



MEASURES TO DEAL WITH FRAUDULENT REIMBURSEMENT OF VAT INPUT

by Dr. NGUYEN NGOC HUNG

Loss of tax take is common among all tax systems. It reflects conflict between interests of the government and taxpayers because the government always tries to increase the tax take while taxpayers want to make their tax payments as low as possible. In other words, where there is tax, there is loss of tax take.

Loss of tax take takes various forms based on economic conditions but it could be seen in two main forms: real and potential losses. The real loss includes receivables defined by law that for one reason or another don't come to the Treasury. The potential loss is a situation in which many sources of possible income aren't mobilized because of the lack of necessary legislation.

However, the loss of tax take is not an unsolvable problem. To limit the tax loss, we need a well-devised tax policy and managerial methods suitable to current economic conditions and capable of settling the conflict between interests. In other words, the tax loss certainly comes from a tax policy and managerial methods unsuitable to the economic development.

In Vietnam, the number of cases of fraudulent reimbursement of VAT input discovered rose from seven in 1999 to 17 in 2000 and 64 in 2001. In the first eight months of 2002, 147 cases were discovered (46 were prosecuted, 25 were handled and 76 were under investigation.) Thus, the fraudulent reimbursement of VAT input has become alarming because it causes harm for not only the budget income but also the economic growth. To find out causes of this situation becomes an urgent task. In my opinion, it has five important causes, two direct and three profound ones.

Two direct causes are:

- The current VAT law isn't suitable to the requirements of the economic growth because it includes many loopholes and inadequacies.

- The VAT requires a modern mechanism for management Vietnam is still lacking.

Those two causes provide businesspersons with chances to evade or avoid taxes. Moreover, they are forced to do so because their competitiveness will be poorer if they do business honestly and pay all taxes as required by law.

Three profound causes are:

- The reform in the tax system is still affected by the centrally-planned mechanism.

- The tax reform fails to focus on the tax administration, which leads to a poor management machinery and defects in the taxation process.

- Necessary conditions for enforcement of the VAT law are still lacking.

In my opinion, the struggle against the tax loss isn't an unsolvable problem but it must be considered a long one that requires new policies, viewpoints and measures suitable to each stage of economic development.

In an effort to perfect the tax system, including the VAT law, I think full attention must be paid to the following aspects:

- Neutrality of the tax system must be ensured, that is, it must be free from reductions and exemptions which usually harm main objectives of the taxation and lead to tax avoidance and evasion. This is often a serious problem for the tax system in transitional economies.

- Taxpayers' attitude towards taxation and their ability to pay tax and control over taxation by tax offi-

cialists must be taken into consideration.

- It's necessary to analyze and assess carefully chain reactions, side effects and losses possibly caused by the tax reform.

- The tax system needs relative stability. So sudden changes must be avoided with a view to saving taxpayers and tax officials from troubles and difficulties, maintaining confidence among investors and ensuring taxpayers' interests along with economic growth.

- The tax reform must be associated with reform in fiscal relations between central and local governments in order to make the latter pay more attention to implementation of new tax regulations.

- To ensure good performance and success, the tax reform must be linked with the reform in the administrative machinery and economic structure. The administrative reform must focus on renovations in mechanisms for supporting the tax reform (auditing, accounting, taxation regulations, etc.)

The following are my suggestions about measures to deal with fraudulent reimbursement of VAT input.

(1) Perfecting the VAT law

- Revoking regulations about reduction as a percentage in VAT input without assessment.

- Limiting classes of entities exempted from the VAT: The VAT could apply to most economic activities. For example, VAT could be also imposed on goods or services that pay special consumption tax; a 0% rate could be imposed on farm products to encourage the agricultural production and prevent frauds originated from reduction in VAT input without assessment.

- Applying the deduction process as the only method of calculating the VAT, and then, using only the VAT invoice.

- Limiting the numbers of entities that could ask for reimbursement of the VAT input which is the source of fraud (exporters of goods or services for example).

- Tax brackets could be reduced to three levels, 0%, 5% and 10% for example.

- Allowing small-scale family businesses and small traders to pay sales tax instead of VAT.

(2) Perfecting the VAT administration

- Applying IT advances in management of taxation and using the intranet of tax agencies to check all kinds of invoices and documents.

- Making the taxation process simpler, more scientific and effective.

- Inspecting for loopholes in the regulations about reimbursement of VAT input which result in embezzlement of public fund.

- Improving skills and work ethics of tax officials.

- Giving just rewards and punishments to acts of collecting and paying taxes.

- Transactions through banks and computerization of business finance are inevitable preconditions for collecting VAT applying the deduction method.

- Cooperation of related agencies in collecting VAT is necessary.

(3) Supporting measures

- a. The Companies Law must be perfected. The following are some measures:

- Identity of applicants for permits to form companies must be investigated.

- Only qualified persons are allowed to run companies.

- There must be mechanisms for inspecting sources of finance and ways of using capital by companies, including their registered capital.

- b. The following crimes must be handled according to the Criminal Law:

- Printing and trading in invoices used by dishonest businesses to give false declaration of VAT input with a view to get reimbursement from the tax agency.

- Making false declarations of the VAT input.

- c. Tax agencies could be allowed to investigate and bring to court cases of fraudulent reimbursement of VAT input. A tax procedural law is also much needed.

- d. Knowledge of taxation and tax liability could be included in civic education program in high schools. ■

