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THE VAT IN FOREIGN COUNTRIES AND VIETNAM

by LÊ XUÂN QUANG

1. Experience from foreign countries

a. The U.S.

The VAT isn't used in the America. The U.S tax system includes three levels: federal, state and local ones. Federal and state governments have their own administrative machinery and rights to make their tax laws and use tax take for their development programs.

Each state has its own retail sales tax which is different from the sales tax in Vietnam. The on retail sales tax is charged only on retail prices of goods or services supplied to the end-user instead of on prices charged by manufacturers and wholesalers, thereby avoiding the multiple taxation. Thus, the VAT, as a way to avoid multiple taxation, becomes unnecessary although some members of Congress have moved the use of VAT in the U.S. Australia has also adopted the American tax system and there is no VAT in this country.

b. Indonesia

The VAT was introduced in 1983 in a multi-stage program because of poor managerial skill of officials and poor knowledge of taxpayers. The VAT didn't come into effect before 1985 and only reached retailers in 1992.

This multi-stage program allowed enough time for tax officials to improve their skills and for taxpayers to get accustomed to it. At the first stages because the taxation wasn't perfectly fair, it was amended and improved step by step and became more appropriate to economic activities. Eight years after its introduction, the VAT law was enforced smoothly and the taxation machinery became more effective.

c. Hungary

Up to 1987, the Hungarian tax system, after many improvements, still bore the mark left by the



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centrally-planned mechanism (complexity, discrimination against non-state sectors, arbitrary tax assessment, etc.)

In 1988, an overall tax reform was carried out by applying the West European tax system with a view to improving Hungarian international competitiveness when this country joined the EU. The tax system was made simple, consistent and appropriate to international practices and all old shortcomings were removed.

After years of preparation, the Hungarian Congress introduced the VAT in 1989 although it is still called the turnover tax. With experience of enforcing the VAT law, Hungarian experts advised Vietnamese tax authorities to make all necessary preparations, especially in keeping books and accounting documents. They didn't think that the application of VAT would quickly put the accountancy in order because the tax authorities would get more benefit from the VAT than the business circle would, so the taxpayers always try to avoid it. At present, the Hungarian tax authorities still lose some 50% of total payment in VAT.

d. China

China studied and introduced a VAT pilot scheme in 1980 and this scheme aimed mainly at manufacturers and it was carried out in parallel with the excise duties with the result that the taxpayer had to pay the VAT for this commodity and the excise duty for another at different tax rates (varying from 12% to 43%). Chinese tax authorities considered this pilot scheme as a failure, and even as a mistake, especially in charging the VAT on companies that took part in this pilot scheme and bought goods from another that didn't.

In 1984, the VAT law was officially applied to

the first 12 product lines and to all businesses in 1994, except for transport and some consumer services. After applying the VAT for 20 years, the Chinese government is perfecting the VAT law aiming at:

- + charging the VAT on all manufacturers and suppliers.

- + working out exactly the difference between output and input taxes by controlling the book-keeping activity.

- + adjusting the relation between the VAT and excise duty with a view to imposing the VAT on all goods and services and making the excise duty a regulatory tax.

2. Introduction of the VAT to Vietnam

The VAT was studied in Vietnam when the economy was stable and started to develop. The VAT law was promulgated in May 1997 and came into effect on Jan.1, 1999 when the economy was sluggish and affected by the Asian financial crisis.

The system of business accounts haven't kept according to regulations. Most local tax agencies, when collecting taxes from private companies, tend to charge a fixed amount of money on each commodity (for example VND200,000 on a motorbike sold or VND21 on a kilo of rice), therefore most companies pay no attention to book-keeping and buyers don't get into the habit of demanding invoice.

The company had to pay the sales tax for the stock-in-trade before Dec.31, 1998, and now have to pay the VAT when putting them up for sale in 1999 without getting tax refund from tax authorities.

When the sales tax is replaced by the VAT, companies in certain industries (engineering, coal, tourism, hotel, insurance, informat-

ics, garment, etc.) have to make bigger tax payments because the sales tax including 11 tax rates (from 0% to 30%) is changed into the VAT with only four tax rates (0%, 5%, 10% and 20%). Companies producing goods on which the excise duty is levied aren't allowed to offset against VAT-input tax charged on their raw materials, and when their goods are put up for sale, these companies pay the excise duty instead of the VAT, so they have no tax refund to get back. Businesses in tourism industry have to pay the excise duty for many goods, and when they sell these goods, they have to pay the VAT but get no refund of VAT-input tax because suppliers of these goods pay the excise duty, not VAT. This situation makes the production cost and selling price rise and affects badly the business performance.

Tax authorities agree to pay tax refund to companies that suffer losses caused by large stock-in-trade or reduction in the number of tax rates. Many businesspersons feel discontented because changes in the tax system caused them to suffer loss and now they have to make request for tax exemption or reduction, so they didn't welcome the VAT law.

To apply the VAT, the task of communicating it to taxpayers and tax officials is of great importance. However, this task hasn't been carried out successfully in the past few months. Shortcomings in the VAT law haven't been corrected and amended. That is why many problems have arisen from the application of the VAT:

- + The application of two methods of calculating the VAT with four tax rates will lead to division of production stages and affect the neutrality of the VAT.

- + When using raw ma-

terials exempted from the VAT to produce goods on which the VAT is levied, the producer has to pay the VAT in full because there is no VAT-input tax to set off against.

- + The application of two methods of calculating the VAT to privately-run and state-run companies will put the state-run companies at a disadvantage because the privately-run companies have chance to avoid tax by keeping wrong accounts.

Just because of poor preparations, the VAT has caused a lot of worries for both consumers and producers. After the VAT came into effect, prices of many consumer goods rose remarkably (medicine, cosmetics, motorbikes, fuel, etc.) causing a rush for them because most buyers have little knowledge of the VAT.

When the sales tax is replaced by the VAT, the amount of taxpayers will increase, so all tax agencies need to be computerized, tax officials should be trained in informatics and computer network between tax authorities and companies should be formed. However, all of these requirements haven't been met.

The cooperation between tax authorities, banking system, price committees and market control authorities hasn't been perfected. Most companies are badly in need of capital, many of them are in debt and have to use bank loans to pay taxes, including the VAT. At present, many banks have refused to supply loans for this purpose.

These difficulties facing local companies make us think that the Government had better issue more detailed guidelines on the application of this tax law and take measures to help companies deal with the above-mentioned difficulties and shortcomings.