THE FEASIBILITY OF THREE TAX BILLS AND SOME SUGGESTIONS

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In the tax reform in Vietnam today, the submission of three new tax bills to the National Assembly in its next session in October is a new step forward on the road to perfection of Vietnam tax system making it appropriate to international practices. According to the plan, three tax bills (value-added tax, company income tax and personal income tax), after getting approval of the National Assembly, will come into effects as of Jan.1,1998.

1. Personal income tax bill

The bill provides that persons who have regular income of over VNĐ15 million a year have to pay this tax, because the average living standard of the country is considered as 10 times higher than the basic wage rate of VNĐ120,000 a month and the monthly income of VNĐ1.2 million can ensure an acceptable existence for a laborer and one dependant.

The personal income tax payer includes private businesspersons, those who get regular income (earned income) and those who get irregular income.

Tax collecting: the taxing agency will collect with holding tax from employers. Employers will pay an agreed sum for with holding tax every month according to their tax declaration and balance the payments with the taxing agency by the end of fiscal year.

The tax rate will be applied separately to Vietnamese and foreign taxpayers, or universally to both of them (option open to the National Assembly). Up to now, the following tax rate is charged on high-income earners: 10% on 1.2-2 million income bracket, 20% on 2-3 million income braket, etc. This bill sets the following tax rate: 10% on 1.5-3 million income bracket; 20% on 3-9 million income bracket; 30% on 6-9 million income bracket, etc. The taxable income of a private businessperson will be: gross income or total sales (-) tax-free allowance (including payments to employees). As for salary or wage earners, the taxable income be their regular income. As for those who get irregular income, they will be charged the with holding tax at source. In addition, the bill allow the following incomes to be tax-free: from agricultural products sold by farmers, from foreign awards, insurance received on accidents, present in cash given by foreigner (present in kind will be taxed), etc.

2. Company income tax

This tax will replace the profits tax which has only a small scope of effect: many gains earned by the company such as capital transfer, technology transfer, bad debt collected, etc. haven't been charged with profits tax, now these gains will be considered as company income and will be charged with the company income tax. This tax will charge on local and foreign-invested companies of all economic sectors. However, profit remittance will be tax-free. According to the plan, as from Jan. 1,1998, profit remitted by foreign-invested companies will be taxed. In the time between, foreign-invested companies with valid licence will pay tax as stated in the licence, and profit transfer tax will be charged on investment projects licenced after Jan.1,1998.

Tax reduction and exemption will be granted to companies operating in remote and mountainous areas. The problem is to make our tax system appropriate with those in regional countries in this matter.

Company income taxpayers: include economic concerns with income generated in Vietnam and its branches in foreign countries (the double taxation will be solved by agreement exchanged by Vietnam Government and related countries); and branches and offices of foreign companies earning income in Vietnam.

Tax-free allowances: include all expenses allowed to be deducted from the gross income by law (with lawful invoices and within limits) such as amortization, salary and wage payments, etc. As for state companies, the rise in salary mustn't be higher than labor efficiency, expenses on reception and advertisement mustn't exceed 5% of overheads.

The tax rate will be 33% for all businesses (this rate is equivalent to what charged by surrounding countries: 33% in China, 35% in the Philippines, 30% in Singapore and Thailand). Preferential treatment will be given to certain businesses in their first 1-3 years of operation. As for oil business and exploitation of precious resources, the tax rate will vary from 33% to 50%. The profits tax is maintained, a rate of 25% charged on super-profit will be added.

Projects to carry out tentative

production, apply new techniques and move factory to mountainous areas will enjoy tax exemption and reduction.

The company income tax aims at encouraging production development, offering equal opportunity to all companies and helping the Government learn about company's business performance. Businesses of top priority will be encouraged in their first years of operation by exemption from this tax.

3. Value-added tax

The current turnover tax is easy to work out by multiplying sales and tax rate. However it leads to multiple taxation. In addition, the division of companies into various groups and charging different rate brackets on them make the taxation more complicated. At present, nearly 100 countries in the world have replaced this tax with the VAT.

The application of VAT aims at:

- Encouraging the development of economic activity.
- Promoting exportation by charging a tax rate of 0% (this is different from tax exemption, payments for VAT will be returned to exporters when goods are exported).
- Increasing budget income although the tax rate isn't increased, and reducing tax avoidance and evasion because it charges as a percentage of the selling price of commodity at each stage of distribution, if a taxable person evades payment of the tax, other payments are still collected from other persons in the distribution channel.
- Avoiding multiple taxation: at each stage of distribution, the taxable person is allowed to set the tax charged to him by his suppliers against the VAT, that is, the VAT charges only on the difference between buying and selling prices.
- Combining taxation of companies and individuals and making Vietnam tax system appropriate to those of regional countries.

VAT payers include all companies and individuals making value added to the products. Companies or family businesses with total sales of over VNĐ600 million per year will pay VAT; those with lower sales will pay an agreed sum of money for VAT every year (however, they can pay VAT if books are kept well).

The following activities are exempted from VAT:

- Producing and selling home-made agricultural products.
- Supplying credits by banks.
- Health care, sports, cultural and information services; radio and TV broadcasting, education service.
- Printing and distributing newspapers and magazines, and text books.
- Running public-service vehicles in cities and towns.
- Providing humanitarian aid; belongings of persons enjoying diplomatic immunity.
- Irrigation service.

There are four methods of calculating VAT:

- Direct adding: tax rate x (salary + profit).
- Indirect adding: (tax rate x salary) + (tax rate x profit)
- Direct subtracting: tax rate x (selling price - buying price)
- Indirect subtracting: (tax rate x total sales) - (tax rate x total purchases)

The indirect subtracting method is usually applied to trading companies, and the direct subtracting method is applied to industrial concerns.

It's worth noting that input tax in the invoice will be set against output tax on the condition that invoices are made correctly.

Two systems of VAT rates are proposed:

- 10% (or 20%) and 0%
- 0% - 5% - 10% and 20%.

The tax rate of 5% is charged on essential goods; 10% on consumer and producer goods; 20% on non-essential goods.

As for tax deduction, in principle, input tax shown in invoice will be deducted, but state-run companies could pay an agreed sum for VAT including deduction of tax, companies purchasing agricultural products could enjoy certain deduction.

As for capital allowances, they will be favorable for companies to replace their old equipment. To stimulate investment, the Government may allow companies to write off the whole cost of assets (or even raw materials) against tax in one year or several years.

In principle, no exemption or reduction from the VAT is allowed, because this tax charges on consumers. Businesses of top priority could enjoy preferential treatment in a period from one to three years only.

Application of VAT could lead to certain problems:

- Price of certain goods will rise but in general, it produces no bad effect, because this rise is caused by mistake in calculating the VAT.
- Some inflation will take place because of tax returns.
- Expenses on tax management rise, overhead expenses of a business also rise.

4. Some suggestions

a. On the VAT

- To make deduction exactly, there must be voucher for VAT payments accompanied by invoices with the VAT shown on it if the deduction is big. A national fund must be formed in order to pay tax returns fast.
- As for tax rate, one opinion suggests that we need only one tax rate in order to make the taxation simpler. Another opinion says that there must be three tax rates in order to ensure equal opportunity for all industries. This matter should be considered carefully.

b. On the company income tax

- Some people suggest removing the tax rate of 25% on super-profit in order to encourage investment. Another problem is to define exactly what will be deducted from taxable income.

c. On the personal income tax

- The tax base, or taxable income, could be increased to VNĐ2 million.
- Family allowances should be taken into consideration when calculating taxable income.

In short, the improvement of three tax bills will help to perfect our tax system and make it appropriate to the region ■