

### 1. Achievements and shortcomings in taxation in the past five years

New tax laws in the past five years have reduced the tax burdens by expanding types entitled to tax reduction and exemption and providing more protection for local production, thereby helping local companies to develop their businesses, especially export ones.

The tax take has exceeded the planned targets since 1999. Its growth rate rose steadily.

The tax laws are applied commonly to all sectors and social classes, therefore they ensure social equality. Moreover, tax incentives were also used for encouraging business and investment in depressed areas. Reduction



system revealed the following shortcomings:

- Implementation of two new tax laws, VAT and

cated, less neutral, simple and equal. In addition, methods of achieving both increases in the budget in-

culties for tax agencies. Giving tax reduction and exemption to many types of taxpayers, especially

## For a Better System of Tax Laws

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in the agricultural tax rate helped develop rural economy and reduce poverty. The introduction of new tax laws in the past five years didn't lead to sudden increases in market prices

Company Income Tax, met with difficulties because they were introduced in 1997 when the economic growth was high, but they came into effect in early 1999 when competition

come and stimulation of the market demand were not reasonable enough. For example, the taxation was conducted according to targets, not to the growth rate.

those in the foreign sector, led to unfair competition and caused harm to local companies.

- There was no good balance between direct and indirect taxes. In each tax, there are unstable and unreasonable factors with the result that different sectors weren't treated equally in terms of tax.

- Many details in tax laws were not suitable to international practices.

- In taxation, cooperation between different agencies wasn't good enough; system of rewards and punishments wasn't realized properly and exactly.

- Expertise of tax officials was poor. They failed to examine and check invoices and documents correctly.

Causes of the above-mentioned shortcomings are numerous. Firstly, there are conflicts between tasks assigned to the tax

Table 1: Tax take over recent years

Indicator	1999	2000	2001	2002	2003
Economic growth rate (%)	4.8	6.8	6.84	7.1	7.24
Tax take compared with GDP (%)	19.7	18.6	19.7	20.2	20.7
Growth of tax take (%)	7.6	16.7	13.5	11.8	19.1

or produce bad effects on the production and living standard.

Generally, the new tax laws obtained targets set by the Politburo for the tax reform: stabilizing and developing businesses, improving corporate competitiveness, ensuring budget income, and stabilizing market prices.

In five years after the new tax laws were introduced, however, the tax

was keen on both foreign and domestic markets, and Vietnam had to cut customs duties as required by AFTA and other international agreements.

- The fact that tax authorities wanted to ensure too many targets (securing budget income, regulating economic activities at macroeconomic level, serving various social policies, etc.) made the tax system more compli-

- The tax system failed to cover all sources of taxable incomes. Structure of taxes aimed too much at contribution from low-income earners. Methods of tax assessment were very complicated and exposed to malpractices.

- The tax system was clumsy and inconsistent. The system including too many tax rates led to inequality between industries and occupations; and diffi-

agency (how can they ensure both fair competition and encouragement to certain sectors or industries?). Policy makers lack a strategic view with the result that the tax policy is changeable and inconsistent. The Government and Ministry of Finance, as a result, had to use shotgun solutions to deal with long-term problems, making the tax policies less stable.

To get rid of these shortcomings, the public finance authorities must aim at the following contents when working out a long-term and stable tax system.

their business and investments. All kinds of tax reduction and exemption could be replaced with other incentives.

- The tax system must assist international and regional integration, that is, be in accordance with regulations and practices adopted by most countries.

Perfection of the tax system has close relation of the administrative reform, modernization of the taxation and tax machinery, and dissemination of tax information.

#### b. Measures:

Taxation is a socioeconomic task that affects interests of all social classes,

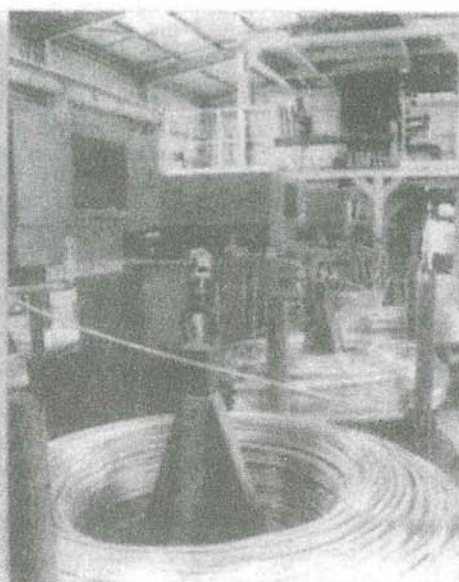
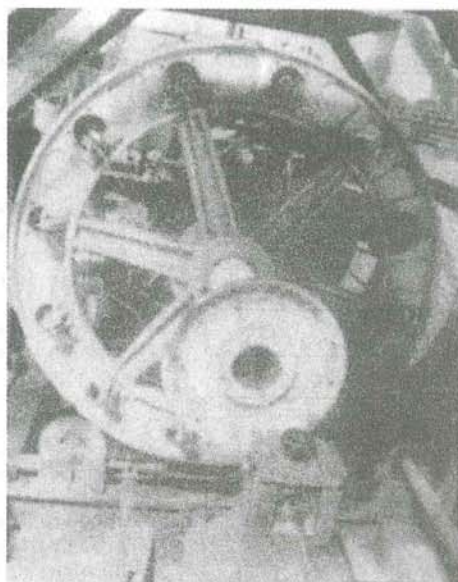
port and import control, entry and exit visas, etc.) Strong measures must be taken to force companies and employers to obey tax laws and regulations about keeping account books, pricing and issuing invoices, etc.

- The tax take is used for running the administrative machinery, building infrastructure, supplying social benefits, and making public investment, therefore all citizens and organizations are under obligation to pay taxes and supply information needed for the taxation and struggle against tax evasion. This obligation must be

in order to prepare for future policies. In addition, studies of foreign tax laws are also very necessary.

- The taxation could stimulate the market demand and economic growth by reducing some indirect taxes, and working out reasonable rates for direct taxes.

To ensure a long-term strategy for the tax system, public finance authorities should make exact predictions based on good gathering and processing of information about economic indicators (future growth rate, gross investment, export and import values, budget in-



## 2. A better system of tax laws

### a. Main directions:

- The system of tax laws must aim at socioeconomic target set by the VCP and Government, fulfil two function of the tax agency: redistribution of wealth and macroeconomic regulation, and encourage investment in depressed areas and hi-tech industries.

- The tax system must ensure equality, efficiency, convenience, stability and flexibility in a long term with a view to help business circle feel sure about

therefore the tax reform must be under direct direction of the Government, National Assembly, and provincial governments.

- Mass media and education service must engage in dissemination of information about tax policies and obligation to pay taxes, praise respectful taxpayers and expose tax evasions.

- The system for managing the socioeconomic life must be reformed simultaneously in order to facilitate the taxation (land registration, payments through banks, business registration, ex-

made into law.

- Advisory services relating to tax must be developed in order to help private persons and organizations fulfil their obligations and duties.

- Training courses in various fields must be given regularly to tax officials.

- Tax policies are only legal and stipulated in tax documents.

- All tax agencies must gather and process information, examine investment climate and conditions, along with possibilities of domestic and overseas investment

come and expenditure, etc.

Therefore, to ensure the redistribution of wealth and social equality by implementing tax laws, the Government should reform and perfect the tax system. Financially, taxation is an instrument for generating the budget income. Socially, the taxation must ensure equal opportunities for all sectors and social classes. Economically, the taxation must help create the fair competition. Scientifically, the tax system must be simple, reasonable, and suitable to international practices.