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**PHÂN TÍCH VAI TRÒ CỦA ƯU ĐÃI THUẾ TRONG VIỆC HỖ TRỢ CÁC
DOANH NGHIỆP VỪA VÀ NHỎ TẠI VIỆT NAM TRONG BỐI CẢNH CỦA
ĐẠI DỊCH COVID-19**

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Tóm tắt

Nghiên cứu này phân tích vai trò của các ưu đãi thuế trong việc hỗ trợ các doanh nghiệp vừa và nhỏ (SMEs) tại Việt Nam trong bối cảnh đại dịch COVID-19 và đưa ra các đề xuất nhằm tối ưu hóa tác động của chúng đối với nền kinh tế. Nghiên cứu kết hợp sử dụng dữ liệu thứ cấp từ một bộ tổng quan lý thuyết hoàn chỉnh và phân tích của các chính sách thuế từ các nguồn đáng tin cậy. Bằng cách nghiên cứu các chính sách thuế đã áp dụng lên các doanh nghiệp vừa và nhỏ tại Việt Nam bao gồm giảm thuế và gia hạn thanh toán thuế, chúng tôi đã đưa ra kết luận từ những thành công của chính sách đó đối với sự phát triển của doanh nghiệp trong khu vực. Nghiên cứu góp phần tìm hiểu mối quan hệ giữa ưu đãi thuế và sự phục hồi của các doanh nghiệp vừa và nhỏ tại Việt Nam sau đại dịch COVID-19, đánh giá hiệu quả của các chính sách đã được áp dụng, và cung cấp những hiểu biết sâu sắc cũng như đề xuất cho các nhà hoạch định chính sách, doanh nghiệp và nhà nghiên cứu để giúp họ có sự chuẩn bị tốt cho các tình huống khẩn cấp trong tương lai.

Từ khoá: Ưu đãi thuế, doanh nghiệp vừa và nhỏ, COVID-19, Việt Nam.

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ANALYSIS OF THE ROLE OF TAX INCENTIVES IN SUPPORTING THE SMALL AND MEDIUM ENTERPRISES IN VIETNAM IN THE OF CONTEXT OF COVID-19 PANDEMIC

Abstract

This research analyzes the role of tax incentives in supporting Small and Medium Enterprises (SMEs) in Vietnam in the context of the COVID-19 pandemic and proposes recommendations to optimize their impact on the economy. The research combines secondary data from a comprehensive literature review and analysis of tax policies from reliable sources. By investigating tax policy applied on SMEs in Vietnam including tax reduction and tax payment extension, we draw conclusions from successful practices that the policies have on the growth of SMEs in the area. This study contributes to understanding the relationship between tax incentives and the recovery of SMEs in Vietnam after the COVID-19 pandemic, evaluating the effectiveness of applied policies, and providing actionable insights as well as recommendations for policymakers, businesses, and researchers to help them prepare for unexpected future circumstances.

Keywords: Tax incentives, SMEs, COVID-19, Vietnam.

1. Introduction

Vietnam's economic landscape has undergone significant transformations in recent decades, marked by a surge in entrepreneurial activities, particularly within the realm of Small and Medium Enterprises (SMEs). Like many other countries, in Vietnam, SMEs play a crucial role in economic and social development. The proportion of SMEs in Vietnam also accounts for a high percentage of the total number of enterprises and is identified as a "growth engine," the "backbone" of the economy (TCTC, 2017). Therefore, to continue promoting the development of SMEs, enhancing competitive capacity, and ensuring compliance with the principles on supporting SMEs, aligning with the area's support capabilities in each period, it is essential to research and propose an appropriate tax policy for SMEs.

However, at the beginning of 2020, the whole world was shocked by the spread of new viruses called Coronavirus disease 2019 (Covid-19). The impact of the spread of Covid-19 almost influenced all activities in many aspects, economic, social, political, and legal. The significant event created a global impact across the world economy, and has become the primary concern for numerous SMEs during this time. In the aftermath of the pandemic, the recovery and revitalization of SMEs in Vietnam have been a paramount for economic resurgence.

One of the key factors influencing the operation and stability of SMEs by the time is the regulatory environment, with tax incentives emerging as a potential factor for their recovery and response to the pandemic. Among financial policies that the Vietnamese government has been actively implementing, tax incentives stand out as a powerful tool to aid businesses. Understanding

the nuanced relationship between tax incentives and the reliability of firms is essential for devising effective strategies that align with the broader economic goals of Vietnam.

Despite the recognition of tax incentives as an assistance for SMEs to address instability in the context of Covid-19, no study evaluates the utilization of those financial policies by SMEs and their impact specifically in Vietnam, leaving a gap for further research. By investigating tax policies that the Vietnamese government applied during the given time and evaluating their outcome, and limitations, we expect to understand thoroughly the viewpoint of enterprises exposed to issued decrees. Accordingly, we can suggest suitable and practical recommendations to help refine the policy for both the government and enterprises so that they are all well-prepared for future unexpected circumstances.

The study applies qualitative methods by employing secondary data collection and analysis methods due to the high cost and time required for primary research, especially when it involves extensive fieldwork and data compilation from numerous businesses nationwide. Our data collection included academic publications from reputable journals that focused on the performance of SMEs in different countries in the context of Covid-19, official materials from Vietnamese government entities discussing tax incentives and SME recovery after the pandemic, reports from the World Bank and research documents from trustworthy organizations.

By delving into the existing literature, analyzing tax policies, and evaluating the experiences of SMEs, this study seeks to contribute valuable insights for policymakers and business owners. The findings are expected to inform policymakers, business leaders, and academics, offering practical insights into how tax incentives can be tailored to enhance the resilience of SMEs during the pandemic, thereby contributing to the broader economic goals of the country.

2. Theoretical background

2.1. Small and Medium Enterprises

As per Decree 80/2021/ND-CP, the Vietnamese government SMEs are defined as business establishments that have registered in accordance with the Enterprise Law and are categorized into three levels: very small, small, and medium based on capital scale (measured as total assets identified on the accounting balance sheet), labor scale (measured as average number of employees) and total revenue (measured as earnings from the sale of goods and services provision, as documented in the financial statement of the prior year).

Table 1: Classification of SMEs in Vietnam

Type of Enterprise		Average number of employees participating in social insurance (X people)	Total revenue (T billion VND) or Total capital (V) billion dong) of the year	
Micro-enterprise	Enterprises Agriculture, forestry and fishery; industry and construction	$X \leq 10$ people	$T \text{ or } V \leq 3$ billion VND	
	Trade and service sector	$X \leq 10$ people	$T \leq 10$ billion	$V \leq 3$ billion
Small Enterprise	Agriculture, forestry and fishery; industry and construction	10 people $X \leq 100$ people	3 billion T 50 billion	3 billion V 20 billion
	Trade and service sector	10 people $X \leq 50$ people	10 billion T ≤ 100 billion	3 billion V ≤ 50 billion
Medium enterprises	Agriculture, forestry and fishery; industry and construction	100 people $X \leq 200$ people	50 billion T 200 billion	20 billion V ≤ 100 billion
	Trade and service sector	50 people $X \leq 100$ people	100 billion T ≤ 300 billion	50 billion V 100 billion

Source: The authors' compilation based on Decree 80/2021/ND-CP (2021)

In this study, we consider enterprises as SMEs based on the capital scale criterion in accordance with the Decree No. 80/2021/ND-CP, unless otherwise stated.

Small and medium-sized enterprises (SMEs) often exhibit characteristics such as small owner equity and limited management expertise, making it difficult for them to access formal capital markets (Tran, 2003; Pham, 2007). Financial management consistently ranks as a primary concern for SMEs throughout their business development journey. Despite this, SMEs often struggle to access funding from traditional banking sources due to their high-risk profile. Instead, they frequently rely on informal sources of capital with high interest rates, resulting in significantly elevated capital costs that hinder business growth. Compliance with tax obligations also significantly impacts the financial status of SMEs and directly affects their owners. With small capital bases, primarily reliant on owner equity, this imposes a substantial burden on these

enterprises. In times of crisis, when the financial situation of SMEs becomes even worse, financial support like tax incentives for them become increasingly essential.

2.2. Tax Incentives

According to the Organisation for Economic Cooperation and Development (OECD), tax is confined to compulsory, unrequited payments to the general government. In other words, tax is an obligatory contribution to the government based on an individual's income, business earnings, or the added value to certain goods, services, and transactions. Philip E. Taylor (1970) defined tax as a mandatory payment made by individuals to the government to cover the costs associated with the general welfare of society without focusing on specific benefits received. Most definitions above have recurring elements: Tax is a mandatory monetary or non-monetary contribution by individuals, organizations, or other entities to the government for public purposes, which is unrequited (Heij, 2001). Tax payment directly affects the business's interests, while the benefits derived from using goods and services are indirect and difficult to measure, so businesses often view taxes as a burden, one of the factors inhibiting investment and economic development. Therefore, the benefits of businesses must be taken into account when formulating tax policies.

Tax incentives have the potential to affect state budget revenue, yet the development of firms can yield broader societal benefits, such as poverty reduction, income equality, and political and social stability. Most industrialized countries offer tax incentives to support the growth of small and medium-sized enterprises through various tax benefits. These measures include tax holidays, tax rate reductions, specific tax amortization procedures, adoption of more acceptable taxation accounting methods for taxpayers, extension of tax periods, special tax discounts and tax credits, and simplified administration, accounting, and reporting procedures (Ordynskaya et al., 2016). Doh et al. (2014) investigated how government tax incentives affect innovation in small and medium-sized Korean firms (SMEs). The findings indicate that government tax incentives positively impact industry innovation.

Vietnam has been implementing tax incentives since opening up its economy, including incentive tax rates, persons for tax exemption, and reduction or other incentives. Recently, Vietnam has provided incentives by reducing corporate income tax (CIT) and extending exemption periods. The value-added tax (VAT) policy is consistently applied to all types of goods and services throughout importing, producing, processing, and trading. While granting tax incentives to firms may decrease tax revenue in the short term, sustained growth in the number and scale of firms can expand the tax base over the long term, thereby increasing tax revenue. Most economic zones have benefited from the VAT policy on imported items according to current regulations (Pham, 2022).

2.3. COVID-19 Pandemic

Emerging in Wuhan, China, in the final quarter of 2019, the coronavirus known as "COVID-19" rapidly spread globally in January 2020 and was declared a pandemic by the World Health

Organization (WHO) in March 2020. According to WHO (2022), in the first two years of the pandemic, up to 15 million people have died worldwide. The pandemic is considered the most severe health crisis in recorded history (Alokaily, 2021).

The COVID-19 pandemic has had extremely severe impacts on the global economy. The global economic crisis induced by the COVID-19 pandemic reverberated across the world economy, marking the most significant financial upheaval in over a century (World Bank, 2022). Various actions, such as border closures, school and workplace shutdowns, and the prohibition of large gatherings, were implemented. The "Great Lockdown" resulting from the global financial crisis brought a halt to worldwide economic activity, adversely impacting businesses and leading to widespread job losses (Naseer et al., 2022). The inflation rate surged dramatically in many countries around the world in 2022, with the primary cause being the impact of the pandemic, serving as evidence of the severity of this health crisis on the global economy.

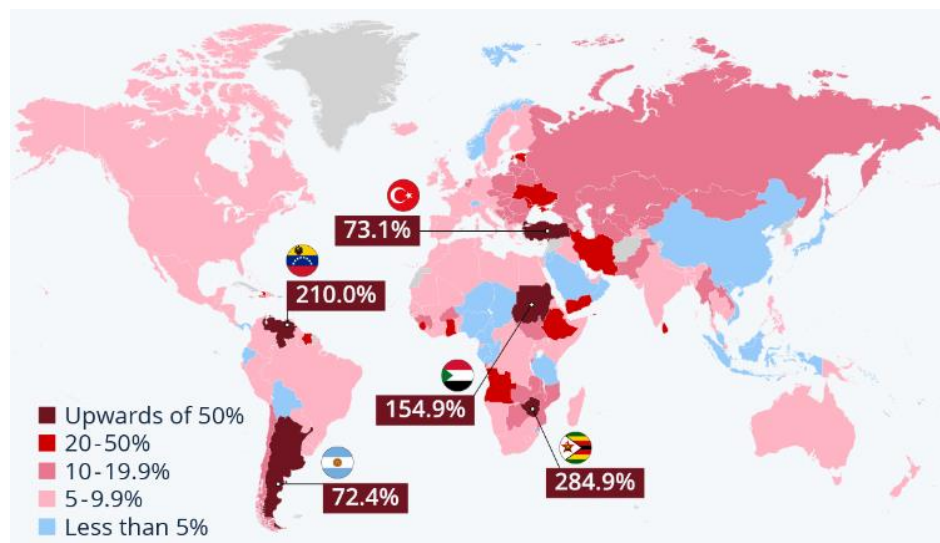


Figure 1: Annual Inflation Rate by country in 2022

Source: International Monetary Fund (2022)

In Vietnam, the pandemic also has serious impacts on the national economy. The year 2021 posed unprecedented difficulties for the Vietnamese economy as the Covid-19 pandemic directly influenced every facet. According to the National Institute for Finance (2022), the economic damage, when calculated from 2020, reached a total of 847 trillion VND, equivalent to 37 billion USD when considering the combined impact of both years (2020 - 2021).

3. Analysis of the effect of tax incentives on SMEs in Vietnam during Covid 19

3.1. The situation of SMEs in Vietnam during COVID 19

The shadow cast by the crisis of the COVID-19 pandemic has reversed the trend of economic growth due to restrictive measures, border closures, and disrupted trade between regions and countries. This has led to a sharp increase in unemployment rates, pushing many into poverty and causing numerous businesses to go bankrupt. Vietnam's economy is no exception to this trend with the economic growth dropping significantly during Covid period.

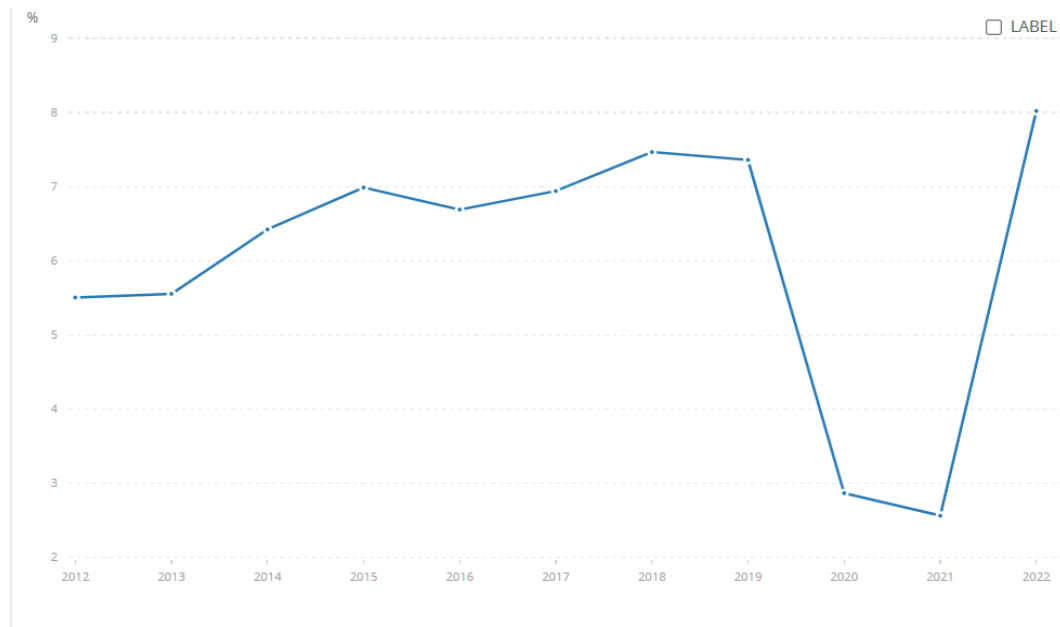


Figure 2. GDP growth (annual %) - Viet Nam (2012-2022)

Source: World Bank

These various impacts are affecting both larger and smaller firms. However, the effect on SMEs is especially severe, particularly because of higher levels of vulnerability and lower resilience related to their size.

On the supply side, SMEs faced backend issues due to transportation disruptions and labor shortages. The survey results from VCCI & WB (2020) also indicate that small and medium-sized enterprises were more significantly affected by the COVID-19 pandemic compared to large enterprises in terms of reduced production capacity due to restrictions on on-site operations/remote work requirements (59.69%), difficulty in predicting appropriate inventory levels (43.02%), and delays in maintenance/technical support due to travel restrictions (32.17%). According to a survey by VCCI & WB (2020), the majority of small and medium-sized enterprises reported that the pandemic affected customer access, cash flow, and labor force issues. Small and medium-sized enterprises were most affected by the decreased production capacity due to restrictions on on-site

operations/remote work requirements (59.69%), followed by difficulty in predicting appropriate inventory levels (43.02%). Furthermore, supply chains are interrupted leading to shortages of parts and intermediate goods (OECD, 2020)

On the demand side, SMEs experienced a significant decrease in demand due to lockdown measures, reduced consumer confidence, and the closure of global value chains in affected sectors. According to VASS (2020), many agricultural and aquatic products exported to traditional markets such as China, South Korea, Japan, the United States, the EU, and ASEAN saw sharp declines due to each country's Covid prevention policies. According to HSE, the export turnover of agricultural and forestry products decreased by 4.5%, aquatic products by 11.2% in the first quarter of 2020 compared to the same period last year, while rubber decreased by 26.1%, fruits and vegetables by 11.5%, and coffee by 6.4%.

SMEs are strongly represented in sectors such as tourism and transportation, which are significantly affected by the virus and the measures taken to contain it. Specifically, data from the General Statistics Office shows that the number of international visitors in 2020 only reached 3.8 million, down 78.7% compared to 2019, of which, more than 96% were international visitors arriving within first quarter 2020; Domestic tourists also decreased by nearly 50%; The total loss of tourism revenue in the country is up to 530 trillion VND (equivalent to 23 billion USD)..

The impact of the virus could have potential spill-overs into financial markets, with further reduced confidence and a reduction of credit. Given the limited resources of SMEs, and existing obstacles in accessing capital, the period over which SMEs can survive the shock is more restricted than for larger firms (OECD,2020). Many SMEs have faced disruptions, delays in investment projects, and even the risk of bankruptcy due to sudden drops in market demand, resulting in reduced revenue and facing risks of debt recovery leading to insolvency. According to the World Bank (2020), approximately 50% of small businesses and over 40% of medium-sized businesses had to temporarily or permanently close due to the impact of the COVID-19 pandemic. Notably, the majority of businesses registering for temporary cessation of business operations were small and micro-sized, with a capital scale ranging from 0 to 10 billion VND, accounting for 91.4% of the total, representing a 24.1% increase compared to the same period in 2020. In the capital scale ranging from 10 to 20 billion VND, there were 1,366 businesses (4.8%, an increase of 39.2% compared to the same period in 2020); from 20 to 50 billion VND, there were 664 businesses (2.3%, an increase of 29.2% compared to the same period in 2020); from 50 to 100 billion VND, there were 230 businesses (0.8%, an increase of 13.9% compared to the same period in 2020); and over 100 billion VND, there were 170 businesses (0.6%, an increase of 49.1% compared to the same period in 2020).

3.2. Tax policies applied on SMEs after COVID-19 pandemic

In the context of recovering from the severe consequences left by the COVID-19 pandemic on the Vietnamese economy, the issuance of tax support policies for businesses is crucial to support

the economic recovery. Many tax policies for small and medium-sized enterprises (SMEs) affected by the pandemic have been implemented by the government, mainly falling into two categories: Tax Payment Extension and Tax Reduction.

3.2.1. Tax Payment Extension

Extension of value-added tax payment for businesses

Value-added tax is a general tax that applies, in principle, to all commercial activities involving the production and distribution of goods and the provision of services (European Commission, n.d.). After a prolonged period of the pandemic, many businesses are facing the risk of bankruptcy due to financial difficulties in maintaining and restoring their operations to pre-pandemic conditions. Reducing value-added tax for businesses is an urgent solution to support enterprises, especially small and medium-sized enterprises, to overcome this challenging period.

In 2020, the first year the economy witnessed the impact of the COVID-19 pandemic, the Government issued Decree No. 41/2020/NĐ-CP, regarding the extension of tax payments for businesses, organizations, and households in certain economic sectors specified in the decree. These sectors include Agriculture and Forestry, Construction, Transportation, Labor service provision, etc. The deadline for value-added tax payments was extended by 5 months from the expiration date, as stipulated.

In 2021, facing even stronger impacts of the pandemic, the policy of extending value-added tax payments for businesses continued and expanded to include additional sectors such as crude oil and natural gas extraction, wastewater treatment, etc. (Thi Tham & Xuan Truong, 2022). The extension of the tax payment deadline by 5 months for businesses in 2021 was estimated to reduce the state budget revenue by 68.8 trillion VND (Hoai Thu, 2021). The policy of extending value-added tax payments continues into 2022 and 2023, as the economy continues to grapple with the lingering effects of the pandemic and the complex developments in the global geopolitical landscape.

Extension of corporate income tax payment.

Corporate income tax is a type of direct tax that directly impacts the taxable income of businesses. Corporate income tax includes income from a business's production activities, trade in goods, services, and other types of income (Legal Library, n.d.). The COVID-19 pandemic has presented numerous challenges for small and medium-sized enterprises in their operations, making the extension of corporate income tax essential during this period.

According to Decree No. 41/2020/NĐ-CP, certain groups of businesses, including small and medium-sized enterprises in specified sectors, will have their tax payment deadlines extended by 5 months from the expiration date of the corporate income tax payment period as regulated. This policy of extending corporate income tax continues in subsequent years with Decree 52/2021/NĐ-

CP and Decree 34/2022/NĐ-CP with the purpose to support enterprises recovering from the damage.

3.2.2. Tax Reduction

Reduced value-added tax

In 2021, certain types of goods and services such as transportation services, production and publishing services, film services, television program production, sports, entertainment, etc had their value-added tax (VAT) rates reduced by 30% or a 30% reduction in the percentage used to calculate VAT from November 1, 2021, to December 31, 2021, as per Resolution No. 406/UBTVQH15 of the Standing Committee of the XV National Assembly. This reduction applied to businesses heavily affected by the impact of the COVID-19 pandemic, particularly small and medium-sized enterprises.

Two years after the outbreak of the COVID-19 pandemic, in 2022, the government's Resolution No. 42/2022/QH15 on financial and monetary policies, along with Decree No. 15/2022/NĐ-CP, stipulated tax exemption and reduction policies. A reduced VAT rate of 8% (a 2% reduction from the previous 10%) was applied to goods subject to a 10% VAT rate. Businesses paying taxes based on the direct method as a percentage of revenue had a 20% reduction in the percentage used to calculate value-added tax (Thi Tham & Xuan Truong, 2022). The purpose of reducing value-added tax is not only to alleviate financial pressure on consumers but also to support businesses in the post-pandemic period.

Reduced corporate income tax

On September 25, 2020, the Government issued Decree No. 114/2020/NĐ-CP detailing the implementation of Resolution No. 116/2020/QH14 dated June 19, 2020, of the National Assembly on reducing corporate income tax for the year 2020 for businesses affected by the emerging economic impact of the pandemic. According to this decree, businesses engaged in production and business activities as regulated by the law were entitled to a 30% reduction in the corporate income tax payable for the 2020 tax period if their revenue for the 2020 tax period did not exceed 200 billion VND.

In 2021, adjustments were made to the corporate income tax support policy concerning eligible entities. Resolution No. 406/UBTVQH15 on October 19, 2021, by the Standing Committee of the XV National Assembly, and Decree No. 92/2021/NĐ-CP on October 27, 2021, by the Government, stipulated that businesses with income would receive a 30% reduction in the corporate income tax payable for the 2021 tax period if they met two conditions: their revenue for the 2021 tax period did not exceed 200 billion VND, and their revenue for the 2021 tax period decreased compared to the 2019 tax period.

Reduced environmental protection tax

The entities most strongly affected by environmental protection tax are transportation businesses, particularly in the context of pandemic-related social distancing measures and travel restrictions, which have intensified the challenges faced by companies in the transportation sector.

Facing pressure to increase fuel prices due to high demand during the economic recovery post-pandemic and compounded by the conflict between Russia and Ukraine, the Standing Committee of the XV National Assembly issued Resolution No. 18/2022/UBTVQH15, reducing the environmental protection tax on gasoline by 50% from April 1, 2022, to December 31, 2022 (Cam Nhung, 2022). Subsequently, on July 6, 2022, the Standing Committee of the National Assembly issued Resolution No. 20/2022/UBTVQH15, setting the minimum rate within the tax range for fuels, diesel oil, lubricating oil, grease, and mazut oil. This resolution is applicable from July 11, 2022, to December 31, 2022, aimed at supporting businesses and stabilizing the economy.

3.3. Evaluation the effect of Tax Incentive on SMEs after COVID-19

3.3.1. Achievement

Implementing tax support policies during the COVID-19 pandemic has shown that tax incentives have had very positive impacts on the production and business activities of Vietnamese small and medium enterprises in the economy.

Create a favorable business environment

The tax exemption and reduction package in 2020 supported Vietnamese businesses with 20,000 billion VND, while in 2021 it was 24,000 billion VND. It can be seen that although the amount of support package for businesses through tax exemption and reduction policies is not too large, it is targeted at the most vulnerable groups, thus having a significant impact on supporting businesses to overcome difficulties. Tax incentives have supported business capital for enterprises, creating a push for them to overcome downturn and foster production and business development. Along with other fiscal and monetary policies, tax incentives have supported Vietnam's economy to grow by 2.93% in 2020, 2.58% in 2021. These figures stand in stark contrast to the negative economic growth experienced by many countries around the world during the same period, underlining the effectiveness of Vietnam's tax support policy in sustaining economic resilience which has significantly aided businesses in navigating through challenging times (IMF, 2021). Moreover, implementing the environmental protection tax reduction policy will assist easing inflationary pressures which affect economic growth and macroeconomic stabilization. As a result, it supports businesses to recover and grow. The initial VAT reduction resulted in a 0.7% decrease in the consumer price index. It will have a greater effect in the second VAT cut, at 0.16% (Xuan Truong & Thi Tham, 2022). According to the World Bank's forecast, Vietnam's inflation in 2022 is about 2.4%, much lower than the target below 4%.

The VAT reduction policy has contributed to boosting consumer demand, thereby creating conditions to promote production and business development. The VAT reduction policy has the effect of increasing the economy's solvency demand, thereby contributing to promoting economic growth. Nguyen Thi Thu Huong (2022) used the DCGE economic model to calculate and showed that reducing the VAT rate from 10% to 8% would increase GDP by 0.5% in the short term. According to the Vietnam Association of Small and Medium Enterprises (VINASME), businesses responded positively to the VAT reduction policy from 10% to 8%, the policy of waiving late payment, reducing land rent, reducing electricity costs, extending the deadline for land rent payment, VAT... especially preferential tax policies, fees, and charges for special groups of enterprises with a high rate of preferential treatment.

Promptly and flexible tax policies

Tax support policies are issued promptly when businesses in the economy need it. After just over 2 months since the first epidemic outbreak, on April 8, 2020, the Government issued Decree No. 41/2020/ND-CP on extending the payment of VAT and corporate income tax for small, micro enterprises and businesses in the business sector directly affected by the epidemic (Thuvienphapluat, 2020). Tax incentive policies to support businesses from 2020 to 2022 were also issued at the right time when business entities in the economy needed support from the State. Under normal conditions, it takes from 3 months to 9 months to carry out the preparations for promulgation of a Government Decree or a Resolution of the National Assembly. However, this process has been shortened to only about 1 to 2 months, and in special cases the time from standardization to It took less than 1 month to be issued.

From the systematization of tax incentive policies to support businesses, it can be seen that there are many types of tax incentives applied to different subjects in different periods and at different levels. When it is necessary to quickly resolve and make early decisions to create financial resources for businesses, implement a policy to extend tax and land rent payments. When deeper support is needed specifically for specific subjects, use the policy of reducing corporate income tax and exempting VAT, exempting personal income tax or reducing environmental protection tax on aviation fuel. When broad support is needed to stimulate demand to develop production and business, apply the VAT reduction policy. When it is necessary to support reducing input costs for most production and business sectors due to specific impacts, implement a policy to reduce environmental protection taxes on gasoline and oil. Tax incentive policies are carefully issued and applied for certain periods, then the application period is extended or the level is increased or the incentive policy is stopped depending on the actual conditions of the economy.

3.3.2. Limitations

There are still limitations in implementing tax support policies. According to an article “Unpacking Impact of COVID-19 on Vietnamese Firms: Evidence from a Novel Survey” by the IMF, small-scale enterprises are likely to receive government support in tax exemption and

reduction about 0.5% lower than medium-sized enterprises and up to 17% lower than large-scale enterprises. According to the report “Evaluate the effectiveness of policies to support businesses affected by the COVID-19 epidemic” implemented by the Prime Minister's Administrative Procedure Reform Advisory Council through the Technical Support Project on Promoting Reform and Improving the Connectivity Capacity of Small and Medium Enterprises (LinkSME) of the United States Agency International Development (USAID), the survey results show three main reasons for reducing the effectiveness of policies: i) the support scale is not large enough , ii) the support solutions are not suitable , and iii) the support period is not long enough.

The support scale

The support scale is still modest, along with the number of supported subjects being too large, so the benefits from the policy are spread out. The size of Vietnam's economic support package has increased relatively large in 2022. However, the total size of Vietnam's fiscal and monetary support package during past times is about 16% lower than the world average GDP. In addition, the policies also have contradictions and mutual limitations, beneficiaries have not focused on the right subjects that need support (when the criteria for approval of receiving major support packages focus on large, strong, well-financed enterprises).

In Resolution No. 116/2020/QH14 and detailed implementation regulations under Decree No. 114/2020/ND-CP, the 30% corporate income tax reduction policy focuses on units with revenue under 200 billion VND. This means that tax incentives are for profitable businesses, while businesses that are making losses and are heavily affected by the pandemic will not receive this incentive. Thus, businesses that are facing difficulties will have more difficulty and businesses that are profitable will receive incentives. Even Ms. Nguyen Thi Khanh (chairwoman of the Ho Chi Minh City Tourism Association) has the opinion that, although the Government has a resolution to reduce corporate income tax by 30% from June 19, 2020, due to affected by the COVID-19 epidemic, most small and medium-sized businesses cannot generate revenue or generate profits, so reducing corporate income tax has almost no effect on businesses. Reducing corporate income tax also creates tax avoidance behaviors through transfer pricing, businesses in places with high tax rates transfer profits to places with low tax rates causing distortion in the selection of capital assets, investors tend to choose capital assets with short life cycles, in order to continue to enjoy incentives when replacing assets.

The support solutions are not clear

Most policies are designed and implemented in the direction of averaging across localities, industries, and sizes, without taking into account the level of influence and resilience between industries and businesses. The reduction of VAT has given the advantage of saving tax costs, but it has increased the business's tax compliance costs (including increased accounting processing time costs and invoice user costs). Because for the same customer, instead of creating 1 invoice with many different tax rates (5%, 8%, 10%), the business must create two invoices: 1 invoice

with 8% tax rate and 1 invoice stating other tax rates (5%, 10%). Although this problem has been overcome through Decree 41/2022/ND-CP to remove difficulties for businesses in administrative handling of with VAT reductions on invoices by allowing the use of combined invoices and clearly stating the tax rate of each good and service, but businesses have spent nearly 4 months having difficulty filling out VAT invoices, with the concern of balancing costs and ensuring compliance with legal regulations.

Moreover, the list of goods and services eligible for reduced tax rates is not really clear in the policy of reducing the VAT rate from 10% to 8% according to Decree No. 15/2022/ND-CP. Not only businesses but also tax authorities have difficulty determining the list/code of goods and services that are/are not eligible for tax reduction, especially goods in the electronics industry. According to VINASME, the problem of determining product and service codes that are/are not eligible for VAT rate reduction is especially difficult for small and micro businesses because they do not have their own legal and accounting departments while the head of the business do not have in-depth knowledge of taxes and laws. Therefore, to ensure the correct application of policies and to avoid future penalties, written consultation (official dispatch) sent to the tax authority is the form chosen by many businesses. However, this form is not effective in all cases due to the confusion of tax authorities. The cause of this situation also comes from the diversity of actual products. This problem also leads to inconsistent application of VAT reduction incentives among localities because some places have a tax rate of 8% while others still apply a tax rate of 10%.

The tax extension period

The implementation of tax exemption or deferral for a certain period of time will promote short-term projects for tax incentives and businesses pursuing tax goals will lose competitiveness, building short-term projects and ignoring long-term goals. This also leads to businesses dividing projects into smaller parts and restructuring projects to enjoy multiple periods of tax incentives, creating a burden in management. State budget revenue is also more passive, when the proactive right to set up plans belongs to businesses.

The level of support and the duration of the VAT extension policy according to Decree No. 34/2022/NĐ-CP also have not really been effective in reducing the burden on businesses. Specifically, point a, clause 1 of Article 4 of Decree No. 34/2022/NĐ-CP allows the extension of VAT payment with "tax calculation periods from March to August 2022 (for cases of VAT declaration monthly) and tax calculation periods of the first and second quarter of 2022 (for cases of VAT declaration quarterly)", but it was not until May 28, 2022, that this Decree was issued and took effect (Thuvienphapluat, 2022). By the end of May, most businesses had fulfilled their tax payment obligations for the March and April 2022 periods, businesses that paid taxes quarterly had already paid taxes for the first quarter of 2022, so these businesses did not benefit from the policy for the tax calculation periods of March and April 2022 or the first quarter of 2022. In addition, businesses are not really enthusiastic about this policy because essentially businesses still

have to pay taxes just like an interest-free loan and the extension period is not long enough, only a maximum of 6 months as regulated.

4. Recommendations

The government needs supportive policies to further enhance the recovery capability of businesses, especially those vulnerable ones like SMEs.

Firstly, for tax policies to be effective, they should concentrate on vulnerable sectors amidst the pandemic and those with a high concentration of SMEs, such as the tourism and hospitality industry. By focusing on these sectors, governments can tailor tax relief measures to address specific challenges and provide targeted support to businesses facing the most significant economic strain. This approach ensures that resources are allocated efficiently, maximizing the impact of tax policies on the recovery efforts of the most affected industries.

Secondly, it is essential to tailor tax policies to the specific needs and conditions of businesses, particularly small and medium enterprises (SMEs). While policies such as VAT reduction may benefit all MSMEs, corporate income tax exemptions or reductions are more meaningful for profitable businesses. Therefore, coordinating different tax measures effectively can ensure that SMEs facing hardships receive targeted support where it is most needed. This approach ensures that tax policies are aligned with the financial situations and requirements of SMEs, enabling them to better withstand economic challenges and maintain their operations.

Thirdly, it is crucial to expedite the rollout of government tax policies to businesses by enhancing awareness among enterprises and business associations, and simplifying administrative procedures during the pandemic. SMEs often lack specialized departments to handle tax filings. Therefore, ensuring that both small and medium-sized enterprises can readily understand and effectively utilize these opportunities is paramount. This approach helps prevent instances where businesses fail to take advantage of available tax incentives due to complexities or lack of awareness.

Moreover, the government needs to implement policies that support small and medium-sized enterprises in carrying out digital transformation to synchronize, streamline tax procedures, and apply them swiftly. Enhancing human resource training is crucial for understanding and adapting to the frequent changes in tax regulations for effective implementation. This approach will enhance resilience, proactivity, and readiness to recover from COVID-19 and proactively address future shocks.

5. Conclusion

This research extensively analyzes the role of tax incentives in supporting the recovery of Small and Medium Enterprises (SMEs) in Vietnam after the COVID-19 pandemic. Our findings reveal that tax incentives have significantly contributed to the resilience and recovery of these businesses in a post-pandemic context. They have been vital to Vietnam's overall economic recovery by reinforcing business capital, increasing consumer demand, controlling inflation, and enhancing economic resilience.

However, our study also identifies limitations and disparities in the implementation and effectiveness of tax support policies. We found that issues such as inadequate support scale, unsuitable solutions, and insufficient support duration have hindered the effectiveness and impact of policies for SMEs. A more nuanced and focused strategy may be necessary to maximize the efficiency of tax incentives in assisting small and medium-sized enterprises.

Therefore, we highlight the importance of establishing a tiered incentive system that considers the pandemic's diverse effects on various industries and business scales. Additionally, a thorough needs-based assessment is required to customize tax policies more effectively to suit the needs of SMEs. Improving the implementation process, filling policy gaps, and speeding up the digitalization of access to incentives are also areas for enhancement.

Finally, our research asserts that tax incentives must strategically align with immediate needs and long-term growth considerations to drive SME recovery effectively. This entails analyzing the evolving economic landscape, the shift toward digital transformation, and the necessity of readiness for future disruptions. Our study's findings offer crucial insights for policymakers, business leaders, and academics, emphasizing the necessity for a strategic reassessment and enhancement of tax policies. If well-designed and implemented, these policies can empower SMEs, fostering their resilience and growth, ultimately contributing to Vietnam's post-pandemic economic prosperity.

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