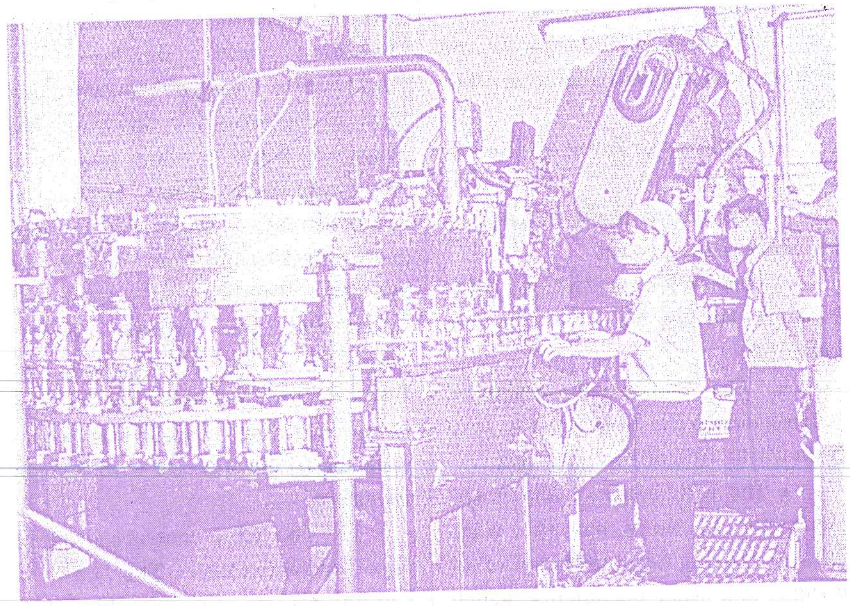
Improving Tax Policies to Enhance Corporate Performance

by MEcon. NGUYỄN VĂN CƯƠNG



Vietnam has set its socio-economic plan for the 2006-2010 period as follows:

- The gross domestic product (GDP) increases 2.1 times by 2010 as compared to 2000. Within the five years from 2006 to 2010, the GDP growth rate will be 7.5 to 8%/year and try to reach over 8%/year. The per capita GDP (figured at present price) will range from US$1,050 to 1,100 by 2010.
- The GDP structure is agriculture 15-16%, industry and construction 43-44%, and service 40-41%.
- The export value rises 16%/year.
- The state revenue reaches 21-22% of GDP.
- The gross investment capital registers 40% of GDP.

The task of state revenue was fulfilled over the set target in the five-year plan (2001-2005). The five-year revenue grossed VND770,000 billion, equal to 124% of the estimate, the average rate of mobilization was 23.2%. The revenue structure has changed positively, for example, domestic revenue share increased from 50.7% (2001) to 55% (2005). Revenues from import-export tax dropped from 22.1% to 17.9%. The revenue share from businesses climbed from 66.4% (1996-2000) to 71.4% (2001-2005). The revenue growth rate posted 20% per year on average in the 2001-2005 period.

In 2005, the total state revenue reached VND 211,400 billion, or 2.03 times the total real revenue in 2001, up 15.5% as compared to the plan set by the National Assembly, 26.7% more than the real figure in 2004. In this amount, the total domestic revenue excluding crude oil sales amounted to VND115,000 billion, up 19.2% as compared to the performance in 2004.

Revenues from businesses made up 71.4% of the total. It is indicated in the Table below:

Unit: VND bil.

Business sector	Revenue in 2005	Surplus compared to the 2005 estimate	Growth rate (%) compared to the 2005 estimate	Growth rate (%) compared to 2004
State	37,800	1,010	6.4	15.9
Foreign Invested	20,500	2,550	14.2	39.5
Private	16,800			26.7

In the total surplus compared to the 2005 revenue estimate (VND28,400 bil.), the increased revenue from businesses remained modest (accounting for only 20%), the remaining 80% came from irregular sources (land rent, crude oil sales, sales of state lottery companies).

This reflects volatilities in the revenue structure. The state revenue still depends so much on uncontrollable factors (crude oil prices on the world market), unstable sources (state lottery companies, land rent) or decreasing payment (import duty).

The Government income from domestic economic activities is still low (below half of the total). This reveals the national economic performance is not high; the payment from business to the state budget is not compatible with preferential policies issued by the Government. Moreover, the revenue growth rate in the business sector is not in accordance with the fast soaring number of businesses newly established in the past.

In the meantime, the socio-economic plan for the 2006 - 2010 period has made great expectations of business performance and enterprises are regarded as the principal engine in economic development and international integration.

As a result, the Government should create a stable legal framework, attractive investment environment, liberal business climate, healthy socio-cultural environment, civilization, democracy, and other favorable conditions for the establishment and profitability of businesses.

The Government has mapped out the destination of 500,000 operational businesses by 2010. This national action program will play an important role in achieving the socio-economic plan for the 2006-2010 period and intensive integration in the world economy. The implementation of the program will also generate jobs to workers, relieve burden of social problems, and especially create great resources for the national development, which will produce huge income to the Government.

The following measures should be implemented to reach the above-mentioned targets:

I. General Measure

Government policies on investment and business expansion should be implemented in line with those on finance and Government revenue; money, price and inflation control; wages and social insurance. In addition, economic institutions must be perfected and combined with the national program of business development in order to boost up their potentials. This program should be planned with specific destinations and road maps. This is also the motivation to accomplish the socio-economic plan for the 2006-2010 period and it includes main contents as follows:

1. Orienting the development of industries and sectors:

The relevant authorities should concentrate their efforts on selecting and developing important industries and areas (agriculture, rural areas, manufacturing, construction, service). Furthermore, they must pay attention to key areas including export-import activities and international economic integration, education, training and technology, social problems and environmental protection based on fast development, efficiency and sustainability.

2. Orienting the development of geographical areas and territories:

Efforts should be focused on three key economic regions: the North, Central provinces, and the South; challenging and specially challenging areas. Moreover, the marine economy must be accelerated and economic zones in the three regions.

3. Implementing the Investment Law and the Enterprise Law:

The Government should reduce and abolish discriminating regulations between foreign-invested and local businesses, help train corporate executives so that they have global strategic vision and comprehensive ability of business administration and flexible activities.

4. Continuing to improve and liberalize the business climate, mainly reforming public administration and perfecting the tax system and policies on corporate finance based on encouragement and support for development.

II. Measures for Policies on Corporate Finance

1. Reform policies on corporate finance to enhance the performance and competitiveness of businesses and the national economy:

- Implement the uniform and fair mechanism for corporate finance in accordance with international common practice, create favorable business environment, and encourage businesses in all economic sectors to utilize their available resources and external ones for expansion and enhancement of competitiveness on national and international markets.

2. Overcome the situation of business scattering and dispersing to sharpen their competitive edges by establishing strong and influential conglomerates with a view to reducing risks when joining the WTO. Build the connections between enterprises to promote the position in integration and investment attraction, mobilize and make the best use of private investment sources and consider them as the leading dynamic in economic development at present.

3. Arrange and renovate state businesses by diversifying the forms of ownership in line with the development of private and foreign-invested businesses, and continue to renew the collective economy and boost up the multi-ownership form. Create favorable conditions for the private sector's expansion without limiting scale, industry, fields and geographical areas. Enhance the foreign-invested sector, reform policies and mechanisms on finance management for state-owned businesses by separating the functions of state management from those of business administration.

III. Reformation of Tax Policy

1. Building and perfecting tax policy:

The Government should expand the taxable areas; determine reasonable tax rates in line with international common practice, conditions, commitments and standards. It must secure healthy competition, efficiency, fairness, equality, openness, transparency of the tax system to actively serve economic growth and development and satisfy eco-financial requirements of the international integration process in accordance with the inevitability of trading and financial globalization and liberalization. Initially, the following contents should be realized:

a. Determining objectives of building tax policies:

There are four basic objectives in building tax policies, including finance, economy, society and professional technique in accordance with requirements for economic development and international integration in the present situation. On the other hand, the performance of state-owned businesses has been improved by equitization, restructuring, and reformation. Financial flows of foreign and local investors are mobilized by the Government's appropriate policies and incentives. Therefore, we should make the economic objective strategic and decisive, the financial objective necessary and professional techniques important to match them with destinations, contents, and the roadmap of the reform of tax policies and management in the Government's tax reform program by 2010.

Moreover, the economic nature of tax is first a part of the national income distributed to the Government to cover its expenditure. Economic activities are the basis of tax. There is no Government revenue from tax without business and production. Just because of this, tax collection must have positive effects on business performance and expansion as well as encourage saving practice and waste reduction in production and consumption with a view to increasing the state budget.

b. Determining the criteria for building tax policy:

In addition to meeting the basic criteria including fairness, efficiency, convenience, exactness, building tax policies must be flexible, coincident and stable. Especially the policy must be stable because it will help institutions and individuals know their tax liability, which they must pay in the long term so that they make suitable investments.

c. Establishing tax incentives:

Tax incentives are preferential conditions given to taxpayers. With this tool, the Government will regulate the economy in a flexible manner, depending on a specific situation to attain the planned objectives. The stimulation effect of incentives means that the Government allocates direct funds to businesses and the people.

Based on management requirements, the Government may increase or decrease the size and level of tax incentives in order to encourage the growth in capital accumulation in businesses and the people. The Government's available tax incentives include:

- determining the minimum taxable income;
- allowing exclusion of some expenses in taxable income;
- exempting total tax or reducing a part of tax; permitting tax deferred payment;
- granting tax credit for reinvestment;
- applying fast depreciation (regarding as tax deferred payment);
- giving investment support and deducting tax for investment; imposing preferential tax rates (lower than the standard); and
- helping settle loss.

Tax incentives can be divided into the two groups based on the application scale: (1) industries and geographical areas and (2) special objectives (new investment or expansion; export; labor). The second case aims to adjust tax collection in a narrow range and give supports to businesses.

The Government gives tax relief to regulate the macro-economic activities in a flexible manner. Nevertheless, tax incentives must be reasonable and must not reduce the closeness and seriousness of tax.

Tax relief also has the two-sided feature:

+ Including positive factors, which are helpful for implementing the Government's socio-economic policies.

+ Embodying negative components in the policy, for example, the combination of different social policies in a tax law will make the playing ground unfair between various businesses, which are subject to the same tax. This will cause bad consequences such as taxpayers' discomfort, tax avoidance, and thus destroy the neutrality of tax.

As a result, when building the tax law, the policymakers should restrict regulations on tax relief, which produce short-term or situational effects. They need use long-term strategic measures instead, such as investment support, tax deduction for investment, tax credit for reinvestment, and exclusion of some expenses in taxable income or other similar financial tools.

d. Implementing measures of tax policies in order to enhance foreign investment and encourage Vietnamese businesses' overseas investment:

- Apply different taxes based on the scale of businesses' investment and avoid double taxation;
- Overcome the price transferring to prevent loss in the capital of joint venture companies and loss in tax; and
- Give flexible tax incentives to attract more investment flows or encourage Vietnamese businesses to invest in foreign markets, including tax rates imposed on transferring profits to the home country.

These incentives should be implemented in all international trading activities such as import-export of goods and capital

(ODA, FDI), technological cooperation and transfer (knowledge, BTO, BT, BOT...), and service import-export.

2. Improving tax management:

- In 2006, the National Assembly will promulgate the Law on Tax Management to specify obligations and rights of taxpayers, institutions as well as individuals, tax agencies and others with a view to enhancing the efficiency of tax collection.

- The tax authorities should promote the application of information technology to tax collection management, expand the objectives, which self-declare their tax liabilities, and disseminate tax regulations and laws to enterprises, organizations, individuals as well as the social community.

- Moreover the Government should strengthen the coordination between branches, levels and agencies related to the management of state revenue, issue the regulations on the coordination between state authorized agencies with the tax authorities with the aim to provide information and implement measures of tax collection synchronously.

IV. Measures of Coordination

According to regulations of the Tax Law, there is a gap between corporate financial policies and accounting standards and systems, so the taxable income has basic legal differences from corporate profits including the difference in legal form and inspection aspect, method of calculation and generation source based on the determination of sales and costs.

Regarding sales: According to the Law on Corporate Income, the time to determine the sale for assessing taxable income is the time to transfer goods or write out sale invoices in case of trading in goods, and the time to finish the service or write out the sale invoices.

According to the criterion No. 14 in the Vietnam's accounting system promulgated and announced following the Decision No. 149/2001/QĐ-BTC dated December 31, 2001 by the Ministry of Finance, the sales of goods must satisfy all of five conditions and the sales of service all of four conditions.

Regarding costs: According to the Law on Corporate Income, costs are based on some characteristics such as relevance, legal documents, real payment, or non-capital. Some costs depend on set limits (percentage or amount of money). According to the company's financial policies and the accounting system and standard, costs are based on real-time expenses.

The form of tax declaration includes the following parts:

- Part A: Business performance based on financial statements, which are made in compliance with the company's financial policies, the accounting standard and system.

- Part B: Determining the taxable income in compliance with the Law on Corporate Income due to the difference between the tax law and the company's financial policies in sales and reasonable costs.

In principle, the relative independence between the company's financial policies, tax policies and the accounting system and standards should be secured. However, some measures are suggested to solve these above-mentioned problems to narrow the gap:

* Regarding sales: the time to specify the sale should comply with the accounting system and standards, the company's financial policies and it is also the time to issue the sale invoice. Especially, the income from lease should be determined yearly to secure relevance and avoid the misuse of time-based policies on tax relief (the whole taxable income included in a year will enjoy tax relief but not if transferred a part to the following year).

In case the proceeds from sales of goods and services or financial deals are reduced but not totally deducted for assessment of taxable income due to inadequate legal documents; expenses beyond limits or without invoices, the documents self-established by the company should be expanded but the company must ensure the truthfulness, reasonability and efficiency in business operations. It must assume responsibility for the exactness and truthfulness of documents it already self-established, at the same time, the tax authority has to inspect the reasonability of documents and settle violations to avoid misusing.

* The costs which are not related to sales, regarded as capital; unreal, real but without invoices, documents will comply with the Tax on Corporate Income and not included in business costs.

The year 2006 is the first year to apply standards of the Tax on Corporate Income according to Decision No. 12/2005/QĐ-BTC dated February 15, 2005 and the Accounting System following Decision No. 15/2006/QĐ-BTC dated March 20, 2006. These legal documents issue the corporate accounting system with regulations on the corporate income tax, deferred tax on corporate income and taxable assets. They will help specify the difference between the corporate profit and taxable income.

This is a feasible solution because the accounting system and standards, the corporate financial policies and tax policies are issued following direct or indirect suggestions from the Ministry of Finance. It is one of effects produced by tax policies on the enhancement of business performance and administration reform in the process of integration in the world economy ■