; over time, engaging with corrupt officials becomes a 'one-size-fits-all' solution for tax-related issues,[165] with obvious negative consequences for tax morale.

Fifth, *personal and social norms* also emerge as an exogenous motivation for tax (non-)compliance. In several cases, personal norms, tax compliance, and patriotism emerge as strongly connected. For example, several interviewees' instant response to a question regarding taxpayers' duties and rights was a famous Vietnamese slogan stating that paying taxes is patriotic.[166] Some interviewees felt that, in a country historically severely affected by wars, paying taxes is an indirect way of contributing to reconstruction and development.[167] This evidence is in alignment with findings from studies on individual tax morale,[168] as well as with historical evidence on the role of wars in public willingness to pay taxes.[169] Social norms also play a significant role in corporate tax morale. One finding is the prevalent – though not universal[170] – perception that corporate taxpayers do not need to provide accurate information to local tax authorities, with some interviewees admitting to not recording certain transactions for tax purposes.[171] They rationalized this behaviour by either believing that it will not affect tax compliance, or by assuming that others engage in similar practices.[172]

The sixth and final exogenous motivation for tax (non-)compliance is *fairness perceptions*. As identified by the literature on PIT compliance, fairness perceptions are also a significant factor in corporate tax morale. SME owners are more willing to comply with tax laws when they believe

[161] J. Alm et al., 'Corruption and Firm Tax Evasion' (2016) 124 *J. of Economic Behavior & Organization* 146; R. Picur and A. Riahi-Belkeout, 'The Impact of Bureaucracy, Corruption and Tax Compliance' (2006) 5 *Rev. of Accounting and Finance* 174.

[162] Interviewees No. 12 and No. 39. See also B. Jahnke and R. Weisser, 'How Does Petty Corruption Affect Tax Morale in Sub-Saharan Africa?' (2019) 60 *European J. of Political Economy* 101751; Alm et al., id.

[163] Interviewees No. 15, No. 17, No. 25, No. 31, No. 37, and No. 38.

[164] Interviewees No. 17 and No. 31.

[165] Interviewee No. 29.

[166] Interviewees No. 11, No. 18, No. 27, and No. 39.

[167] Id.

[168] K. Konrad and S. Qari, 'The Last Refuge of a Scoundrel? Patriotism and Tax Compliance' (2012) 79 *Economica* 516.

[169] M. Keen and J. Slemrod, *Rebellion, Rascals, and Revenue: Tax Follies and Wisdom through the Ages* (2021); H. Yeomans, 'Taxation, State Formation, and Governmentality: The Historical Development of Alcohol Excise Duties in England and Wales' (2018) 42 *Social Science History* 269.

[170] Interviewees No. 8 and No. 10.

[171] Interviewees No. 23 and No. 28.

[172] Interviewees No. 23, No. 32, and No. 34. This is a common view even in developed countries: see Mendoza Aviña et al., op. cit., n. 13.

that others also pay their fair share (distributive justice),[173] and they express support for fair tax procedures[174] and show concern for the appropriateness and equitable application of sanctions for rule breaking (procedural justice).[175] However, it is noteworthy that, though a significant number of interviewees reported paying close attention to tax penalty levels, their views on penalties have limited impact on their compliance decisions.[176] Similarly, though they did express frustration with the fact that large firms are in a better position to negotiate with, and are more respected by, tax officials, while SMEs seldom receive similar treatment, and may face even harsher penalties,[177] they acknowledged that this fact may not directly impact their decisions to pay taxes.

3.4 | Convergences and divergences

The above data paints a comprehensive picture of the motivations for tax (non-)compliance in developing countries, revealing both key convergences with and divergences from existing evidence regarding individual tax morale in developed countries. Indeed, similarly to individual tax morale, corporate tax morale in developing countries is influenced by the role of tax professionals, strong personal norms such as patriotism, and fairness perceptions. This finding supports the proposition that, contrary to classical deterrence theory, the tax behaviour of SMEs is indeed influenced by more than merely deterrence measures, such as audits and penalties; rather, it is significantly influenced by the psychological factors of SME owners. On the whole, the impact of these factors on SMEs' decision making confirms the existence of corporate tax morale, which until now has failed to be identified in the literature. Perhaps surprisingly, this morale is evident not solely as regards CIT; rather, it extends to VAT, a tax as regards which the taxpayer is – both by nature and design – the customer, not the business. This finding appears to contradict the standard tax policy belief that VAT is a neutral tax on businesses. Indeed, at least insofar as SMEs are concerned, interviewees perceived VAT as a tax paid, rather than merely remitted, by their SMEs, and thus subject to tax morale considerations.

However, the empirical evidence also demonstrates that, despite similarities, there are also three key differences between the determinant factors of individual tax morale in developed countries and those influencing corporate tax morale in developing countries:

1. *Legal complexity and high tax compliance burdens*: Unlike individual taxpayers, SMEs must comply with different taxes, particularly VAT and CIT, as regards which not only is legislation often more complex, but the legal framework may vary across industries, types of business, and locations. This results in significantly higher compliance costs, and higher levels of legal uncertainty for corporate taxpayers, than is the case for individual taxpayers, and thus (unsurprisingly) these factors play a more significant role in their tax morale. In this regard, it is also important to note that tax authorities' discretionary power and tax officials' poor performance – a more significant issue in developing countries, where tax administrative capacity

[173] B. Nathan et al., 'Paying Your Fair Share: Perceived Fairness and Tax Compliance' (2024) NBER Working Paper 32588.

[174] M. Fochmann and E. Kroll, 'The Effects of Rewards on Tax Compliance Decisions' (2016) 52 *J. of Economic Psychology* 38.

[175] J. Farrar and T. King, 'To Punish or Not to Punish? The Impact of Tax Fraud Punishment on Observers' Tax Compliance' (2023) 183 *J. of Business Ethics* 289.

[176] Interviewees No. 6, No. 12, No. 15, and No. 41.

[177] Interviewees No. 12 and No. 31.

is usually lower – often also distorts SME owners' perceptions of tax complexity and increases their reliance on accountants who are often inexperienced, given financial and affordability constraints.
2. *Informality as a social norm*: SMEs' engagement in informality emerges as a strong social norm. Unlike in developed countries, where new evidence indicates that tax fraud is now largely regarded as unacceptable, in developing countries it is generally accepted that SMEs operate outside the formal economy and SMEs' tax non-compliance is perceived as less harmful, especially when compared to that of large corporations. Moreover, engagement in the informal economy is often framed as tax resistance, reinforcing informality as a social norm and consequently embedding low tax morale. Cultural values, such as Confucian values of parenting, may attenuate the impact of this social norm for some taxpayers, but are not sufficient to override it for the majority.
3. *Corruption as an institutional failing*: Unlike in developed nations, corruption perceptions emerge as one of the most significant motivations for tax non-compliance in developing countries. Petty corruption is common, perceived by SME owners as the ultimate 'one-size-fits-all' solution, with the bribing of tax officials viewed as essential. Over time, as low tax morale becomes entrenched, working with corrupt officials is sometimes even regarded as a marker of political stability.

In addition to the above drivers of corporate tax morale in developing countries, the data also points to the lower impact of classical elements of deterrence theory on tax compliance. The influence of these classical elements in SMEs' tax behaviour is still evident, but they are less determinant than assumed by theory and policy or evident in the literature on PIT in developed countries. This is particularly the case as regards the role of tax penalties as a key deterrence mechanism, with little evidence that higher penalties have any sway on corporate taxpayers' compliance decisions. A possible explanation for the limited impact of deterrence mechanisms, such as high penalties, in this context is that the two aspects are interlinked. Overall low corporate tax morale may reduce the effectiveness of deterrence tools, because those who are more averse to risk already decide not to comply due to low morale; or, alternatively, specific drivers of that low tax morale, such as institutional failings, may decrease the fear of detection, and thus the deterrence force of tools such as penalties. Whatever the explanation, put together these findings on corporate tax morale and classic deterrence mechanisms highlight the structural and cultural barriers to corporate tax compliance in developing countries, offering critical insights into the challenges faced by those countries when trying to increase tax compliance, and raising questions over the (in)effectiveness of their most commonly used mechanisms.

4 | CONCLUSION

This article fills a fundamental gap in the literature by empirically identifying, for the first time, the impact of corporate tax morale on the compliance decisions of SMEs in developing countries, and by presenting a new framework for analysing their tax behaviour. Both this identification and the framework are supported by extensive empirical data, gathered through a novel methodological approach, designed to overcome the challenges inherent in undertaking research into a difficult area, such as tax (non-)compliance. In developing countries, SMEs are often the most important taxpayers from a revenue perspective; not only do they pay CIT, which – unlike in developed countries, where PITs are a key source of revenue – tend to be the most significant income taxes in developing countries, but perhaps more importantly, they are also *de jure* collectors of VAT, the most important tax in those countries, often by a wide margin. Yet, surprisingly little is known about what determines the tax behaviour and tax decisions of SMEs in developing (or developed) countries, apart from the fact that they are often the main source of tax non-compliant behaviour.

The proposed framework highlights the similarities between the known tax behaviour of PIT taxpayers and the tax behaviour of SME owners. Many of the known motivations for individual tax non-compliance are also key factors to explain SMEs' non-compliance, confirming that the latter is ultimately driven by the motivations of their owners, who see their businesses as extensions of themselves, and thereby intuitively undermining the legal fiction that SMEs are separate legal entities. Yet, the framework, and the empirical evidence that supports it, also point to important divergences insofar as developing countries are concerned. From a normative perspective, understanding both the convergences and the divergences is vital. Deterrence mechanisms are at best insufficient (audits) and at worst ineffective (penalties); moving away from informality as a social norm is difficult, but not impossible;[178] and while fully addressing institutional failings would realistically be difficult to achieve in the short term, decreasing legal complexity and compliance costs – including a reduction of tax administrative discretion – can be more easily accomplished, by reforming tax law and advancing the digitalization of tax law enforcement.[179] Ultimately, normative solutions to corporate tax non-compliance in developing countries will always be multifaceted, but the proposed analytical framework provides the first ever insights into the phenomenon of SMEs' tax morale, opening the door to further research in this area, allowing for the design of more effective solutions, and hopefully taking the tax policy and enforcement debate forward.

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SUPPORTING INFORMATION

Additional supporting information can be found online in the Supporting Information section at the end of this article.

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[178] Mendoza Aviña et al., op. cit., n. 13.

[179] R. de la Feria and A. Grau Ruiz, 'The Robotization of Tax Administration' in *Interactive Robotics: Legal, Ethical, Social and Economic Aspects*, ed. A. Grau (2022) 115. See also R. de la Feria and A. Schoeman, 'Addressing VAT Fraud in Developing Countries: The Tax Policy–Administration Symbiosis' (2019) 47 *Intertax* 950.