Impact of Local Public-Sector Corruption on the Compliance of Business and Tax Registration: Evidence from Vietnam

Duong Trung Le*
Edmund Malesky†
Anh Pham‡

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Abstract

This paper examines how corruption at the local government affects the compliance of household businesses registration and whether or not the businesses pay taxes. Using the Vietnam Household Business Census and contiguous border commune-pair fixed effects, we compare household businesses located in neighboring communes but belonging to two different provinces and hence facing different provincial corruption level. We find that a one-standard-deviation increase in corruption decreased the probability of household businesses registering by 50% and increased the probability of registered household businesses having tax-IDs by 25%. Additionally, we find that registered businesses in industries that are easier to evade taxes (restaurant and retail) were more likely to have tax-IDs when corruption increased than businesses in industries that are harder to evade taxes (manufacturing and wholesale).

Keywords: Corruption; Tax Compliance; Business Registration

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*Email: duong.le@duke.edu. Duke University.
†Email: eddy.malesky@duke.edu. Political Department, Duke University.
‡Email: apham16@gmu.edu. George Mason University.