

The Excise Tax Law was issued in October 1990 and was amended twice, in 1993 and 1995. This new tax, for the past eight years, has helped to regulate production, import and spending, thereby increasing the budget income. The excise tax income increased from VND808 billion in 1991 to 5,400 billion in 1997. However, after eight

are as follows:

- On filtered cigarette using imported raw materials, the tax rate is reduced from 70% to 65%, and from 52% to 45% on filtered cigarette using local materials. There is no change to the 25% tax rate on non-filtered cigarette.

- The tax rate is reduced from 90% to 70% on spirits of over 40%

the excise tax is to be charged on: air conditioner of 90,000 BTU and under :20%, playing card: 30%, paper burnt offering (things made of paper and burned as offerings to the dead): 60%, certain entertainment businesses (dancing club, massage service, karaoke, casino, slot machine): 25%, horse and car race betting ticket: 20%, golf course: 20%. In the past, paper burnt offering and playing card were subject to sales tax but it's difficult to control production of these goods, therefore, taxes on these goods couldn't be collected fully, so at present, there must be measures to control strictly producers of these goods. As for the paper burnt offering, it could be considered as a non-essential commodity and spending on it must be discouraged, so the government had better impose the VAT, instead of the excise tax, on it.

WHY SHOULD A NEW EXCISE TAX LAW BE ISSUED?

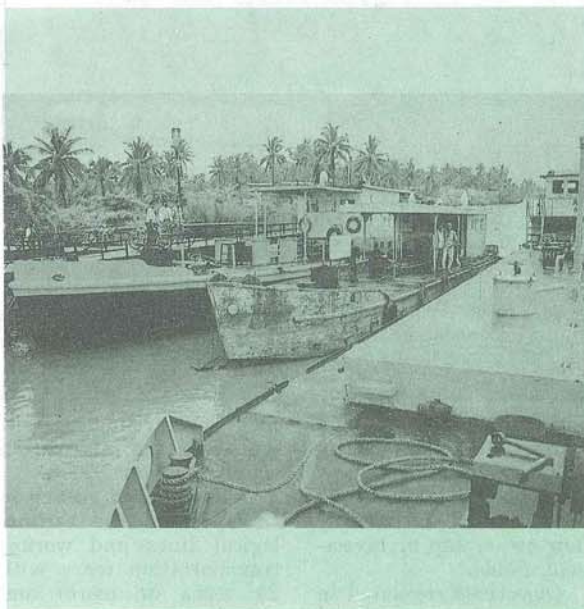
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years of its application, this tax law started to show shortcomings: its application range is limited, the system of tax rates is obsolete and inappropriate to imposition of VAT on raw materials, its contents are imperfect because of too many amendments, etc.

At the 3rd session, the 10th term National Assembly has passed a new Excise Tax Law which would come into effect in 1999. This new tax law aims at regulating the production, distribution of income and spending and increasing the budget income in accordance with the application of the VAT law and Amended Law on Customs Duties in their process of integrating into the world economy.

According to the Excise Tax Law, the five following goods that are still subject to this tax are: cigarette, beer, spirits (not including ethyl alcohol), imported or locally assembled automobile of 20 -or under- seats, and petrol. On non-exploding fireworks, the VAT is imposed instead of the excise tax.

From January 1, 1999 on, the 10% VAT, instead of the 1% sales tax, will be charged on raw materials used for making the goods subject to the excise tax law. In order to set reasonable tax rates, the Excise Tax Law introduced adjustments to tax rates charged on goods subject to excise tax. Main adjustments



of alcohol, 75% to 55% on spirits of 30-40% of alcohol, 25% on spirits of 20-30% and 20% on spirits of under 20% of alcohol (At present a tax rate of 25% is charged on all spirits of under 30% of alcohol).

- The tax rate is decreased from 90% to 75% on bottled beer, from 75% to 65% on canned beer, from 90% to 50% on fresh beer

In reality, however, such a detailed distinction between different spirits and different tax rates can lead to tax evasion because most tax agencies lack specialized instruments for determining the percentage of alcohol in spirits.

In addition to those five goods,

As for exemptions, the new Excise Tax Law offers exemption to the following cases, besides cases mentioned by the old excise tax law:

+ Small beer breweries established before January 1, 1999 suffering losses when paying excise tax according to this new law: the exemption will be equal to the loss, be offered on the year-by-year basis and effective for five years at most.

+ Car assembling factories can enjoy exemptions varying from 60% to 100% of the tax rate imposed by this new law for five years, at most since January 1, 1999. If the loss suffered by the factories comes from force majeure, the factory can enjoy the exemption for another five years at most.

+ Golf courses 30% exemptions from the excise tax for three years at most since January 1, 1999.

The new Excise Tax Law reduces many tax rates because the VAT Law (also effective as of January 1, 1999) charges higher tax rates. That is why in the last quarter of 1998, tax agencies must gather all necessary information about cases enjoying exemptions. By the year's end, inventory valuation, inventory list and auditing must be made with a view to preventing taxpayers from making tax evasion or avoidance.