

TAX ADMINISTRATION TO IMPROVE TAX COMPLIANCE: THE LESSONS FROM THE UNITED STATES, THE UNITED KINGDOM AND BULGARIA

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Abstract

This paper focuses on the experiences of tax administration in three selected economies the United States (US), the United Kingdom (UK), and Bulgaria. By analyzing and comparing the tax administrative approaches, policies, frameworks, and performances of the three countries, the study is an attempt to identify lessons that are suitable for applying in the context of Vietnam. The analysis starts with an overview of tax administration and tax compliance, follows by investigating how those three countries implement tax administration to improve tax compliance and the level of tax compliance they achieved. Finally, the paper jumps to a conclusion and provision of recommendations on tax administration to improve taxpayers compliance in Vietnam.

Key words: *tax administration, tax compliance, taxpayers.*

1. Introduction

Improving tax administration has long been a matter of concern to those concerned with any country to function, to benefit from the opportunities afforded by globalisation or to rebound from the blows it may deal out. In addition, the tax system constitutes one of the major interfaces between citizens and state in any country so how taxes are administered may affect not only the political future of the government of the day but also, more fundamentally, public trust in government. Tax administration may thus play a critical role not only in shaping economic development but in developing an effective state.

The objectives of tax administration across the globe encompass not only raising revenue to fund government services but also to do so in a way which does not impose unnecessary compliance burdens on taxpayers. Regarding with tax administration and its relation to tax compliance, this paper analyses the tax administration in three selected economies United State of America (USA), United Kingdom (UK) and Bulgaria. Each country in the group of three are different in approach, policy and framework, implementation of tax administration. Therefore, the study aims to identify relevant and suitable lessons for the context of Vietnam, a developing country. The analysis starts with an overview of tax administration and tax compliance, follows by investigating how those three countries implement tax administration to improve tax compliance and the level of tax

compliance they achieved. Finally, the paper jumps to a conclusion and provision of recommendations on tax administration to improve taxpayers compliance in Vietnam.

2. Overview of tax administration and tax compliance

Tax administration is the link between the statutory foundation and the operative tax system. The tax administration implements and enforces tax laws, and receive their mandates by law. Tax administration plays a key role in determining the level in which the objective of taxation is realised such as determining the overall fiscal deficit, the relative tax burden on sectors and income classes, and the efficiency of the economy.

Tax administration can be seen as the way and manner that taxpayers are assessed and are made to pay their taxes due to the government. The tax administration is charged with the responsibility of assessing, collecting and monitoring tax payers' compliance with the tax laws and regulation. These activities include identification and registration of taxpayers, processing of tax returns and third-party information, examination of the completeness and correctness of tax returns, assessment of tax obligations, collection of taxes and provision of services to taxpayers.

The objectives of most tax administrations are to ensure compliance with tax laws and to improve taxpayers' customer service experiences. In fact, low tax compliance is a matter of serious concern in many developing countries, limiting the capacity of their governments to raise revenues for developmental purposes. There are many factors contribute to this weakness, such as: corruption, a large informal sector, weak legal systems, ambiguity in tax laws, high marginal tax rates, paucity of adequate information and accounting systems, a culture of noncompliance, and ineffective tax administration. Thus, tax administration should take into cognisance the peculiarity of the environment in which it is operating and adopt the best suited strategies that would ensure easy compliance of the taxpayers.

The actions of taxpayers - whether due to ignorance, carelessness, recklessness, or deliberate evasion - as well as weaknesses in a tax administration mean that instances of failure to comply with the law are inevitable. Good tax administration requires strong technical capacity by the administrative agency but also a well-designed tax. The administrative agency should be able to identify and evaluate the effects of both current tax policies and tax policies under consideration, be able to simplify the current tax system if needed, within the economic and political spectrum, maintain a connection between the rule of law and tax administration. Furthermore, better understanding of the motives of taxpayers and their attitudes towards taxation can improve both voluntary compliance and the efficiency of the tax administration.

3. The experiences of tax administration to improve tax compliance in United State, United Kingdom and Bulgaria

3.1. USA

In the United States, the Congress passes tax laws and requires taxpayers to comply. The taxpayer's role is to understand and meet his or her tax obligations. The IRS is a bureau

of the Department of the Treasury which is organized to carry out the responsibilities of the secretary of the Treasury under section 7801 of the Internal Revenue Code. The IRS role is to help the large majority of compliant taxpayers with the tax law, while ensuring that the minority who are unwilling to comply pay their fair share. The secretary has full authority to administer and enforce the internal revenue laws and has the power to create an agency to enforce these laws. The IRS was created based on this legislative grant.

The IRS strategic goals are:

- Empowering and enabling all taxpayers to meet their tax obligations by making it easier for them to understand and meet their filing, reporting and payment obligations.
- Protecting the integrity of the tax system by encouraging compliance through administering and enforcing the tax code the American tax system is based on voluntary compliance and supported by appropriate enforcement.
- Collaborating with external partners proactively to improve tax administration partnerships with our stakeholders enrich service to taxpayers.
- Cultivating a well-equipped, diverse, flexible and engaged workforce Our employees are committed to serving the American taxpayer.
- Accessing advanced data, usability and analytics to inform decision making and improve operational outcomes.
- Driving increased agility, efficiency, effectiveness and security in operations by streamlining and simplifying business processes to serve taxpayers better and improve our stewardship of taxpayer resources.

Taxpayer service provision

Taxpayer Advocate Service - TAS

Taxpayer Advocate Service (TAS) is an independent organization within the IRS, Congress created it under the 1996 Taxpayer Bill of Rights. Many taxpayers turn to the Taxpayer Advocate Service (TAS), which provides assistance with returns and helps resolve problems with the IRS. The TAS in FY 2017, the TAS received more than 167,000 new requests for taxpayer assistance. The TAS also conducts analysis and recommends changes to help the IRS administer the nation's tax system (Bipartisan Policy Center, 2019).

Over the last 20 years, TAS has worked more than 4.4 million cases resulting from problems with IRS systems or processes. That history with individual and business taxpayers' problems gives TAS unique insight, perspective, and information that could be a key resource for identifying areas in need of improvement as the IRS develops a comprehensive customer service strategy. (Annual report 2019). In its most recent report to Congress, the TAS recommended legislative action to provide direction to the IRS about eligibility for federal grantees, to set standards for developing expertise and expanding VITA services, and to increase federal funding to meet growing demand for these services (Bipartisan Policy Center, 2019).

Volunteer Income Tax Assistance - VITA

The Volunteer Income Tax Assistance (VITA) program offers free tax help to people who generally make \$56,000 or less, persons with disabilities and limited English speaking taxpayers who need assistance in preparing their own tax returns. IRS-certified volunteers provide free basic income tax return preparation with electronic filing to qualified individuals.

In addition to VITA, the Tax Counseling for the Elderly (TCE) program offers free tax help for all taxpayers, particularly those who are 60 years of age and older, specializing in questions about pensions and retirement-related issues unique to seniors. The IRS-certified volunteers who provide tax counseling are often retired individuals associated with non-profit organizations that receive grants from the IRS (Bipartisan Policy Center, 2019).

In 2010, the Corporation for Enterprise Development's Self-Employment Tax Initiative, the National Community Tax Coalition, and the IRS's Stakeholder Partnerships, Education and Communication (IRS-SPEC) initiative joined forces to develop a pilot program to test the expansion of VITA assistance to include Schedule C preparation. Pilot sites prepared a total of 5,741 Schedule C or C-EZ tax returns during tax year 2011. More than 85 percent of filers at the pilot sites had an AGI below \$30,000 in the prior year, suggesting that low- and middle-income entrepreneurs are operating businesses to fill household income gaps. On average, 46 percent of self-employed taxpayers who filed at these locations were men, and 54 percent were women; in addition, roughly 30 percent were black, 27 percent were Hispanic or Latino, and 29 percent were white. Across all sites, nearly one-third of self-employed filers lived in dual-language households. This prevalence of self-employed filers for whom English is likely a second language underscores the need for taxpayer services such as those offered at VITA sites, especially in low- income and minority communities (Bipartisan Policy Center, 2019).

In FY 2017, 3.6 million taxpayers made use of the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly programs. VITA sites serve an important need, especially in low- and moderate-income communities, where many taxpayers require help with tax issues and tax preparation and where eligibility for complicated tax credits such as the EITC and CTC is prevalent (Bipartisan Policy Center, 2019).

Free File

Free File is a partnership between the IRS and the Free File Alliance, a group of industry-leading private-sector tax preparation companies that have agreed to provide free federal tax preparation assistance to eligible taxpayers. The main objectives of this program is to: 1) Provide greater access to free, online tax filing options; 2) Make tax filing and preparation easier and reduce burden on individual taxpayers; 3) Increase growth of e-filing to reach 80 percent of returns filed electronically (Bipartisan Policy Center, 2019).

The group aims to make this program available to 70 percent of taxpayers nationwide, or approximately 105 million filers, with a particular focus on economically disadvantaged and underserved communities. Taxpayers with an AGI of \$69,000 or less may

be eligible to use the Free File software at no cost, while higher-income taxpayers can use Free File Fillable Forms - an electronic version of IRS paper forms (Bipartisan Policy Center, 2019).

Since the program launched in 2002, the total number of individual (federal) tax returns filed in the United States has increased by 15 percent and e-filing has increased by 180 percent. In tax year 2004, the number of Free File users peaked at 5 million taxpayers, by 2017, that number was about 2.5 million taxpayers. There are three of 12 Free File providers offer services to all ages, and five limit usage to people who are under age 60. Besides, several updates to Free File for the 2019 filing season have added more consumer protections and seek to increase take-up, with a focus on ensuring consistency and quality in the information taxpayers receive (Bipartisan Policy Center, 2019).

Tax policy - the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC)

The EITC and the CTC are two provisions in the tax code which are among the most important anti-poverty policies implemented by the federal government. Low-income tax filers who qualify for these credits can use them to realize a negative effective tax rate, meaning that their “refundable” credits exceed their gross tax liability. In these cases, the filer receives a net positive transfer or payment from the government.

The Earned Income Tax Credit (EITC)

The EITC, introduced in 1975, is a wage subsidy targeted at low-income families; it was designed to encourage work by linking the credit to earned income and therefore, became a benefit for working people with low to moderate income. To qualify, taxpayers must meet certain requirements and file a tax return, even if they do not owe any tax or are not required to file. EITC reduces the amount of tax taxpayers owe and may give them a refund.

In 2013, 87 percent of EITC expenditures took the form of payments that reduced taxpayers’ liabilities below zero. According to a 2016 study, the EITC costs the federal government \$68 billion per year and reaches 28.8 million tax filers—that’s about 20 percent of all tax filers and 44 percent of all filers with children (Bipartisan Policy Center, 2019).

Many hail the EITC as one of the most effective programs for low-income Americans; this praise is based on a large body of literature that has documented the EITC’s ability to encourage work and reduce poverty. A recent report by the Center on Budget and Policy Priorities (CBPP) cites this literature in summarizing the program’s benefits:

"A highly regarded study found that EITC expansions are the most important reason why employment rose among single mothers with children during the 1990s—the EITC was more effective in encouraging work than either welfare reform or the strong economy. ... In 2016, the EITC lifted about 5.8 million people out of poverty, including about 3 million children. The number of poor children would have been more than one-quarter higher without the EITC. The credit reduced the severity of poverty for another 18.7 million people, including 6.9 million children."

Another recent study that attempted to account for the long-term impacts of the EITC on children's education and employment outcomes concluded that each dollar spent on the program had a net cost of only 13 cents. The EITC also improves health outcomes, and in fact is more cost-effective than many other health interventions (Bipartisan Policy Center, 2019).

The Child Tax Credit (CTC)

Introduced in 1997, the CTC is a more recent provision. It is structurally similar to the EITC, though less targeted to low-income filers and not fully refundable. The CTC is an important tax credit that may be worth as much as \$1,000 per qualifying child under the age of 17 depending upon taxpayer's income. A qualifying child for this credit has to meet the qualifying criteria of six tests: age, relationship, support, dependent, citizenship, and residence. The credit is limited if taxpayers modified adjusted gross income is above a certain amount. The amount at which this phase-out begins varies depending on taxpayer filing status. For married taxpayers filing a joint return, the phase-out begins at \$110,000. For married taxpayers filing a separate return, it begins at \$55,000. For all other taxpayers, the phase-out begins at \$75,000. In addition, the CTC is generally limited by the amount of the income tax taxpayers owe as well as any alternative minimum tax taxpayers owe. Taxpayers may be able to claim the Additional Child Tax Credit if the amount of taxpayers CTC is greater than the amount of income tax they owe (Bipartisan Policy Center, 2019).

In 2017, CTC expenditures totaled \$54 billion per year. The CTC has since expanded in several ways due to the Tax Cuts and Jobs Act of 2017, and in 2019 is projected to total \$122 billion. Its current nominal maximum credit of \$2,000, though substantially less than the maximum EITC credit (around \$6,431), reaches far more people (Bipartisan Policy Center, 2019).

In 2018, the CTC and the EITC together provided on average \$800 for households in the lowest-income quintile, and about 30 percent of these households received one or both of these refundable credits. These credits together provided an average of \$1,400 to households in the second-lowest quintile, and with about 30 percent of that quintile receiving one or both credits. The Tax Policy Center, citing estimates from the Congressional Budget Office, has stated that the CTC and EITC together "lowered the effective tax rate for low-income households from about 0.5 percent in the early 1980s to its negative value today." According to these estimates, 20 percent of filers in 2018 had marginal individual income tax rates at or below 0 percent (Bipartisan Policy Center, 2019).

3.2. UK

In United Kingdom, Her Majesty's Revenue and Customs (HMRC) are a non-ministerial Department established by the Commissioners for Revenue and Customs Act (CRCA) 2005, replacing the Inland Revenue and Customs and Excise. CRCA vested responsibility for the administration of the tax system in Commissioners appointed by the Queen. The Commissioners are drawn from the department's top management. HMRC mission is to collect the money that pays for the UK's public services and help families and individuals with targeted financial support. HMRC strategic objectives are: 1) collecting

revenues due and bear down on avoidance and evasion; 2) transforming tax and payments for customers; 3) designing and delivering a professional, efficient and engaged organisation.

In specific, HMRC are responsible for safeguarding the flow of money to the Exchequer through our collection, compliance and enforcement activities make sure that money is available to fund the UK's public services facilitate legitimate international trade, protect the UK's fiscal, economic, social and physical security before and at the border, and collect UK trade statistics administer Statutory Payments such as statutory sick pay and statutory maternity pay help families and individuals with targeted financial support through payment of tax credits administer Child Benefit are a high volume business; almost every UK individual and business is a direct customer of HMRC aim to administer the tax system in the most simple, customer focused and efficient way administer the Government Banking Service Responsibilities

The government's approach to addressing tax avoidance, evasion and other forms of non-compliance

The government will continue to build on the steps it has already taken to address tax avoidance, evasion and other forms of non-compliance across all parts of the economy. This includes monitoring and developing new measures to tackle emerging threats and challenges.

While technological developments have brought significant benefits to the economy, in some circumstances they have also created new opportunities for tax avoidance and evasion. For example, the digital communications revolution means marketed avoidance schemes can reach greater audiences, the significant growth of online platforms and marketplaces has facilitated VAT fraud by overseas sellers, and while globalisation has supported growth it has also created opportunities for more opaque offshore tax arrangements. Hence, the government committed to ensuring that the tax system keeps pace with change. At Spring Statement 2018, the government published a position paper on corporate tax and the digital economy, looking at the impact on the tax system of the digital economy sector. At Budget 2018 the government also announced a call for evidence on the use of modern technology and software in enabling sales suppression, and thus evasion, of tax due (HM Revenue & Customs, 2019).

Tax administration in regard to marketed tax avoidance

The UK has led the way on combatting online VAT fraud. This has been both through taking ground-breaking action domestically, as well as through substantial contributions to multilateral discussions at the Organisation for Economic Co- operation and Development (OECD). As Chair of the OECD Working Party on Consumption Taxes, through extensive engagement with the OECD's private sector-led Business and Industry Advisory Committee, and through bilateral contacts, the UK has steered the agenda and driven forward work to combat online VAT fraud.

Since the formation of HMRC's Fraud Investigation Service in 2016, HMRC has used its powers 11 times to acquire data from intermediaries that facilitate the trade of

businesses online, across different sectors of the digital economy. HMRC is using this new data to make it harder than ever to hide tax liabilities in the digital economy, and to prevent traders from gaining an unfair advantage by evading tax obligations. As a result, more individuals have been convicted for criminal offences relating to arrangements which have been promoted and marketed as tax avoidance schemes, resulting in over 100 years custodial sentences and more than 7 years suspended sentences being ordered. HMRC has a success rate of around 90%, since 2015-16, for avoidance cases taken to litigation by taxpayers on the substantive issues, with many more choosing to settle before their cases get that far (HM Revenue & Customs, 2019).

Furthermore, HMRC succeeded in tackling online VAT Fraud with: almost 60,000 overseas online sellers applied for VAT registration between March 2016 and December 2018; about £200 million of unprompted VAT declared on returns by overseas online sellers; 4,800 joint-and-several liability notices were issued regarding non-compliant overseas online sellers since September 2016; 7,600 investigations were opened into these sellers up to the end of 2018; £186 million of non-compliant sellers; and seven online marketplaces have signed up to an agreement with HMRC to provide data about sellers on their sites to help combat the fraud (HM Revenue & Customs, 2019).

Tax administration in regard to offshore and offshore structures

In order to ensure a level playing field, HMRC is at the forefront of international efforts to crack down on those who set up and use complex offshore structures in an attempt to avoid or evade tax. In addition, the government has introduced substantial new penalties to sanction and deter those that seek to evade tax offshore.

In April 2015 the government introduced the DPT, which counters the contrived arrangements used by some multinational companies to divert profits from the UK and minimise their UK tax liability. It helps to ensure that the tax paid by multinational companies in the UK is commensurate with the activities that they undertake in the UK. By the end of April 2018, the DPT measure had delivered £700 million since its introduction. In the year ending April 2018 alone, the DPT measure collected £388 million that would otherwise have gone unpaid. In addition, HMRC investigations of profit diversion have delivered substantial amounts of additional Corporation Tax and VAT arising from businesses changing their arrangements and paying Corporation Tax on their profits in line with their economic activity and unwinding aggressive structures (HM Revenue & Customs, 2019).

At Autumn Budget 2017, the government went further and announced that it would bring in new rules to target multinational businesses that hold intangible property, such as copyrights and patents, in low-tax jurisdictions to artificially lower their tax bill and gain an unfair competitive advantage.

At Budget 2018, the government announced the introduction of targeted profit fragmentation legislation that prevents UK businesses from avoiding UK tax by arranging for their UK-taxable business profits to accrue to entities resident in territories where

significantly lower tax is paid than in the UK. The taxable UK profits will be increased to the actual, commercial level (HM Revenue & Customs, 2019).

Besides, The UK is at the forefront of multilateral action through the G20 and OECD to address Base Erosion and Profit Shifting (BEPS) by multinational companies, by reforming international tax standards to realign taxation of profits with the underlying economic activities and value creation.

Tax administration in regard to the hidden economy

In recent years, the government has invested in HMRC to ensure it has the right tools and resources to tackle the hidden economy. For example, the government has invested in: 250 extra hidden economy caseworkers to tackle unregistered businesses (2015); new geographic risking technology, analysts and caseworkers to rollout a new integrated approach (2017); compliance officers to deal with online traders trying to hide their VAT liabilities (2017) (HM Revenue & Customs, 2019).

To support these investments, the government has extended HMRC's access to third-party data which helps identify those seeking to hide how much they owe. This includes data from merchant acquirers and aggregators who process credit and debit card payments on behalf of retailers (since 2013), online intermediaries, providers of electronic stored-value payment services (since 2016) and Money Service Businesses (since 2017). Access to this data means HMRC is uncovering hidden businesses, and HMRC caseworkers can collect more in unpaid tax. These changes have led to HMRC bringing in an additional £187 million in tax since 2013; and HMRC's action in tackling the hidden economy helps to show honest businesses that the government is on their side (HM Revenue & Customs, 2019).

The government also constantly works against organised tax crime in all its forms. HMRC uses the full range of criminal and civil powers to investigate fraudsters and to tackle organised crime groups. HMRC generated or protected £3.3 billion in compliance yield in 2017-18 as a result of investigations into, and enforcement action against, organised crime. Since 2010, over 880 serious organised criminals have been brought to justice.

3.3. Bulgaria

In Bulgaria, the National Revenue Agency (NRA) is a specialized state body under the Minister of Finance. The main task of the NRA is to administer taxes and social security contributions, as well as to collect other public and private state receivables. The Agency's mission is to promote voluntary payment by offering new and modern services to facilitate its clients. The main functions of the NRA are related to servicing citizens and business representatives in connection with their tax and social security obligations. The Revenue Agency also enforces collection of overdue budgetary commitments, as well as claims issued

by other government bodies that have not been paid on time. The NRA represents the state in commercial insolvency cases as well.

The presumptive taxation in Bulgaria

Bulgaria applies two presumptive taxes. The older is *the patent tax*, introduced in 1998 along the lines of the classic IMF policy advice on tax administration reform. The recent one is a minimum tax on labor expenses, introduced in 2003 as *minimum insurance income thresholds (MIITs)*.

Apart from them, there are various elements of presumptive taxation in the business tax structure of Bulgaria. The personal income tax for instance, has statutory expense deductions for self-employed farmers (70 percent) professionals (35 percent) and rent earners (20 percent). There are presumptive tax arrangements in the CIT law as well. Insurance companies, organizers of gambling and lottery games, and telecommunication service providers pay corporate taxes on their gross receipts. Since 2005 the sea cargo industry is given the option to choose between paying corporate tax based on the capacity of the ship, or on the standard tax base (Konstantin P, 2005).

The patent tax

The Bulgarian patent tax is a fixed-sum proxy for income tax with multiple rates, differentiated by economic activity, location and the service or output capacity of the business unit. Its introduction in 1998 was driven by concerns about the post-communist boom of the informal economy and the large weight in it of small traders and service providers. Its design bears the signs of these leading concerns. The patent tax does not allow any choice between it and the standard income taxation. It unconditionally lists the groups of taxpayers that are liable under it. The obligation concerns both legal and natural persons whose activity is in the list of the patent tax, and whose gross income is less than a specified threshold. Even though it is a part of the Personal Income Tax Law, it is applied as well to the corporate income of limited liability companies included in the patent list (Konstantin P, 2005).

Furthermore, it does not reduce the accounting costs of the “beneficiaries”. Under the patent legislation, they need to record net income according to the provisions of the accountancy law. In the case of sole proprietors, this requirement is justified by the need to calculate insurance income. In result, even though they pay fixed-sum patent tax, as a substitute of personal income tax, they still need to calculate their personal income for the purpose of their own social insurance liabilities. This entails higher cost not only of voluntary compliance, but of enforcement as well: insurance inspectors need to verify compliance with the corporate income legislation, for which they may not have adequate expertise or third-party data (Konstantin P, 2005).

The evolution in the coverage and the structure of the Bulgarian patent tax in the seven years since its introduction are indicative of the inherent controversies and difficulties of reconciling simplicity, efficiency and equity objectives in a presumptive tax design. As it affects relatively large groups of taxpayers, whose interests at that are clearly defined along professional

and sectoral lines, and even locations, it has always been in the center of the politics of taxation and among the most criticized and frequently amended pieces of legislation.

On balance, the changes and adjustments of the patent tax brought it far from the initial objective of simplicity and low enforcement cost. In 2005 the Bulgarian patent tax schedule has over 900 rates, differentiated horizontally in 9 groups according to location; and vertically in over 100 services. It uses wide range of indicators to estimate taxpayer's average income capacity. Above all, this makes it costly to enforce. In small cities, the tax is overvalued relative to actual number of consumers, while in larger cities and resorts with large number of temporary residents and visitors it may be undervalued (Konstantin P, 2005).

Furthermore, relative to the revenues from the patent tax, adjustment and enforcement costs appear excessive. After all improvements and adjustments its revenue effect is negligible.

Summing up, the Bulgarian experience with the patent tax, over the years, its coverage has been narrowed by dropping activities from the list and lowering the turnover ceiling to BGL 50000, while the advantages over the standard income tax have shrunk. On the other hand, in its present form it does not make much sense neither as an instrument of raising revenue efficiency, nor as an instrument of reducing small businesses' compliance costs.

Minimum insurance income thresholds - MIITs

The MIITs were introduced in 2003 as a countermeasure to wide spread practices of insuring employees at the level of the statutory minimum monthly wage instead of the actual wage. Underreporting of wages resulted in widening pension fund deficits. MIITs were set by sectors and job categories at levels supposedly closer to the actual wage levels. In result the economy average MIITs exceeded the minimum wage by 46.4 percent (table 6). The differential has shrunk since the introduction, but this reflects unprecedented 25 percent increase in the minimum wage in 2005, rather than keeping taxes low. In practice they operate as a lump sum minimum presumptive tax on labor expenses. Actual wages, in the range between the minimum monthly wage and the minimum insurance income threshold are taxed at regressive average tax rates above the statutory SIC rates of 42.7 percent. Large wage disparities between the micro business sector and the rest of the business economy indicate that micro business ventures are most likely to encounter these excessive tax rates. Moreover, even though large enterprises may have large share of low paid workers too, they have better opportunities to spread these excessive costs on the whole labor force, including through underreporting higher wages. Therefore rising MIITs together with rising minimum wage requirements provide strong incentives to the micro business to employ unregistered or part time labor (Konstantin P, 2005).

The facts have shown that the the MIITs has significant impact on small business compliance. In specific, the MIITs provide opportunity for the administration to raise effective rates, which has been actively employed in the first two years. Rising minimum wage requirements together with rising MIITs provide strong incentive to employers either

not to register labor, or to use full-time employees as “part-timers”. Moreover, annual upward adjustments create expectations of growing labor costs for low-paid workers.

However, this design is susceptible to ever-lasting adjustments and growing complexity. In 2003 the new system was launched with 48 groups of activities, and 9 qualification or job levels. By 2005 it expanded to more than 600 rates. Besides, the effect of the MIITs in regard to compliance at the higher wage/income levels is far from certain. Practically it addresses only evasion at the lowest wage levels. As for the higher wage levels it may even create perverse incentive to increase underreporting if the MIITs are perceived by employers as the safe lower limit of underreporting of wages. There is also strategic incentive to underreport wages, as MIITs are set on the basis of reported insurance incomes in the previous year. The MIITs was also largely interpreted by small entrepreneurs as an attempt by the administration to collect from employers who pay minimum wages, what it fails to collect from larger tax evaders and debtors (Konstantin P, 2005).

In summary, the common feature of these presumptive taxes and methods of defining the tax base is that all of them seem to be more or less a policy response to enforcement failures rather than an instrument for raising voluntary compliance of small entrepreneurs. The elements of imputed taxation in the corporate income tax do not target the small business at all. The MIITs are applied to all employers irrespective of their size, but place at a disadvantage the smaller ones. The patent tax is targeted at the small business, but its effect in terms of revenue efficiency through reduced compliance and enforcement costs is far from certain.

4. Discussion and Conclusion

In conclusion, from the perspective of tax administration, there are some ways to improve tax compliance of taxpayers, which have been implemented in such countries as the United States, the United Kingdom, and Bulgaria. As analyzed, the United States is more concerned about adjusting tax services and tax policy to encourage taxpayers' compliance, especially supporting taxpayers with disabilities or low-income. With another approach in administering tax, UK has focused on solutions to restrict tax avoidance, evasion, and other forms of non-compliance while Bulgaria applies the presumptive taxation as an administrative tool to improve tax compliance. These are all good experiences for Vietnam to improve the tax system and thus, increase taxpayers' compliance. The paper finally comes up with some proposals which are expected to contribute to tax compliance improvement in the recent context of Vietnam as below:

A proper tax compliance framework

It is necessary to develop a tax compliance model. This model reflects the different conditions of taxpayers economically, psychologically and socially, compliance from both sides, is not simply the duty of the taxpayer and this is also multiplication. The model needs to clearly determine tax rates and tax schedules for taxpayers as well as family allowances. In parallel, the government should issue more programs to help taxpayers who are low-income, elderly or with disabilities.

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Presumptive tax

A presumptive tax is believed to be a central instrument of reducing the compliance and enforcement costs of taxing the hard-to-tax but it can hardly be a perfect substitute of the standard tax schedule, especially if it is overloaded with equity objectives. It should be regarded rather as a complementary instrument that can help the tax administration in transition countries in the short and medium run to handle the challenges of the shadow economy and the large hard-to-tax sector. As a complimentary instrument its best place is in the system of local taxes. Therefore if it is to be used as a central tax, it may be best to apply it as a tax on gross receipts.

Taxpayer education and taxpayer service

The importance of taxes for the functioning of the state is not always apparent to the taxpayer. Similarly, individual tax liabilities as well as requirements to comply with the tax system such as filling out different tax forms might be unknown or difficult to understand. By means of taxpayer education and taxpayer service, citizens can be informed and educated about the tax system and be assisted in their attempts to comply with the tax system.

Endeavours to strengthen national tax law enforcement

The liberalization of goods and financial markets and the increased international mobility of capital flows pose a new challenge for countries on the field of taxation. In contrast to purely domestic tax issues, international modes of tax evasion and avoidance can hardly be solved unilaterally by a single country. Given the low levels of revenues in many developing countries, the revenue shortfall due to tax evasion and avoidance at the international level causes severe problems to fund essential programs. Hence, there is a necessity to solve the problem on an international, regional and bilateral level. The transnational nature of these challenges commands actions to be taken at the international level through enhanced exchange and cooperation among countries to promote transparency of MNEs' activities.

Moreover, to strengthen regional and international cooperation in tax matters, countries can participate in international networks, forums, organizations, etc. The establishment of and participation in such networks are key to pool information and to facilitate the exchange of best practice approaches and lessons learned. Likewise, regional fora are important as they contribute to exchange of best practices between developed and developing countries.

Vietnam is entering international economic integration with the participation of international organizations, regional economic communities, and free trade agreements. The development of a shared economy is based on the application of technology to reduce waste in consumption, towards the community, and to use resources effectively. The sharing economy also provides more open access to all of the assets and other idle resources they do not own. When participating in this "playground", the state management agencies in general and the tax administration agencies in particular as well as businesses need to change their minds in the management and law enforcement in the direction of modernization and multiplication, flexible and transparent to build trust with potential.

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