

On the Personal Income Tax

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At present, the Bill of Personal Income Tax is raising a lot of interest because if passed it will come into effect as from Jan. 1, 2009 and affect the life of everybody.

The personal income tax charges directly the income of individuals. When people generate income or profit, they use, besides their efforts and knowledge, a lot of public services supplied by the State. Therefore, the income they earned doesn't originate totally from their labor and energy, but also from support by the State as well. The State imposes the personal income tax as a charge for the use of public service. By its nature, the personal income is compulsory to all members of the society who earn income. In reality, however, it doesn't happen this way because individuals differ in their incomes. Some can earn very high incomes while others can't make the ends meet. So the government only taxes persons whose income is higher than what is needed for the lowest living standard. In other words, those who earn enough income to have some savings have to pay personal income tax.

1. Personal income tax laws in Vietnam from past to present

a. Ordinance 50 – LTC/HDNN8 on personal income tax on high-income earners dated Jan. 7, 1991 came into effect on April 1, 1991 and introduced a progressive tax rate on regular income that was as follows:

- Vietnamese citizens and other residents in Vietnam

Level	Average income per month	Tax rate (%)
1	Up to VND 500,000	0
2	From 500,001 to 1,000,000	10
3	From 1,000,001 to 1,500,000	20
4	From 1,500,001 to 2,500,000	30
5	From 2,500,001 to 3,500,000	40
6	Over 3,500,000	50

After paying the above tax rate, if the after-tax income is still higher than VND5,000,000 a month, an additional rate of 30% is imposed on that part of income.

- Foreigners earning income in Vietnam

Level	Average income per month	Tax rate (%)
1	Up to VND2,400,000	0
2	From 2,400,001 to 7,200,000	10
3	From 7,200,001 to 16,800,000	20

4	From 16,800,001 to 33,600,000	30
5	From 33,600,001 to 48,000,000	40
6	Over 48,000,000	50

- The progressive tax rate on irregular income is as follows:

Level	Average income per month	Tax rate (%)
1	Up to VND1,500,000	0
2	From 1,500,001 to 3,000,000	5
3	From 3,000,001 to 7,500,000	10
4	From 7,500,001 to 15,000,000	15
5	From 15,000,001 to 22,500,000	20
6	Over 22,500,000	30

b. The Amended Ordinance on Personal Income Tax on High-Income Earners was passed by the National Assembly (Term IX) on May 19, 1994.

The progressive tax rate on regular income is as follows:

- Vietnamese citizens and other residents in Vietnam

Level	Average income per month	Tax rate (%)
1	Up to VND 1,200,000	0
2	From 1,200,001 to 2,000,000	10
3	From 2,000,001 to 3,000,000	20
4	From 3,000,001 to 4,000,000	30
5	From 4,000,001 to 6,000,000	40
6	From 6,000,001 to 8,000,000	50
7	Over 8,000,000	60

After paying the above tax rate, if the after-tax income is still higher than VND5,000,000 a month, an additional rate of 30% is imposed on that part of income.

- Foreigners earning income in Vietnam and nationals earning income in foreign countries

Level	Average income per month	Tax rate (%)
1	Up to VND5,000,000	0
2	From 5,000,001 to 12,000,000	10
3	From 12,000,001 to 30,000,000	20
4	From 30,000,001 to 50,000,000	30
5	From 50,000,001 to 70,000,000	40
6	Over 70,000,000	50

- As for non-resident foreigners, they should pay a tax rate of 10% for their grand income made in Vietnam.

- The progressive tax rate on irregular income is as follows:

Level	Average income per month	Tax rate (%)
1	Up to VND2,000,000	0
2	From 2,000,001 to 4,000,000	5
3	From 4,000,001 to 10,000,000	10
4	From 10,000,001 to 20,000,000	15
5	From 20,000,001 to 30,000,000	20
6	Over 30,000,000	30

c. Ordinance 01/97/PL – UBTVQH9 was made by the NA Standing Committee on Feb. 6, 1997 to amend certain articles of the Amended Ordinance on Personal Income Tax on High-Income Earners.

The progressive tax rate on regular income is as follows:

- Vietnamese citizens and other residents in Vietnam

Level	Average income per month	Tax rate (%)
1	Up to VND 2,000,000	0
2	From 2,000,001 to 3,000,000	10
3	From 3,000,001 to 4,000,000	20
4	From 4,000,001 to 6,000,000	30
5	From 6,000,001 to 8,000,000	40
6	From 8,000,001 to 10,000,000	50
7	Over 10,000,000	60

After paying the above tax rate, if the after-tax income is still higher than VND8,000,000 a month, an additional rate of 30% is imposed on that part of income.

d. Ordinance 14/97/PL – UBTVQH10 was made by the NA Standing Committee on June 30, 1999 to amend certain articles of the Amended Ordinance on Personal Income Tax on High-Income Earners.

- Foreigners earning income in Vietnam and nationals earning income in foreign countries

Level	Average income per month	Tax rate (%)
1	Up to VND8,000,000	0
2	From 8,000,001 to 20,000,000	10
3	From 20,000,001 to 50,000,000	20
4	From 50,000,001 to 80,000,000	30
5	From 80,000,001 to 120,000,000	40
6	Over 120,000,000	50

e. Ordinance 35/2001/PL – UBTVQH10 was made by the NA Standing Committee on May 19, 2001 on Personal Income Tax on High-Income Earners.

The progressive tax rate on regular income is as follows:

- Vietnamese citizens and other residents in Vietnam

Level	Average income per month	Tax rate (%)
1	Up to VND 3,000,000	0
2	From 3,000,001 to 6,000,000	10
3	From 6,000,001 to 9,000,000	20
4	From 9,000,001 to 12,000,000	30
5	From 12,000,001 to 15,000,000	40
6	Over 15,000,000	50

After paying the above tax rate, if the after-tax income is still higher than VND15,000,000 a month, an additional rate of 30% is imposed on that part of income.

- Foreigners earning income in Vietnam and nationals earning income in foreign countries

Level	Average income per month	Tax rate (%)
1	Up to VND8,000,000	0
2	From 8,000,001 to 20,000,000	10
3	From 20,000,001 to 50,000,000	20
4	From 50,000,001 to 80,000,000	30
5	From 80,000,001 to 120,000,000	40
6	Over 120,000,000	50

As for non-resident foreigners, they should pay a tax rate of 15% for their grand income made in Vietnam.

There was no amendment to the progressive tax rate on irregular income.

f. Ordinance 14/2004/PL – UBTVQH10 was made by the NA Standing Committee on March 24, 2004 to amend certain articles of the Ordinance on Personal Income Tax on High-Income Earners.

The progressive tax rate on regular income is as follows:

- Vietnamese citizens and other residents in Vietnam

Level	Average income per month	Tax rate (%)
1	Up to VND 5,000,000	0
2	From 5,000,001 to 15,000,000	10
3	From 15,000,001 to 25,000,000	20
4	From 25,000,001 to 40,000,000	30
5	Over 40,000,000	40

Singers, acrobats, dancers, footballers, and professional athletes are allowed a 25% cut in their personal income when declaring income for tax purpose.

- Foreigners earning income in Vietnam and nationals earning income in foreign countries

Level	Average income per month	Tax rate (%)
1	Up to VND8,000,000	0
2	From 8,000,001 to 20,000,000	10
3	From 20,000,001 to 50,000,000	20
4	From 50,000,001 to 80,000,000	30
5	Over 80,000,000	40

As for non-resident foreigners, they should pay a tax rate of 25% for their grand income made in Vietnam.

There was no amendment to the progressive tax rate on irregular income.

Thus, from 1991 up till now, Ordinance on the Personal Income Tax on High-Income Earners has been amended six times. The taxable income level increased from VND500,000 for Vietnamese citizens and other residents in Vietnam set by Ordinance 50-LCT/HDNN8 dated April 1, 1991 to VND5,000,000 according to the Amended Ordinance 14/2004/PL-UBTVQH10 dated March 24, 2004.

2. Personal income tax as an inevitable fact

The inevitability of the personal income tax reflects in the following aspects:

(1) At present, Vietnam has no Personal Income Tax Law and has to apply instead the Amended Ordinance 14/2004/PL-UBTVQH10 dated March 24, 2004 that amends some articles of the same ordinance passed by the NA Standing Committee on May 19, 2001.

(2) When the economy grows and Vietnam become a WTO member, Vietnam faces two problems: (i) how to develop the infrastructure as fast as the growth rate; and (ii) how to ensure the budget income when part of tax take is cut as required by the WTO rules. To deal with the two problem, Vietnam need new source of budget income.

(3) Personal income of certain groups and classes is on the increase as the economy grows and they start accumulate money while the majority of people are living in poverty. They are badly in need of help from authorities.

(4) The government has to secure sources of finance needed for more and more public services for an increasing population.

3. Some suggestion about the coming personal income tax

In my opinion, the progressive rates of personal income tax could be as follows:

Level	Average income per month (VND)	Tax rate (%)
1	From 7.000.001 to 10.000.000	35
2	From 10.000.001 to 16.000.000	30

3	From 16,000,001 to 25,000,000	25
4	From 25,000,001 to 37,000,000	20
5	From 37,000,001 to 52,000,000	15
6	From 52,000,001 to 70,000,000	10
7	Over 70,000,000	5

With current increases in the CPI, the level of taxable income set at VND5 million is not appropriate in 2009. It's also unreasonable when imposing high rates on high income because it fail to reflect the nature of personal income tax. As we know, it is not certain that the more ones earn, the more public services they use. A person earns VND70 million doesn't necessarily use more public services than a person with a personal income of VND7 million. They may use less because high-income earners tend to buy services from private concerns.

If the suggested tax rates are applied, the government can get bigger tax take because low-income earners (levels 1, 2 and 3) are numerous than high-income ones (levels 4, 5, 6 and 7), and at the same time, the tax rates also encourage laborers to make more money in order to enjoy lower tax rates.

The regulation that includes income from shares and stake in business in personal taxable income is not suitable because owners of such income have to pay corporate income tax. The tax rate of 25% on income from transfer of stocks is very high. For example, Mr. A put VND100 million in stocks, profit by the year's end he earns is VND20 million. He should pay VND5 million in personal income tax and his after-tax income is VND15 million. Will this income equal expenses he pay when carry out his investment plan? Considering opportunity cost alone, he has to spend at least VND7.8 million (if the deposit rate offered by banks is 0.65% a month). This calculation will encourage him to deposit his money with banks instead of investing in stocks.

Thus, the tax rate of 25% on transfer of stocks will reduce the demand on the stock market and hinder its development. In my opinion, this rate mustn't be higher than 5%.

The above analyses aim at discussing the nature of the personal income tax law when the Bill will be passed and come into effect on Jan. 1, 2009, with a view to making it appropriate and reasonable enough to produce productive effects on the socio-economic life in Vietnam. I believe that a good personal income tax law should ensure equality and benefit for both taxpayers and the State, and it should be suitable to the ability to pay of the public.

Reference

1. Học viện tài chính, *Giáo trình kinh tế công cộng* ("Course in public economy"), Tài Chính, 2005
2. Ordinances on Personal Income Tax for High-Income Earners from 1991 to 2004
3. Bill of the Personal Income Tax Law