



# PROBLEMS WITH THE VAT AND SOLUTIONS

by Prof. Dr. DƯƠNG THỊ BÌNH MINH

After many preparations, regardless of effects of the world financial crisis, the VAT was brought into effect on Jan.1,1999 in Vietnam. The VCP and Government have paid a lot of attention to the application of this tax for the first time to Vietnam. The Poliburo and the PM have issued many directives on the tasks of communicating and carrying out this tax law. A General Directorate under the central government and many committees at ministerial level have been formed to see to it that the VAT law is carried out properly. Everything is noted down and necessary reports are made and submitted to related authorities. In each province or city, a management board and a standing task force are established by the local tax agency in order to take care of the application of the VAT.

After four months, many problems arose and

were dealt with properly with the result that all three planned objectives were achieved: causing no serious trouble for businesses; causing no sudden rise in prices; and causing no fall in the budget income. Supplies of goods are reliable and all market demand are met, market prices stays stable. The Government offered exemption from the VAT within three months to long-distance trading and 6-month exemption from the VAT to companies that trade in fresh food and rice and pay the VAT according to the deduction method. In the first quarter of the year, the earned budget income equaled 20.1% of the planned target and 98.2% of the income earned in the corresponding period last year. The production in this quarter kept on increasing as compared with the same period last year although its growth rate was lower. The price index this quarter was 2.9%, not different from the increase found

in the first quarter of 1998. This shows that the VAT was introduced and applied smoothly.

However, there are still many problems with the application of the VAT besides the above-mentioned achievements:

- + Most companies had to pay bigger amounts in the VAT than in the sales tax. Imposition of a 10% tax rate on a wide range of goods, especially on imported raw materials, has affected badly the business performance and profit of many companies.

- + Settlement of stock-in-trade before and after Dec.31, 1998 wasn't satisfactory. The Government's decision to give exemption from the VAT isn't really a relief to companies, because when they suffer losses caused by the VAT, their reduced working capital makes it difficult for them to do business with other partners, especially with banks.

- + Companies had to pay the VAT at too short

notice (for example, they should pay immediately the VAT on imported goods at ports) and usually face financial difficulty.

- + Although the VAT aims at avoiding the multiple taxation, statistics gathered by the tax authorities show that there are, in HCMC, some 120,000 companies which pay the VAT according to direct method and 10,000 others pay according to deduction method, the latter represent only 8% of the amount of companies that have been given tax code. When these companies do business with the former (those who pay the VAT according to direct method), they receive no invoice stating the VAT paid, so they get no tax refund; and because they couldn't produce VAT invoice, they have to pay a sales tax rate of 10%. Thus they still suffer the multiple taxation and see their profit reduced. In short, the method of deducting method the VAT-input tax applied to



VAT-levied goods and non-VAT-levied goods is too complicated and unreasonable.

+ The procedure for getting tax refund is time-consuming and complex. The use of illegal invoice become widespread. Tax authorities have to spend a lot of time working out VAT refunds and VAT payments. The VAT invoicing is a basis for exact taxation and fair competition between companies, however, in fact, many companies didn't fulfil this requirement when selling goods; some others even bought

arrange the system of companies, encourage them to replace old equipment and technology to become more competitive and contribute more to the budget revenues. Solutions should be worked out to settle stock-in-trade held by companies. In the transition from the sales tax to the VAT, some appropriate VAT - input tax rates are necessary. If companies suffer losses because the VAT imposed on them is higher than the sales tax, the companies have the right to enjoy tax reduction as allowed by law without

better review the VAT on imported raw materials and machines because they couldn't produce added value immediately. Another solution is to concentrate on collecting the VAT output tax with a view to saving companies from financial pressure or difficulties and simplifying the procedure.

- VAT invoices and account books are important documents that help both companies and tax authorities find out taxable income, the VAT input and output taxes and other relating information. So

have to make bigger payments in the VAT. This situation leads to unfair competition and should be adjusted as soon as possible.

- As for certain businesses (estate agency, transportation service, etc.), the taxable value should be based on prices stated in contracts. The Government can set the price-floor for goods under the governmental control. As for goods whose price-ceiling is set by the Government, a higher price shouldn't be stated in contracts.

legal invoice from the tax authorities and resold it for a profit.

+ There are too many guidelines on the VAT application making local authorities and companies confused. Many local governments and VCP committees didn't pay full attention to the task of disseminating information about the VAT Law and they tended to entrust this task to tax agencies.

To enforce the VAT Law without causing side-effects, enhance impacts of this tax law on the macro-economic management and encourage economic activities, the following measures, in our opinion, should be taken:

- It's necessary to re-

asking for permission from tax agencies. This practice can help companies balance their accounts and secure more loans from banks. The current tax rates could be reduced to a more reasonable level.

- Companies paying the VAT according to the deduction method could be allowed to take back the VAT input tax when buying goods or services from companies paying the VAT according to the direct method. This practice helps ensure fair competition between companies and avoid multiple taxation, therefore it could be applied to all kinds of invoice, whether it is a VAT invoice or not.

- The Government had

it's necessary to struggle against the use of illegal invoices. The application of computers and other techniques could help facilitate this task. The cooperation between tax authorities and other law-enforcement agencies is needed to help businesspersons get into the habit of using VAT invoices.

- At present, those who pay the VAT according to the deduction method are usually companies with high competitiveness in key industries. These companies are allowed to take back the VAT input tax charged on goods, services and fixed assets they bought while the others who pay the VAT according to direct method usually

- Tax agencies should help companies make their VAT declarations, provide them with all information about the VAT, handle properly all complaints made by companies and discipline all companies that break the law.

- The task of disseminating information about the VAT should be carried out intensively. Officials working in tax, finance and customs authorities should be trained and re-trained in order to do their work properly.

- All guidelines should be revised in order to remove vague or inexact details.