

TAX AND CREDIT FOR BUSINESS OWNERS IN TRÀ VINH TOWN

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Trà Vinh is a remote town in the Mekong Delta. It has a modest number of enterprises. Its economy is underdeveloped due to many reasons including natural resources, workers' educational attainment, capital and policies, etc. We have conducted a survey on credit and tax for businesses in the town.

1. Surveyed targets

We made only investigation of leading industries of the Trà Vinh Town. The number of interviewees is 52 including 35 private enterprises and 17 sole proprietors. The results are indicated in Table 1

Table 1: The Human Capital of Business Owners

Indicator	Number (person)	%
5 schooling years	8	15.38
9 schooling years	17	32.69
12 schooling years	27	51.93
MA	0	0.00
University degree	3	5.77
2 years of vocational training	4	7.69
Trained	1	1.92
Certified skill	11	21.15
Non-certified skill	24	46.16
No skill	9	17.30

The business owners with uncertified skill cluster in traditional industries such as gold and jewelry trading, small mechanical engineering, construction, woodwork...

In short, the business owners' human capital is an obstacle to their development, especially in the market economy due to the following reasons:

- They cannot apply new technical advances, production process and equipment.

- They find hard to collect adequate information about the market.

- They can hardly change into other business and production although their business has incurred loss in consecutive years.

- They do not understand and fulfill bookkeeping in accordance with current regulations on accounting and tax.

2. Credit conditions

Private enterprises and proprietors are badly in need of capital to start up and expand their business and production. However, there remain many hurdles, so from 1997 till now, although the banks have cut ceiling interest rates, they still face deposit gluts. Our survey reveals the following facts:

2.1 Capital of enterprises

The surveyed 52 businesses have a combined capital of VND30,832.5 million, or 592.93 million each on average. Large fund owners include those trading in fertilizer, farm materials, building materials and internal decoration goods. It is attributed to these careers requiring large warehouses, means of transport, expensive equipment and machinery and finally credit sales.

2.2 Capital structure

Table 2: Capital Structure

Capital source	Number of businesses	%
Equity	52	100
Equity (shares)	1	1.92
Loan from credit fund	9	17.31
Bank loan	18	34.61
Loan from relatives	9	17.31
Others	5	9.62

Fifty-two businesses have equity capital representing 22% to 100% of their assets.

Eighteen out of 52 businesses (or 34.51%) have taken loans from banks while the number of persons requiring bank loans amounts to 41, or 78.55%. This is irrational because the loan procedures are cumbersome, and thus obstacles to their borrowing. There are 17.31% of businesses making access to loans of the credit fund. They are mainly proprietors requiring not large funds.

There are 17.31% of businesses taking loans from relatives who are mostly their parents. There is only one joint stock business trading in petroleum.

2.3 Difficulties in taking loans from credit institutions

Table 3: Main Difficulties in Taking Loans from Credit Institutions

Difficulties	Number of businesses	%
Not knowing loan procedures	3	5.77
High interest rate	8	15.38
Complicated procedure	41	78.85
Irrational loan term	10	19.23
Inadequate credit	10	19.23
Others	2	3.88

In the above table, 78.85% of owners argued the big challenge to them was banks' loan procedure; 19.83% of interviewees said the loan term was irrational and the amount of credit could not meet their demand. Some of traders and sugar makers considered such interest rates high. Many business owners were not satisfied with the bank's assessing their collateral. According to them, their collateral was assessed far lower than the market value.

Our survey also shows that the borrowing depends on the business owner's human capital, those with 12 schooling years see such procedures are not troubling, the low-educated

persons are very reluctant to borrow money from banks, so they have to become debtors of their relatives or usurers.

There are many entrepreneurs feeling unfriendly with the banks while the banks have reformed their operations strongly and they are following the motto "Customer Is the King".

2.4 Overdue debts

The outstanding loans are not remarkable and repeated in one business. It is because the number of businesses taking loans from banks is still modest. Most of businesses ran into overdue debts due to their unsuccessful operations, and unstable market prices. Sugar makers suggested the Government should implement flexible measures of interest rate support for businesses. For example, when the sugar price falls to the bottom, the Government knows businesses incur losses but it does not give them preferential rates. Those facing overdue debts were allowed to extend their term of repayment and later they have paid their debts to the banks. As a result, there is no evidence of bad debts or writing off debts.

Table 4: Causes of Overdue Debts and Measures to Overcome

Overdue debts	Number of businesses	%
Causes	6	100
Natural calamity	0	0.00
Lack of capital	1	16.66
Obsolete equipment	1	16.67
No market information	1	16.67
Others	3	50.00
Measures to overcome	6	100.00
Extension	6	100.00
Others	0	0.00

3. Tax payment of businesses

We have considered three kinds of tax drawing much concern from businesses. They include taxes on license, value added and corporate income.

3.1 License tax:

This is a tax paid annually and based on category of business (e.g. businesses in category 1 paying VND850,000/year, category 2 VND550,000/year...).

Only 3.85% of the surveyed businesses considered it high and the remainder saw it reasonable and felt content.

3.2 Corporate income tax

This tax has a common rate of 32% to all enterprises and it is paid every quarter.

In our investigation, 32.69% of enterprises argue this tax rate is high, most of them are trading in coffee, confectionery, beer and soft drink, electrical home appliance, fabric, etc.

There are 67.31% of businesses considering this rate reasonable, they are involving in mechanical engineering, farm materials, building materials, woodwork and internal decoration, tobacco, oil and petroleum...

1.3 Value-added tax

Our survey also indicates those sectors using receipts and vouchers (petroleum, mechanical engineering, woodwork, building materials, and farm materials) fully agree with the value-added tax because it secures the fairness in tax collection, those facing larger sale revenues will pay more tax. After the new tax takes effect, the tax payment of many businesses reduced by millions of đồng.

The figures in Table 5 show 50% of the enterprises apply the method of tax deduction, 20% estimation, and 26.92% direct payment. The tax rates are 5% and 10%.

Most of businesses argue the tax calculation is complicated, 18.42% of the interviewed businesses say the tax rate is high, some businesses cannot assess the input tax.

Many businesses consider the estimated tax is unreasonable for the same business, size, product, and town or between the town and districts of the province. Just because of this, some businesses tend to move to districts in order to pay less tax.

4. Some suggestions

To make favorable conditions for private businesses and proprietors to expand their business and production in the Trà Vinh Town, we like to present the following suggestions:

- First, the Town and the Province governments soon train skilled labor for businesses and open short-term courses on technical knowledge and business management for owners.

- Banks are required to promote their marketing and disseminate the loan procedure to businesses.

- Tax agencies should give regular guidance to businesses.

With the appropriate policies of the Trà Vinh leadership and the young entrepreneurs' aspiration to make rich, we hope these businesses will reap a lot of fruitful success and help the province to catch up with others in the Mekong Delta. ■

Table 5: Value-added Tax and Difficulties in Application

Indicator	The number of businesses	%
1. Method of tax collection	52	100.00
Direct payment	14	26.92
Estimation	12	23.08
Deduction	26	50.00
2. Tax rate	52	100.00
5%	13	25.00
10%	34	65.38
20%	5	9.62
3. Difficulties	38	100.00
Complicated tax assessment	19	50.00
High tax rate	7	18.42
Impossible input tax assessment	7	18.42
Others	5	13.16