Tax Reform to Sharpen Competitive Edges of Farm Exports in the MekongDelta

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Tax is an element forming production costs of businesses. Therefore, it impacts product prices, business performance and competitive edges of farm products in the Mekong Delta. Tax policies have to secure export stimulation by imposing 0% rate of export tax and VAT on exports, reducing tax on the use of land for farming and at the same time identifying input tax on farm exports properly such as import tax, VAT on fertilizer, farm machine and fishing equipment...On the other hand, tax policy must give incentives to export businesses. The road map of tax reform shall be reasonable and in accordance with international commitments of tariff reduction and removal of non-tariff barriers.

At present, our country's tax policy has helped boost the competitiveness of farm produce, for example 0% rate for import tax and VAT and tax relief for newly founded businesses. Nevertheless, it remained several shortcomings to be overcome. Tax deduction for farm products directly bought from farmers, for example, should be given because the production inputs including petroleum, fertilizer, insecticide, farm machinery, and fishing equipment have been subject to VAT. In the meantime, farming and fishery production in the Mekong Delta are mainly done in households whose knowledge about accounting is limited. Therefore, they cannot meet the requirement for complete bookkeeping in their production process; also the tax agency is not able to sell VAT receipt forms to them so that they write these forms when selling products to businesses. Furthermore, a business purchases farm products directly from farmers, it has to pay VAT when selling goods according to tax law, but they enjoy no deduction for VAT inputs which farmers have already paid. This is not suited to the VAT principle: "Tax on inputs shall be deducted from tax on outputs". As a result, the National Assembly, Government and Ministry of Finance should consider allowing input tax deduction for businesses, which directly purchase farm products without receipts. This will help lower production costs and enhance competitiveness of farm exports in the Mekong Delta.

In addition, most of countries in the world including China, Thailand, and the U.S. have abolished the agricultural tax (on farm land use). This is a kind of tax directly imposed on farmers' income while they are just low-income earners. Their total annual earnings are not large, only around VND1,600 billion, a trivial amount as compared to the country's total revenue of VND149,320,000 billion (in 2004) and the Government must pay large costs to the army of agricultural tax collectors. As a result, the National Assembly and the Government should remove tax on the use of land for farming. Furthermore, tax law should be equally applicable to local and foreign-invested businesses, especially corporate income tax, building a fair "playing field" for all businesses from various sectors in accordance with the current integration trend.

The same suggestion is for the personal income tax imposed on nationals and foreigners because the dual-price system will be deleted in the near future, then they enjoy equal treatment from government economic policies in Vietnam. Moreover, the difference in personal income tax may expose Vietnamese employees to unfair competition on the job market. Foreign companies in Vietnam will hire overseas workers to cut off labor costs. For example, according to Amended Decree on Personal Income Tax, effective from July 1, 2004, it costs a foreign company VND64 million to pay a monthly wage of VND30 million (US$2,000) to a Vietnamese manager while it costs only VND34 million to hire a foreign manager because Vietnamese worker suffer higher tax.

As a result, not a few foreign companies have employed managers from Thailand, Philippines...to reduce costs, even though their skill is lower than that of Vietnamese. This is certainly harmful to the competitiveness of domestic intellectual and technical labor and causes brain drain from Vietnam to foreign countries. Well-educated workers in hi-tech industries like information technology, biological technology...tends to move to countries imposing lower tax on personal income. This will produce bad effects on the rural industrialization and modernization as well as on the development of farm exports in the Mekong Delta. On the other hand, the State is able to offset the loss due to reduction of personal income tax with the increase in other taxes including VAT and corporate income tax because of growing businesses.

The above analysis explains why we suggest that the National Assembly and the Government should allow deduction of input tax for farm products directly purchased from farmers; remove tax on using land for farming and amend taxes which are unequally applicable to foreign and local businesses. These rectifications will help boost the competitiveness of exported farm products in the Mekong Delta.■