TO PERFECT THE TAX POLICY SYSTEM FOR ENHANCING REVENUES OF THE STATE BUDGET AND FOREIGN INVESTMENT IN VIETNAM

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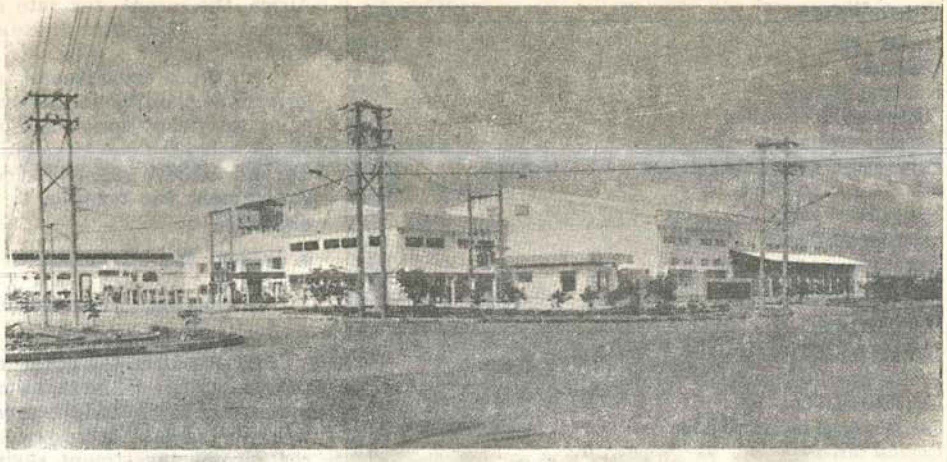

I. NECESSITY TO PERFECT THE TAX POLICY SYSTEM

The tax policy is an important lever to regulate the economic growth rate and mainly to create revenues for the State budget.

On the condition for Vietnam's fast economic growth rate with a view to alleviating poverty, creating jobs, stabilizing politics, defense and easing the economic danger of falling behind regional countries, from 1987 to now, Vietnam has carried out overall reform and modernization of the tax system.

On June 30, 1990, the National Assembly adopted three laws on turnover, profits, special consumption taxes, then the Government has promulgated taxes for high-income earners, import, export duties, pilot collection of value added tax and many legal documents guiding the implementation. Although they have been given amendments and supplements many times, but our tax system still has many shortcomings. The serious problem is now most of taxes are very complicated, causing high overhead expenses on tax collection and tax losses since taxpayers find every way to avoid tax...

Therefore, to perfect the tax policy system is necessary, if not, it will hinder the socio-eccnomic development, the realization of industrialization and modernization and the State's open policy on foreign relations.

The traditional standards of an effective tax system include:

1. Simple, easy to understand in order to manage tax independently, prevent tax losses.

2. Flexible to meet requirements of the national budget.

3. Stable so that the Government is not forced to cut expenditures or borrow large loans suddenly.

4. Making conditions for saving and investing with the aim to help with economic growth and development.

5. Equal, reasonable, suited to the socio-economic practice.

II. REFORMING THE TAX SYSTEM

Thus, an effective tax system must be a system starting from turnover tax with large range of collection. It may be under the VAT form with only one tax rate, corporate income tax to secure companies really have to pay tax, this tax must be combined with reasonable personal income tax which possibly make larger and larger revenues for the State budget when the economy develops.

To create more revenues of the State budget together with preventing tax losses, the taxation authorities has made great efforts to estabiish perfect plan, renew tax policy in the following direction:

- VAT law replacing turnover tax law.
- Law on corporate income tax replacing profits tax law.
- Personal income tax law replacing the Ordinance on income tax for high-income earners.

A. VALUE ADDED TAX (VAT)

On Dec 23, 1992, the National Assembly assigned the Government to organize pilot collection of VAT in some industries replacing collection of turnover tax, the VAT system was issued by Decision 468-TC/QĐ-TCT dated July 5, 1993 and the VAT bill is waiting for adoption at the Nation Assembly's session in October 1996.

1. VAT objects

The application of VAT replaces current turnover tax, so payers of former turnover tax will turn into objects of VAT. It's expected to exempt VAT for the following objects:

- Farmers selling agro-products made by themselves.
- Small trading household.
- Some services such as diagnosis and treatment of disease, legal consultancy, education and vocational training, brokerage, credit, banking, finance, insurance,...

2. Tax deduction

- As for goods beyond fixed assets, deduction of input tax is permitted according to the utilization principle.
- As for goods bought for forminng fixed assets in production and business, deduction of input tax is not regulated initially.

3. VAT rates

In many countries, VAT rates are determined on the basis of the total collection of turnover tax divided by the total consumer values of goods and services:

$$\text{Total consumer values of goods and services} = \text{Gross domestic products} - \text{Total investment values} - \text{Total expenses of State agencies} - \text{Total export values} + \text{Total import values}$$

There are two methods to form VAT:

- VAT rates on prices including VAT
- VAT rates on prices excluding VAT

The application of VAT to prices excluding VAT makes the trader write the price excluding VAT on the receipt, VAT and the customer's payment includinng tax and publicize prices at the shop. In the first stage of VAT application in Vietnam, 10% rate should be applied to popular objects.

The following are VAT rates of some nations:

Nations	Time of application	Tax rates at the beginning (%)	Tax rates from October 1994 (%)
Bulgaria,	April 1994	18	18
Republic of Crech	January 1993	5; 23	5;23
Hungary	January 1988	15; 25	15; 25
Poland	January 1993	7; 22	7; 22
Romania	June 1993	18	18
Russia	January 1992	28	10; 20
China	January 1994	13; 17	13; 17
South Korea	January 1977	10	2; 3; 5; 10
Indonesia	April 1985	10	10
Philippines	January 1988	10	10
Thailand	January 1992	7	7

Source: Documents of the workshop on taxes of nations in the economic transition Feb 6-17, 1995 in Washington DC.

4. Conditions for VAT application

The first condition to apply VAT is every business transaction has receipts as ground for calculation of VAT payment.

According to experiences from some nations, VAT should not be applied to small-size individual businesses, they will pay tax according to tax and payment contracts for local budget.

In our country, 80% of turnnover tax comes from State-owned enterprises and medium and large size businesses operating in accordance with the Foreign Investment Law, Company Law, Private Enterprise Law which make receipts for every business transaction and have enough conditions for VAT application.

B. CORPORATE INCOME TAX LAW:

The profits tax law was promulgated and applied from late 1990 but has not affected all incomes yet. The corporate income tax law overcome this shortcoming.

1. Range of application

- The corporate income tax has a large range of application that is plentiful and diverse companies' inccomes.
- It is applied to both domestic and foreign-invested enterprises.
- It expands privileges for investors profoundly, encourages domestic and foreign individuals and organizations to establish companies, innovate equipment and technology for economic development.

2. Tax objects

Tax objects are businesses earning taxable incomes including those established and operating according to Vietnam law and foreign companies establishing branches and rep offices in Vietnam.

3. Tax rates

The tax rates are lower, simpler, easier to understand than current ones of profits tax, suitable for tax reform in our country and international practice, it is estimated at 33%, equivalent to one-third of the company's incomes. This rate is equivalent to ones of nations in the region and the world: Singapore 30%, China 33%, Philippines 35%, Sweden 30%, France 34%, Canada 38%...There will be lower rate for preferred production industries in the first one to five years according to specific investment project.

C. PERSONAL INCOME TAX LAW

The personal income tax is the result from the amendment of, supplement to the Ordinance on Income Tax for High-income Earners.

According to this law, every individual including nationals and foreigners earning incomes in Vietnam must pay personal income tax with tax rates ranging between 0 and 60% (Vietnamese) or 0 and 50% (foreigners).

The income from business is defined as turnover minus business costs.

Non-business income is income from salary, wage, income in cash or in kind from benefits converted into money...If these incomes exceed the taxable line, they are subject to income tax.

Based on the nature of incomes, the tax list is stipulated as follows:

- Regular incomes apply the yearly tax list.
- Irregular incomes as copyright, divident, deposit interest, income from asset, gift apply separate tax rates for every kind of current incomes with the aim to make the economic development sustainable and the national

finance healthy.

It is suggested that the taxable level of income should be suitable for the taxpayer's living standard.

III. REFORMING THE APPARATUS OF TAX COLLECTORS AND PREVENTING TAX LOSSES

The taxation authorities should perform well tax collection, managerial measures for each tax, area, form of business, object, turnover.

The taxation authorities have brought out the following measures to improve tax collection and prevent tax losses:

1. To separate three departments in management of tax collection:
- One for controlling taxpayers.
- One for tax calculation, tax announcement.
- One for supervising and monitoring together in the process of managing tax collection.

2. To collect tax directly via the system of State treasuries.

3. To consolidate and raise the responsibility, skill for cadres specialized in controlling enterprises' tax payment; to suggest solutions to difficulties and troubles of businesses concerning tax payment.
- To give training and refresher courses to tax officials; to apply computers to tax management of every level, to pay special attention to key officials, to replace those who do not meet the qualifications in the new situation. The appointment of oficials must be a common work in order to renovate incessantly and establish a qualified army.

4. As for foreign invested enterprises:
- To coordinate with relevant agencies to know the whole investment projects in the area, what is operating, what cannot enjoy tax relief any longer; land area used for each project; operational duration of each project to calculate and collect sufficient tax, rent of land, water and sea surface.
- To strictly control investment activities, forms of business, such tricks of tax evasion as raising input price, lowering selling price of product, transferring profits overseas under the form of export or changing partners which is really share sales... with the aim to prevent tax losses effectively.
- To supervise tax declaration according to regulations (concerning tax rates, tax objects), to make the final settlement of tax and payments to the Treasury before 1995 in order to complete the collection of tax arrears in this economic sector, to resolutely settle violations.
- To manage economic activities, especially services of foreign organizations liable to pay tax to Vietnam.
- To grasp the real expenditures of foreign - invested enterprises, rep offices on renting houses for their officials and inform the competent tax agengy for collecting enough taxes imposed on the lessor.
- Regarding revenues from crude oil, to regularly urge the Petechim Company to pay to the State budget on time, to examine the expenditures of the Vietsovpetro JV; to reject unreasonable expenses and recollect that amount for the State.

IV. APPLYING THE TAX POLICY FOR FOREIGN INVESTMENT ATTRACTION AND ECONOMIC DEVELOPMENT.

Through developing nations' experience, such East Asian dragons as Japan, South Korea, Taiwan...the tax policy has been flexibly applied to regulate the economic growth rate. When its economy falls into depression, the Japanese government reduces tax and allows companies to depreciate their assets fast with a view to promoting investment. When the economy goes hot, the Government applies the reverse measures to balance the economy.

In the situation of regional nations' changes in their foreign investment laws for more flexibility, investment attraction, Vietnam has to re-adjust its tax policy along with tax privileges in the Foreign Investment Law, especially when Vietnam takes part in ASEAN and WTO... in the future Just because of competition in foreign investment, other nations usually regulate tax privileges for foreign invested enterprises more than domestic ones, so although there are opinions suggesting the profits tax for foreign invested enterprises and domestic ones should be unified, at present, Vietnam has to wait longer to reduce tax on profits for foreign invested enterprises in a certain period, allow them to depreciate their assets fast for major industries which need renew fast technological equipment, make conditions for companies to reinvest, make in-depth investment, improve business performance. According to statistics of the taxation authorities, the tax collection in the foreign invested sector developed fast, attained and surpassed the yearly target, although the tax agencies' control over this sector was not tight...

To increase revenues of the State budget, attract foreign investment, in addition to perfection of the tax system, prevention of tax loss, the legal environment for doing business should be improved. Policy makers should listen to investors' comments, see the domestic capital source is the main one, and the foreign one important. The Government should give priority to investment in upgrading economic infrastructures, firstly industries of power, transportation, post and communications for rapid industrialization and modernization■