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ẢNH HƯỞNG CỦA LIÊN KẾT CHÍNH TRỊ ĐẾN NÉ TRÁNH THUẾ TẠI CÁC DOANH NGHIỆP NIÊM YẾT TẠI VIỆT NAM

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Tóm tắt

Thuế thu nhập doanh nghiệp đóng vai trò quan trọng trong nền kinh tế và xã hội Việt Nam. Tuy nhiên, trong những năm gần đây, nước ta đang chứng kiến hiện tượng né tránh thuế, dẫn đến sự sụt giảm trong cân đối ngân sách quốc gia (VEPR, 2020). Tại Việt Nam, liên kết chính trị giữ vị trí quan trọng, không chỉ thể hiện sự can thiệp của Chính phủ vào nền kinh tế mà còn ảnh hưởng đến hoạt động kinh doanh trong nước. Nghiên cứu này nhằm mục đích xây dựng mô hình hồi quy để đánh giá mối quan hệ giữa các liên kết chính trị và hành vi né tránh thuế ở các doanh nghiệp niêm yết tại Việt Nam. Kết quả cho thấy sự tồn tại của các mối quan hệ chính trị tác động tích cực đến hành vi tuân thủ thuế và nộp thuế của doanh nghiệp, từ đó đưa ra những hàm ý duy trì mối quan hệ kinh tế - chính trị lành mạnh giữa nhà nước và doanh nghiệp tại Việt Nam.

Từ khóa: Liên kết chính trị, né tránh thuế

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THE EFFECTS OF POLITICAL CONNECTIONS ON CORPORATE TAX AVOIDANCE AMONG LISTED FIRMS IN VIETNAM

Abstract

While corporate income tax plays an important role in serving the Vietnamese society and economy, the nation has been witnessing tax avoidance, which leads to reducing national budget balance in recent years (VEPR, 2020). Meanwhile, Vietnam is a relationship-based economy where political linkage not only represents the government's intervention into the economy but also affects business operations within the nation. This research aims to build a comprehensive regression model to assess the relationship between different categories of political connections and corporate tax avoidance among listed firms in Vietnam. Results suggest that the existence of political connections positively impacts firms' tax compliance and payment behavior, which implies further insights for the state and firms to maintain a healthy political - economic relationship.

Key words: Political connections, Corporate tax avoidance

1. Introduction

Tax avoidance is considered a tax planning strategy which lowers the amount of tax liabilities via business investment and restructuring within the legislature (Wang et al., 2020). According to the Viet Nam Institute for Economic and Policy Research (2020), Vietnam has been facing budget losses in recent years, among the constituted components of which tax avoidance has become an important variable. Corporate income tax (CIT) is one of the significant sources for Vietnam's government budget. According to the Ministry of Finance, CIT is the second largest tax contributor to the national budget, accounting for approximately 17.32% of total budget in the Government fiscal balance 2023. The government strategically allocates its national budget in providing essential public services, funding social welfare programs, repaying national debt, and investing in economic growth. Therefore, firms play a crucial role in developing the economy and conditioning income distribution on a national level. While CIT represents a major source of government revenue, it is considered a significant expense to firms' shareholders, which creates one of the strong incentives for business directors to reduce tax burden.

Since the "Doi Moi" Reform in 1986, Vietnam has been evidently transitioning from a centrally-planned economy to a market-oriented economy. During this adaptation process, the government has played an essential role in directing, supervising and ensuring economic development via regulations and policies. The International Monetary Fund (2013) reported that the economic expansion in Vietnam had been largely dependent on government spending and investment. Furthermore, whereas a noticeable number of state-owned enterprises have been stocked, government-regulated firms remain a driving force for economic growth. Therefore, it is important to study the effects of political forces on economic variables in Vietnam.

The relationship between politically-tied enterprises and tax avoidance has been studied and discussed across regions, including The United States (Wang et al., 2022), Spain (Bona-Sánchez et al., 2019) Malaysia (Adhikari et al. 2006), Indonesia (Jianfu & Sudibyo, 2016, Indarto & Widarjo, 2021), and China (Kim & Zhang, 2014, Lin et al., 2018, Tanya, 2020), etc. In general, international literature has employed a variety of proxies for political ties to assess their influence on corporate tax avoidance, such as politically connected shareholders, government ownership, geographical linkage, and stock price, etc. (Koenigsgruber et al., 2019). Despite the heated discussion worldwide, Vietnam has witnessed only a modest amount of literature studying the relationship between corporate political connections and tax avoidance. Most studies concentrate on studying the effect of state ownership - a category of political connection - and tax avoidance probability (Phan, 2017, Ha, 2017). In Vietnam's network-based economy where politics is deeply intertwined with the macro and micro economic environment, however, a systematic research could be conducted to provide a more comprehensive and detailed investigation into different measurements of political ties and corporate tax avoidance.

Therefore, this research aims to systemize literature on categories of corporate political connections and the probability of tax avoidance among listed firms in Vietnam. Additionally, a regression model is built to examine this relationship in the political, social and economic context of Vietnam. Recommendations are also suggested in the interest of the government and firms based on the research results.

2. Literature review

2.1 Overview of Political connections

Corporate political connections have been gaining attention in academic discussions across the years. This concept encompasses personal relationships between politicians and firms' shareholders or directors (Fisman, 2001; Johnson et al., 2003), firms' financial contributions to political actions (Cooper et al.,2010), firms' lobbying activities with the aim of impacting the authorities' decisions (Yu and Yu, 2011), geographical linkage, equity ownership, and stock price variability (Pruess, Preuss, S. and Königsgruber, 2021). While there are multiple perspectives of political connections, the core of political connections can be defined as resources which assist firms in navigating the political market by gaining reliable information and reducing political risks (Hillman & Hitt, 1999). While literature on political connection is constantly developed worldwide, measurements are largely branched into three categories.

Political connections through firms' directors and owners/shareholders were one of the first concepts to be studied and acknowledged widespread (Gomez & Jomo, 1999). Fisman (2001), Johnson and Mitten (2003) and Faccio (2006) also reached a consensus on this definition. This category is regarded an obtained political connection, where firms need to constantly seek and maintain connection in order to sustain benefits derived from this relationship.

Firms' equity structure considering ownership shared by the state and state organizations also represents political connections (Adhikari et al, 2006). Recent studies by Königsgruber et al. (2021) and Eissa and Eliwa (2021) have also reinforced the usage of state ownership as a measure of political connections by consolidating past literature and aggregating different types of political linkage.

Investigation of political connections continued to grow as a new measurement has been added into the related literature: government procurement contracts for goods and services. The research by Goldman et al. (2013) argued that the allocation of procurement contracts awarded by the state not only provide evidence for political connections but also represent causal relations with political links established by firms' directorship and ownership.

2.2 Overview of Tax avoidance

Studies by Barkoczy (1999), Freedman (2004), Simon (2012) describe tax avoidance as any arrangements aimed at minimizing or deferring tax liability. Perhaps many researchers try to define tax avoidance by examining its legality compared to tax evasion. Tax avoidance refers to lawful techniques used by businesses to lessen tax burdens whereas tax evasion implements illegitimate strategies to escape from tax duty (Xynas 2011; Bhuiyan, 2012).

Companies use tax avoidance strategies to retain capital, aiming to increase profits and boost their financial stability. This can lead to benefits like increased investment, improved employee satisfaction, and potentially, higher societal contributions through taxes and philanthropy (Desai et al., 2006), (Lisowsky, 2010). However, concerns exist around managing tax avoidance ethically, as aggressive tactics can harm the company's reputation, incur agency costs, and even negatively impact its value in the long run (Hanlon & Slemrod, 2009), (Gallemore, Maydew, & Thornock, 2014) . The relationship between tax avoidance and corporate value appears complex and may depend on various factors like ownership structure.

2.3 Empirical evidence and hypothesis development

Kim & Zhang (2016) introduce several ways through which firms can benefit from their political affiliation to reduce tax burdens. For example, firms affiliated with politicians receive preferential privilege from the government (Faccio, 2006), enjoy lower exposure to tax audits and actual financial situations (Christensen et al. 2015). Also, close relationships with political officials help firms to be earlier informed about upcoming adjustments to tax legislations (Milyo et al., 2000) which allow them to be well-prepared for future strategies and suffer from less uncertainty posed by the tax systems. This notion of political connection's role in mitigating firms' tax payments is also convinced by Adhikari (2006), Wu et al. (2012), Muttakin et al. (2015), Wahab et al. (2017) stating that ETRs are lower in connected firms than in non-connected ones.

On the contrary, some researchers adopt an opposite perspective on the relationship between political connections and tax avoidance. Pranoto & Widagdo (2016) provide significant results that political affiliations, especially through the presence of politicians in the company's top management or the board's close ties to the government, raise the effective tax rate. The reason for these results is that tax contribution to the state becomes one of the key evaluation criteria for business performance and those with the outstanding tax contribution to the state are awarded by the government. Other examinations by Putra & Suhardianto (2020), Manihuruk & Novita (2023) yield the same outcome. Approaching from the Upper-Elechon theory, Putra & Suhardianto (2020) believe that personal background, traits, and characteristics significantly affect organizational outcomes. Factors such as educational level, social background, specialization, and previous experience of top managers are assumed to reflect the firm's choices and performance level. They emphasize that political relations or political positions can promote the management's adherence to the government expectations, hence diminished efforts to minimize tax liabilities. Iswari et al. (2019) collect data from listed companies in Indonesia Stock Exchange during the 2012-2016 period and measure the political connection of the board of directors (PC_DIR) by dividing the number of politically connected BOD members by total BOD members. The results support a negative effect of political connection on tax avoidance, stating that the politically affiliated board members commit to stringent tax reforms of the government. The authors formulate the hypothesis:

H1: The higher proportion of politically connected board members, the lower level of tax avoidance

Research on the relationship between state ownership and tax avoidance behaviors shows that the intervention of government in a business can be either positive or negative. Some researchers found that firms controlled partly by the state aim to maximize social benefit while private firms aim to maximize their profit. Particularly, the government may drive the firm to perform specific social responsibilities or make payments for the personal expenses of government officials (Fan et al., 2007). One channel for the government to affect firm value is through tax levy and regulations. Derashid and Zhang (2003) find that governments can have preferential policies to increase tax burdens for state-owned companies. Research by Wu et al. (2012) proves that when firms do not enjoy a preferential tax policy, firm size increases ETRs for privately controlled firms and decreases ETRs for state-controlled firms

In general, the literature regarding the relationship between the government and firm performance can be based on two aforementioned theories: agency theory and political cost theory. Agency theory holds that the shared power of the ownership between state and non-state parties in firms affects the management of the firms. Their decision takes activities to ensure social stability, such as curbing inflation, reducing the high unemployment rate, or social practices, after profit maximization, so they have less incentives for commit tax avoidance behaviors to increase value to shareholders. Meanwhile, the more concentration of state ownership, the more challenges for non-state shareholders to achieve the profit-maximization goal as they encounter the influence of state power in controlling firms' performance and ensuring firms' compliance with tax regulations. Political cost theory implies that firms' accounting policy changes to adapt to more restrictive government scrutiny and have been examined in some research, specifically for different benefits such as tax import relief (Jones, 1991), lowering cost in the tele industry (Key, 1997), and windfall profit taxes (Han and Wang, 1997). Therefore, state ownership endures more government scrutiny, and may be exposed to more examination and assessment that lead to larger compensation for aggressive tax manipulation. Based on the theory and literature, the authors generate the hypothesis:

H2: The higher proportion of state ownership, the lower level of tax avoidance.

The bidding process as well as involved parties needs to be transparent and follow established regulations. This means preventing unfair market practices and even tax avoidance (Gislason et al., 2023). In the UK, through the Companies Act 2006, UK law promotes transparency by mandating companies to reveal the identities, names and locations of their subsidiaries irrespective of importance or operating scale. The UK Cabinet Office in 2013 proposed stricter measures combating tax planning schemes, using government contracts as a tool to discourage firms from pursuing tax avoidance and evasion (The Cabinet Office, 2013)

The authors also use corporate social responsibility as an explanation for the relationship between government contracts and tax avoidance. Flammer (2018) finds that firms performing stronger CSR practices are awarded more government contracts. CSR hereby creates a favorable environment for government-firm collaboration. Firms with strong CSR often prove themselves as non-opportunists. Most research reveals an inverse relationship between CSR performance and tax avoidance (Kovermann & Velte, 2021). Increasing tax avoidance is associated with lower CSR ratings and it can weaken firms' ability to achieve government contracts. From what presented above, the authors develop the hypothesis:

H3: The higher value of government contracts, the lower level of tax avoidance

3. Research methodology

3.1 Empirical models and estimation methods

Supported by previous studies by (Kim & Zhang, 2014) and Lin, Mills, Zhang, & Li (2018) using Ordinary Least Square (OLS), we employ the same method to test all hypotheses.

The regression model is as follows:

$$\mathbf{ETR_{it} = \beta_0 + \beta_1 STAT\_OWN_{it} + \beta_2 BOD\_CON_{it} + \beta_3 GOV\_CON_{it} + \beta_4 SIZE_{it} + \beta_{5\text{-}} ROA_{it} + \beta_6 LEV_{it} + \beta_7 TAN\_CAP_{it} + \beta_8 INVEN_{it} + \beta_9 CASHOLD_{it} + \varepsilon_{it}}$$

In this model, the dependent variable is Effective Tax Rate (ETR). Independent variables include political connections through boards of directors (BOD_CON), state ownership (STAT_OWN) and government procurement contracts (GOV_CON). Additionally, control variables which relate to corporate tax avoidance consist of corporate size (SIZE), return on assets (ROA), leverage (LEV), tangible capital (TAN_CAP), inventories (INVEN) and cash holds (CASHOLD).

3.2 Variable measurements

Dependent variable:

Effective Tax Rate (ETR) was first defined by Porcano (1986) as the ratio of income tax expense to income before interest and taxes. A later modification to ETR is the division of profits before interest and taxes by the difference between income tax expense and deferred income tax expense. W. Cen et al. (2017) then adjusted the ETR calculation to conform to China's favorable market and tax laws. In this modified approach, ETR is computed as the disparity between corporate income tax expense and deferred income tax expense, divided by the difference between Earnings Before Interest and Taxes (EBIT) and interest expense. The rationale behind adopting the ETR calculation method of W. Cen et al. (2017) for this study is the resonance between Vietnam's tax incentive policies and those of China. Both countries exhibit variations in statutory tax rates based on regional and industrial distinctions (*Decree*

No. 31/2021/ND-CP dated March 26, 2021, of the Government). A lower ETR is indicative of a heightened propensity for corporate tax avoidance.

Independent variables:

State ownership

Within the field of business and economic management research, the State ownership metric is frequently utilized as a means of assessing the degree of political integration that exists between businesses and the government. Using the State ownership scale is appropriate in the Vietnam market as there are still a lot of companies in the nation's economy that are owned and run by the state. Several academic works use state ownership as a dummy variable, classifying a company as either at least 51 percent state-owned or at least partially state-owned (Koenigsgruber et al., 2019, Evana, E., 2019). Most of these studies use the concept that states that the percentage of an enterprise's ownership structure held by state shareholders represents the state's ownership (Quyen, 2017).

Board of Directors

Several studies have utilized various methodologies to quantify the political ties inside the Board of Directors (BOD) through the use of dummy variables. They have utilized various methodologies to quantify the political ties inside the Board of Directors (BOD) through the use of dummy variables. According to Goldman et al. (2009), the presence of at least one member with notable political positions indicates political connection within the BOD. Board members and senior managers who are currently or were formerly employed by state agencies or the military may also have a connection to this (Wu et al., 2012). In the words of Lin et al.(2018), a "Connected Board" is designated as one if the number of politically connected board members for a certain firm-year surpasses the industry-year median, and zero otherwise. On the other hand, other studies suggest a different metric for the Board of Directors, which is determined by dividing the total number of board members by the proportion of politically connected members (Indarto, B. A., & Widarjo, W. (2021)). The decision to use this formula is considered appropriate for the Vietnamese market. The particularities of the Vietnamese business environment, where the impact of political ties on corporate governance is more deeply ingrained in organizational structures, are the source of the context-specific appropriateness. This method makes it possible to examine the influence of political connections within the board more thoroughly.

Government contracts

The measurement of government contracts has received little academic attention; nevertheless, Jonathan Brogaard et al. (2015) developed a formula the sum of accounts receivables and accounts payables with the state divided by total assets that can be used to measure political connection. This measure is used to evaluate the level of political influence in relation to contracts with the government. By comparing the entire amount of accounts payable and receivables with the state to total assets, Brogaard et al. (2015) proposed a new way to measure political connections inside the business world. Using this measurement for government contracts carries significant importance in understanding the monetary exchanges between corporations and the government, providing an unbiased assessment of the impact resulting from political ties in the context of the Vietnamese market.

Control variables:

The authors use five control variables in the model, including company size, leverage, return on assets, inventory, cash holding ratio and tangible capital because of the frequency of use and the level of significance in previous studies related to tax avoidance. Firm size (SIZE) was used to control the effect of economies of scale and was measured by the natural logarithm of the company's total assets. Leverage (LEV), measured by the ratio of total debt and total assets, shows how the company uses loans from external parties to finance its activity and the interest will be paid. Since interest expense is deducted from gross income, controlling LEV moderates the effect of tax savings from high debt. Return on assets (ROA) controls the change of taxes annually due to the profitability of company performance. Inventory (INVEN) needs to be controlled because higher inventory intensity can affect tax payments due to the deduction of additional costs such as storage costs and depreciation from gross income. Cash holding (CASHOLD) was used to examine the effect of cash reserves on tax avoidance as holding a lot of cash helps businesses gain financial independence, thereby managing profitable opportunities without having to rely too much on external resources (Boubaker et al., 2015). Consequently, companies often avoid tax to reduce tax payments and increase their competitiveness. Tangible Capital (TAN_CAP) means that the capital of a company in the form of fixed assets can be used to generate income. This ratio controls the effect of expense of depreciation that can be deducted from the component of the company's income expense or deductible expense and lowering tax payment.

Table 1. Variables, measurements and expected signs

Variable	Symbol	Expected sign	Measurement	Sources
Dependent variable: Effective tax rate				
Effective tax rate	ETR		(Income tax expense - Deferred tax expense)/(EBIT - interest expense)	W. Cen et al. (2017)
Independent variable: Political connections				
State ownership	STAT_OWN	+	The number of Common Stocks of State/Total Common Stocks	Quyen (2017)
Board of directors	BOD_CON	+	Politically connected members of BOD/ Members	Indarto, B. A., &

Variable	Symbol	Expected sign	Measurement	Sources
			of BOD	Widarjo, W. (2021)
Government procurement contracts value	GOV_CON	+	(Accounts receivables with the state + Accounts payables with the state)/ Total assets	Jonathan Brogaard et al. (2015)
		Control variable		
Firms size	SIZE	-	Natural logarithm of firm size = ln(total assets)	Firmansyah et al. (2022); Rustiarini & Sudiartana (2021)
Financial leverage	LEV	-	Total debts/Total assets	Firmansyah et al. (2022); Rustiarini & Sudiartana (2021)
Return on assets	ROA	+	Net income/Total assets	Lin et al. (2018)
Inventory	INVEN	-	Inventory / Total assets	Lin et al. (2018)
Cash holding ratio	CASH HOLD	+/-	Cash and equivalent cash/total asset	Yen and Hiep, 2014; Boubaker et al., 2015; Khuong et al. (2019)
Tangible capital intensity	TAN_CAP	-	Value of tangible capital/total asset	Pattiasina et al. (2019)

Source: Authors' compilation

Sample selection and data processing

The data is collected from 3 main sources. First, financial, industrial and state-ownership data are provided by FiinPro Platform. Secondly, data for politically connected board members were hand-gathered from publicly available sources, including annual reports, governance reports, and prospectuses provided by Vietstock Corporation. Finally, financial data on account receivables and account payables with state organization, which proxy political connections through government contracts, was also hand-gathered from firms' financial statements footnotes. Additionally, data on political connections of the board was also hand-gathered from publicly available sources like annual reports.

Data processing was performed using Excel and Stata 14 software. Our team identified and eliminated outliers, which are exceptional values that may distort the mean estimates of variables and consequently affect the research results. Outliers were removed by eliminating the 10% highest and lowest values of the ETR indicator. We also excluded companies that did not have data for 7 consecutive years. The final dataset consisted of 6,424 observations corresponding to 559 companies.

4. Results and discussion

Descriptive statistics

Table 2. Descriptive statistics

Variable	Observations	Mean	Standard Deviation	Min	Max
ETR	5,710	0.1705614	0.1389496	-0. 2398727	0. 6091848
STAT_OWN	5,710	0.1200356	.2131081	0	0.765
BOD_CON	5,710	0.146624	1856204	0	0.8
GOV_CON	5,710	0.046741	0.0973806	0	0. 5812902
SIZE	5,710	27.3365	1.447495	23.90104	31. 61613
ROA	5,710	0.0650037	0.0621379	-0.1104337	0.3187405
LEV	5,710	0.2113305	. 1807456	0	0.6772254
TAN_CAP	5,710	0.2118611	0.1939437	0.0001329	0.8534553
INVEN	5,710	0. 2014515	0. 1691051	0	0.7212947

Variable	Observations	Mean	Standard Deviation	Min	Max
CASHOLD	5,710	0. 0919472	. 0947476	0	0.5212018

Source: Authors' compilation

The descriptive table reveals an average state ownership of 12% and an average effective tax rate of 17%. There is a large amount of variation in state ownership and board connections across firms, with standard deviation of 21% and 18%.

There is less variation in government connections than in board connections, but there is still a significant amount of variation. While the average Vietnamese firm is large in size (mean log of total assets = 27.38), suggesting potential economies of scale, their average performance is low (mean = 0.062), raising questions about efficiency and financial leverage.

Correlation matrix

Spearman's correlation matrix is used in this research to determine whether there is a linear correlation between pairs of independent variables, which serves as a basis for detecting multicollinearity in the research model. Multicollinearity occurs when there is a strong linear correlation between the independent variables in the model and it causes many serious consequences for the interpretation of the analysis results. The analysis reveals low absolute values of correlation coefficients between independent variables (less than 0.8), supporting the absence of significant multicollinearity and enabling the author to confirm the non-existence of hyperbolic interactions within the model framework.

Table 3. Correlation matrix

	ETR	STAT_OWN	BOD_CON	GOV_CON	SIZE	ROA	LEV	TAN_CAP	INVEN	CASHOLD
ETR	1.0000									
STAT_OWN	0.1072	1.0000								
BOD_CON	0.0490	0.1890	1.0000							
GOV_CON	0.1154	0.2689	0.1947	1.0000						
SIZE	-0.1024	-0,0541	0.0810	0.0017	1.0000					
ROA	0.2250	0.1050	0.1473	-0.0241	-0.1066	1.0000				
LEV	-0.1247	-0.0423	-0.0256	0.0144	0.3868	-0.3004	1.0000			
TAN_CAP	-0.0164	0.1169	0.0484	0.0413	-0.0343	0.1895	0.1692	1.0000		
INVEN	0.0156	0.0179	0.0196	-0.0545	-0.0130	-0.0235	0.2385	-0.2502	1.0000	
CASHOLD	0.2667	0.0761	0.1224	0.0757	-0.1306	0.4443	-0.2888	-0.0345	-0.0213	1.0000

Source: Authors' compilation

Regression results

Table 4. Regression results

Variables	ETR	
	Regression coefficient	**Robustness test**
STAT_OWN	0.021** (2.33)	0.021** (2.56)
BOD_CON	0.022** (2.19)	0.022** (2.17)
GOV_CON	0.111*** (5.62)	0.111*** (5.44)
SIZE	0.003* (1.76)	0.003* (1.84)
ROA	0.199*** (5.93)	0.199*** (5.86)
LEV	-0.047*** (-3.70)	-0.047*** (-3.55)
TAN_CAP	-0.066*** (-6.09)	-0.066*** (-5.91)
INVEN	0.247** (2.04)	0.025** (1.96)
CASHOLD	0.191*** (9.87)	0.191*** (8.89)
Number of observations	5,170	5,170

t statistics
* p<0.1, ** p<0.05, *** p<0.01

Source: Authors' compilation

The variable BOD_CON, indicating the percentage of politically connected board members, has a positive regression coefficient with a significance level of 5% using the robustness test. This suggests that when the board of directors have more members previously or currently holding the important positions in the political system, their enterprises have higher ETR, or, the probability of tax avoidance behavior in these firms will be lower than in those without political ties. The result is similar to the findings of some recent studies by Putra & Suhardianto (2020), Manihuruk & Novita (2023). It reinforces the upper-elechon theory stating that the managerial experiences can be reflected in their strategic decisions. Executives affected by their political experiences will show more cooperative attitudes towards the government. Hence, they are less likely to adopt tax planning strategies.

The regression results show that state ownership level (STAT_OWN) has a positive coefficient with a significance level of 5%, which means that the hypothesis H2 "The higher proportion of state ownership, the lower level of tax avoidance" is accepted. This is in line with the findings of prior studies by Wu et al. (2007), Wu (2009), Ha & Phan (2017) uncovering a negative relationship between state ownership percentage and tax avoidance. Their findings suggest that the higher the percentage of state ownership, the higher ETR. Businesses in key industries with the government as a major shareholder typically concentrate on political and social strategies rather than focusing on increasing firm value.

The variable GOV_CON which represents the value of government contracts depicts a strong positive relationship with ETR, evidenced by a statistically significant coefficient at 1%. The result aligns with the expected sign of the hypothesis H3. It also supports the research of Mills et al. (2011) examining the relationship between political sensitivity and tax costs and stating that government contractors pay higher taxes. Firms awarded government contracts use the national budget thus experiencing more rigorous governmental scrutiny. For firms engaging in the procurement process, preventing tax avoidance as a CSR practice can increase the competitiveness of firms in winning the bidding. Government contracts are generally a method to decrease corporate tax avoidance.

The control variables used in the research model are all statistically significant at 1% (ROA, LEV, TAN_CAP, CASHOLD), 5% (INVEN) and 10% (SIZE). However, there are two control variables that coincide with the authors' expectations. The financial leverage (LEV) and tangible capital intensity (TAN_CAP) variables are negative. The results also support the findings of Gupta & Newberry (1997) showing that higher financial leverage is associated with lower ETR, and Pattiasina et al. (2019) considering capital intensity to be an effective way to minimize tax burdens.

5. Conclusion and recommendation

In conclusion, the research has arranged the theoretical framework and built a research model to address the relationship between corporate political connections and tax avoidance behaviors among listed firms in Vietnam. According to the analytical results from the previous chapter, the degree of political connection among board members, the percentage of State ownership, and government contracts all have a significant impact on the tax avoidance behavior of enterprises. The effective tax rate positively correlates with all three of these variables, suggesting that politically connected businesses generally have lower rates of tax avoidance.

Based on the above analysis, the research team makes some recommendations for enterprises and the government in Vietnam. The government can consider to increase the participation of directors with political backgrounds or state ownership can improve the tax collecting of the government, which is pivotal to the progress of the country's economy. The government can also use the findings as a foundation to encourage policymakers and regulators in emerging markets to develop stricter laws, policies, and regulatory initiatives to control tax revenue effectively and strong corporate governance regulations to have better and anti-corruption environments for firms, especially to protect the rights of small shareholders. Besides paying attention to improving law on enterprise income tax, the government should also assess the structure of the state ownership, earnings, leverage, and tangible assets in controlling the firm tax avoidance in Vietnam. For corporations, PCs bring many benefits and advantages such as building a transparent business environment with anti-corruption, strong corporate governance regulations and better corporate structure setting. Companies can manage their resources effectively, enhancing market competitiveness and commitment to tax regulations through lowering the political cost of tax avoidance behaviors.

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