

# ON THE CURRENT TURNOVER TAX

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**T**he Law on Turnover Tax was adopted by the National Assembly of Socialist Republic of Vietnam, term VIII at the eight session and amended, supplemented at the third session by the NA, term IX on July 7, 1993. The law regularly had additional articles and appropriate adjustment and showed considerable progress. However the law has not basically overcome multiple taxation yet and so pushed up prices and had bad effects on production and consumption.

In turnover tax there is not multiple taxation but also repetition in the formula of calculating tax

Turnover tax = taxed turnover x tax rate

In which taxed turnover is based on selling price including tax. It should have been calculated according to selling price excluding tax as the current tax on special consumption, that is:

Selling price excluding tax =  
selling price including tax (selling price of commodity)  
1 + tax rate

To partly overcome multiplication of turnover tax, the Ministry of Finance promulgated Circular No 73A-TC/TCT on August 30, 1993 concerning guidelines for the implementation of Decree No 55/CP on August 28, 1993 by the Government on detailed stipulation of the implementation of the Law on Turnover Tax and Law on Amendment, Supplement to the Law on Turnover Tax.

According to this circular, trading businesses which have following conditions are subject to turnover tax based on the difference between selling price written on the selling receipt and buying price on the buying receipt.

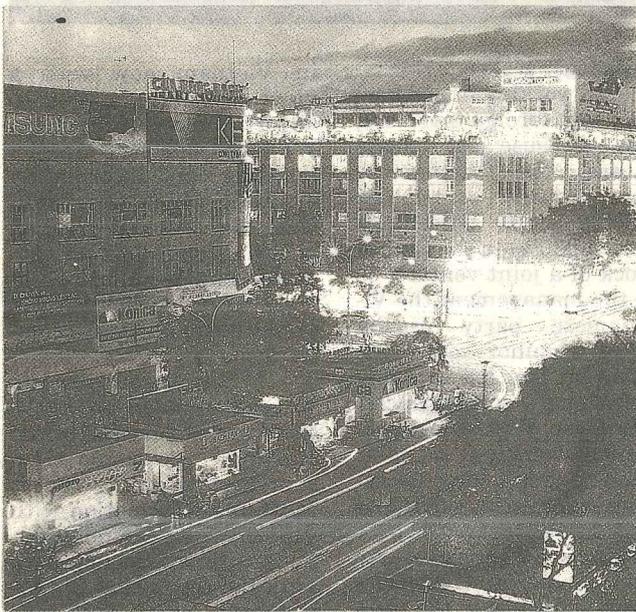
The conditions for turnover tax assessment based on the difference are as follows:

- The business must conform to the decree on accounting, statistics issued by the State.
- The business must comply with regulations on receipt, voucher as defined by the Ministry of Finance. All trading transactions must have receipts issued or accepted by the Ministry of Finance.
- The business must register at the tax agency to pay turnover tax calculated on the difference between selling price and buying one (on defined forms).

In my opinion, this method initially surmounts multiplication of turnover tax. However, it leads to unreasonable points as follows:

- It is opposite to the law on turnover tax.
- If some businesses apply this method, then they will pay more tax than that by the method based on turnover due to inappropriate tax rate. Therefore tax payers will choose the best method. Thus, this situation will result in loss to the national budget, lack of consistency in tax calculation, difficulties in tax management and collection.

If we name in short:



Ps: selling price

P<sub>B</sub>: buying price

TR<sub>T</sub>: tax rate calculated on turnover

TR<sub>D</sub>: tax rate calculated on difference

TT<sub>T</sub>: turnover tax calculated on turnover

TT<sub>D</sub>: turnover tax calculated on difference

According to regulations on turnover tax:

TT<sub>T</sub> = P<sub>S</sub> x TR<sub>T</sub>

TT<sub>D</sub> = (P<sub>S</sub> - P<sub>B</sub>) x TR<sub>D</sub>

If TT<sub>T</sub> = TT<sub>D</sub>

then P<sub>S</sub> x TR<sub>T</sub> = (P<sub>S</sub> - P<sub>B</sub>) x TR<sub>D</sub>

or: P<sub>S</sub> - P<sub>B</sub> =  $\frac{P_S \times TR_T}{TR_D} = x$

Therefore, if P<sub>S</sub> - P<sub>B</sub> = x

then the two methods have the same result.

+ If P<sub>S</sub> - P<sub>B</sub> > x

then turnover tax based on difference will be more than that on turnover. In this case the taxpayer will choose the calculation on difference.

+ If P<sub>S</sub> - P<sub>B</sub> < x

then turnover tax based on difference will be less than that on turnover. In this case the taxpayer will certainly choose the calculation on turnover.

Otherwise, combining the target of creating revenues for the Treasury with one of settling many different socio-economic policies made turnover tax become complicated due to many tax rates, exceptions, cases of exemption and reduction, thus tax neutrality and impartiality aren't secured and this causes difficulties in tax collection and cracks for tax evasion and avoidance.

To tackle the above mentioned shortcomings, in my opinion, turnover tax should be perfected in the following direction:

+ At first:

- Taxed turnover should be based on selling price excluding tax as the current tax on special consumption.

- The number and value of tax rates should be reduced, turnover tax should be replaced with value added tax (VAT) in order to overcome multiple taxation.

- The social policies should not be combined with turnover tax, it should be substituted for measures of social allowances from the State budget.

+ Later:

The State should plan to study adequately and apply quickly VAT as a replacement for the current turnover tax and tax on butchering. The VAT has following advantages:

- Overcoming multiple taxation of turnover tax.  
- Having neutrality in transferring products and services as well as concentrating revenues to the Treasury.  
- Securing impartiality for all sectors, products and services.

- Limiting tax evasion and avoidance.  
- Having a very wide range to levy tax and being applied to many sectors and fields.

- Increasing revenues of the Treasury timelily and stably: A survey showed when it replaced a kind of tax (commonly turnover tax or sales tax), it increased revenues of national budgets of 11 countries, kept unchanged ones in 22 countries, and tax loss was recorded in only one country.

- With the effect of VTA on prices of commodities and services, it is considered as an important factor to improve saving and regulate consumption.

In my opinion, the basic conditions to implement VAT are as follows:

- The business must comply with regulations on vouchers, receipts and bookkeeping.  
- Prices of commodity are rather stable.  
- Trading payment should be mainly done via banks.  
- The tax collector's level of understanding, analyzing,



ing, inspecting, accounting is rather good.

Our country still lacks these conditions, so the implementation of VAT faces many difficulties.

Since September 1993, the Government has made a pilot scheme to apply turnover tax excluding the tax paid at earlier stages (the same as VAT) in 11 state enterprises (textile:6, sugar:4 and cement:1). The tax rate levied on textile:6, sugar:4 and cement:1. The tax rate levied on textile and sugar sector is 10%, cement: 15%. These enterprises buy agricultural products from farmers which are subject to agricultural tax, buy some materials or transport goods without receipts, or directly import, buy materials from other companies which did not apply VAT yet. Therefore, the tax paid at earlier stages is not fully deducted, VAT rates of 10%, 15% are higher than those calculated by turnover tax. According to pilot enterprises' petition, the Ministry of Finance permitted these enterprises to pay tax at the rates equivalent to those of the turnover tax.

The above mention shows the pilot scheme in a small range was not successful. In fact, many countries, especially China, failed in pilot performance of some products because the settlement was not uniform, did not yet overcome multiple taxation basically.

The lessons drawn from some countries applying VAT are:

- Enterprises must conform to regulations on receipts, bookkeeping under tax agencies' strict control.

- Having enough time to investigate, analyze, study, clearly determine the target, requirement, content, scope of application, implementation measures...The documents must be prepared carefully to settle possible troubles in the process of implementing VAT.

- Securing uniform settlement together with other related taxes such as import duty, tax on special consumption...

- Implementing VAT in a large range including importation, production, circulation, service...

- The system of tax rates should be simple (only from 1 to 3 tax rates).

Through pilot scheme done in our country in recent years, I think the application of VAT to Vietnam should be urgent, but careful with firm steps, in a well-prepared plan. At present, VAT still brings debates to many forums, since although VAT itself has many obvious advantages, its application also causes new problems of technique and skill. The study and application of VAT is an objective must. Nevertheless the problem cannot be simple, hasty. It should be studied fully and thoroughly with many effective measures to settle possible problems in the transit from turnover tax to VAT. ■