

# SOME OPINIONS ABOUT THE FISCAL POLICY FOR CENTRAL HIGHLAND

by MEcon. NGUYỄN THẾ TRÀM

**E**conomic activity in the Central Highland provinces was less developed than in plain provinces. So the Government and the Party continuously take measures to help the Central Highland provinces keep pace with other provinces. The problem we deal with here is how and to what extent can these measures be carried out in order to exploit potentials of the Central Highland provinces and struggle against the habit of relying on financial support of the central government. Of the macroeconomic policies, the fiscal policy has great effects on the socio-economic development of the Central Highland provinces. Taxation can encourage the economic development and the change to the market mechanism. Taxes are also the main source of income of provincial budgets.

The main aim of fiscal policy for the Central Highland provinces is to reduce taxation. In comparison with plain provinces, number of persons or organizations liable to pay certain taxes is smaller, the tax rates are lower, the tax-exempt percentage is higher, the tax shelter is given more generously.

Therefore the tax take in Central Highland provinces is of 50% to 56% compared with other provinces. But in my opinion, to reduce taxation in order to encourage the economy to develop isn't the best solution. It doesn't matter how much the tax take is. The problem of greater importance is to impose taxes reasonably and effectively, and at the same time, to ensure the stable growth rate.

The tax take of the Central Highland provinces in comparison with GDP increased from 7% in 1990 to 14% in 1994 (the national average is between 20% and 21%). This tax take

covered from 45% to 52% of local public expenditures (this percentage increased to 58% in Daklak). The central budget had to cover 45% to 55% of local budgets, that is the tax take in these provinces isn't big and couldn't become a burden to local economy.

At present, in Central Highland provinces, tax exemption is given to too many taxpayers in a too generous manner, so it brought about too little effect, because the tax-free income is too small to encourage businesspersons to develop their enterprises. In social aspect, such a fiscal policy can only form a loose relationship between the business circle and local authorities. In management aspect, local authorities can't control economic activities in their districts without taxation. So we had better reduce tax instead of giving tax exemption. Moreover, we need not give tax exemption to any person or organization if the tax-free income is too small. For example, the following table will show exemptions from tax on agricultural land using applied to Buôn Mê Thuột (Daklak):

was given to 130 state enterprises and over 16,800 family businesses so the tax-free sales were too small to become an encouragement to a concern. In reality, a concern couldn't depend on tax-free sales for reinvestment or technical innovations. Moreover, the tax-free sales made the taxable income increase, so the concern had to pay a higher income tax, so what is left to a concern to reinvest is small.

- Resources tax: in the Central Highland provinces, the resources tax is charged mainly on forest exploitation. In Daklak, local authorities collected VND21 billion in 1994, VND21 billion in the first half of 1995 (it is estimated that this figure would be VND34 billion for 1995), represented 8% to 12% of local budget income. Income from resources tax tends to increase, because the forest is increasingly exploited. In Daklak 36,000 cubic meters of wood were exploited in the first half of 1995, and around 70,000 cubic meters will be exploited by the end of this year.

The forests of Central Highland, therefore, have been destroyed seri-

	1994	The first half of 1995
Tax-free area	7,000 ha	6,000 ha
Tax relief (VND)	5 million	4.28 million
Households receiving tax relief	1000	860
Average tax relief (VND)	5,000/household	4,978/household

Such a small tax relief produced no effect on the economy.

- As for the turnover tax: a tax relief rate of 15% to 30% was given to businesspersons in the Central Highland provinces (in Daklak the total tax relief amounted to VND7.1 billion in 1994 and is estimated at VND12 billion in 1995). But this tax relief

ously, the ecosystem is badly damaged. In my opinion we can't increase local budget income at the expense of the ecosystem and the environment. We had better strengthen local forestry service and impose a heavy tax on forest exploitation with a view to protecting the environment.

- Tax on agricultural land using:

the farmer in Central Highland is encouraged to change the structure of crops, but only a small area of cultivable land is appropriate to high-price perennials (such as coffee, etc.), with the result that the gap between coffee-planters and rice-planters becomes wider. According to regulations, all planters pay tax in rice, they will pay 480kg of rice for a hectare of rice, and 650kg of rice for a hectare of coffee, while the price of coffee is 14 times higher than that of rice, so the coffee - planter becomes richer than the others (in Daklak, area of land appropriate to coffee planting represents only 37% of total cultivable land). This is one of problems in taxation which need to be reexamined.

- In some taxes, the tax rate and percentage contributing to the central budget fixed by the central government are unreasonable, because the better part of tax take should be transferred to the central budget. This situation could make local authorities get into the habit of depending on the central budget for subsidies. I think that, at present conditions, the Government had better allow local budget to retain 100% of its tax take.

- The excise duty charged on certain goods produced in Central Highland provinces is unreasonable. In Daklak, around 4,000 liters of fermented fruit juice can be sold at a price of VND1,700 per liter everyday. If the producer has to pay the excise duty rate of 90% (VND1,530 per liter), he will suffer loss and be forced to stop operating, even though he is given a tax holiday of first three years. Furthermore, the excise duty collected should be transferred to the central budget, so local authorities didn't want to invest in this business. If this duty is adjusted, many businesses will be developed, the local budget income will increase and the level of subsidy from the Government will be reduced.

In short, the Government's policy on tax exemption for the Central Highland provinces is very good, but this policy must be carried out correctly, reasonably and effectively on the right concerns, not on everybody. The Government had better state exactly what cases will be exempted from taxes (losses, natural disasters, fire, etc.) Direct taxes such as income tax, profits tax, etc. can be reduced more strongly in order to encourage businesspersons to develop their enterprises. Moreover, the tax take should be used to improve the infrastructure, build new factories, supply soft loans to the poor farmers or help them sell their products, etc.

# ON PREFERENTIAL AMOUNT OF BANK LOAN FOR PRODUCING AND PURCHASING GOODS FOR EXPORT

by LÊ VĂN CHÂN

**O**n Sep 1, 1995, the Vietnam State Bank (VSB) issued the Circular No 3/TT-NH1 providing guidelines on the realization of the Decree No 29/CP dated May 12, 1995 which directed the implementation of the Law on Domestic Investment Encouragement. This Circular came into effect since the day of its issue.

The VSB gave detailed guidelines on preferential amount of bank loan for producing and purchasing goods for export stipulated in the Article 11 of the Decree 29/CP. These guidelines are as follows:

## 1. Borrowers supplied with preferential amount of loan

They are economic concerns which produce and/or purchase goods for export (both direct or indirect export) - they are hereafter called exporters for short - of all economic sectors affected by the Law on Domestic Investment Encouragement.

## 2. Conditions to secure preferential amount of bank loan

These conditions are stipulated by regulations of credit supply signed by the Governor of the VSB.

- Borrowers must have certificate of priority investment according to lists A,B or C included in the Decree No 29/CP, or certificate of priority investment granted by the State Planning Committee if they are concerns licenced by the Prime Minister; or certificate of priority investment granted by provincial people committees if they are concerns licenced by provincial people committees.

- Borrowers must produce trade agreement signed with foreign parties.

## 3. Supply of preferential amount of bank loan

- As for exporters, if they are in conditions to borrow preferential amount of bank loan as stipulated by above-mentioned Article 3, the state bank will supply loans to the best of bank's ability and within regulations stated in Article 25 of the Ordinance on Bank, Credit Co-operative and Finance Company.

- If the bank can't supply enough the required sum of money to borrowers, the bank must make plan to borrow additional capital from the VSB, and the VSB will consider the plan and allocate additional capital according to current regulations approved by the Governor of the VSB.

## 4. Maturity of loans

The maturity of loans will be fixed by the bank according to the current regulations of credit supply signed by the Governor of the VSB after considering creditworthiness and cash flow of the borrower company.

## 5. Interest rate

The Decree 29/CP and Law on Domestic Investment Encouragement only stipulated that the state commercial banks should lend a preferential sum of money to exporters. Director-general of the state commercial bank will decide on the interest rate of loans supplied to exporters within the interest rate scale stipulated by the Governor of the VSB at that time. If there are fluctuations in prices in world and local markets which make exporters suffer losses, the Government can use the price stabilization fund to lower the interest rate ■