

KEEP ON PERFECTING THE TAX POLICY IN THE MARKET MECHANISM

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In the transition to the market economy, the tax policy based on the centrally planned economy has been gradually adjusted to principles of the market economy. The tax policy is becoming a more useful tool used by the Government to control economic activities, secure stable growth rate and budget income, and decrease the amount of inequality of income.

Besides good achievements, however, the current tax policy has many shortcomings: the tax list fails to cover all new sources of income, stimulate production, and secure equality for all kinds of company; the structure of tax rates is too complicated; the tax rates are high (if the budget income in 1991 taken as the base year is 100, then the income value in 1992 is 198, 1993: 300; and 1994: 375). This situation made the capital accumulation become slower and the economic development more difficult. The customs duty didn't encourage foreign trade and wasn't appropriate to new era when Vietnam had joined the ASEAN and AFTA and would be required to carry out the CEPT Agreement.

Therefore, to keep on perfecting the tax policy with a view to accelerating the economic growth and encouraging exportation has become a matter of great urgency.

Theoretically, different economists have agreed on the following four criteria of an ideal tax system in the market economy:

- *Increase of budget-income feature of the tax system:* the tax system should help with increasing the budget income in order to keep the budget in equilibrium. In a good tax system, the tax take will increase

faster than the GDP, because we learn from experience that in developing countries, the government expenditures always increase faster than the GDP.

- *Impartiality of the tax system:* in the tax system, number of cases of tax exemption or reduction is reduced. All cases of tax exemption and reduction (such as businesses necessary for political or military goals) should be supported by scientific and persuasive arguments.

- *Predictability of the tax system:* the tax system should be simple and clear enough to be understood by those who want to do any business. Making too many changes to the tax system isn't a wise thing to do. A good tax system doesn't allow too many different explanations for the taxation.

- *Efficiency of the tax system:* the tax system should help the government increase its receipts at the possibly lowest cost. In the tax systems of developed countries, this cost represents from 2% to 3% of the tax take.

In order to have such an ideal tax system, all nations have to experience a lot of great difficulties. In Vietnam's present conditions, it's useless to demand such a tax system, but the above-mentioned criteria can be considered as long-term goals for our process of perfecting the tax system.

Firstly, the perfection of the tax system should aim at increasing the budget income in the coming years. The government revenues from taxation should equal about 25% of the GDP (this value was 20.3% in 1993 and 21.3% in 1994). However, in such a poor country as ours, an increase in tax take means a decrease in capital

accumulation and gross investment, and a limit to the growth rate. Moreover, theoretically, tax receipts will not always rise as the level of tax rate rises. If the tax rate is high, taxpayers will try to evade taxes with the result that tax receipts will decrease.

In Vietnam, in order to increase tax receipts, sources of tax take should be fostered in accordance with the ability-to-pay principle of taxation. Measures to be taken are to expand classes of taxpayers and struggle effectively against insufficient collection of tax. So we should build a relatively perfect tax system which can cover all new economic activities of the market mechanism (real estate, brokerage, local and foreign invested enterprises, negotiable instrument trading, etc). The tax list need not be limited to production, consumption and income, but should include property tax, inheritance tax, tax on high-income earners, luxury tax, etc.

- The tax system should be made clear and simple, giving equal treatment to all natural persons and legal entities. To make the tax system simple means to lower tax rates because the tax list will cover all economic activities, and to help taxpayers recognize their obligation to pay taxes. Moreover, each tax should be aimed at one target or two instead of trying to solve too many problems simultaneously. For example, the turnover tax aims at increasing the budget income, excise duty aims at regulating some economic activity and raising money, import duty at protecting home producers, income tax and profits tax at redistributing income, etc. All these taxes function together efficiently to enhance the efficiency of



the tax system.

The tax system should be stable in order to help the government make plan for its income and expenditure, and help taxpayers feel assured in doing their businesses. In order to make the tax system stable, the government had better pay attention to indirect taxes rather than direct taxes.

In the market economy, taxes are divided into two kinds: indirect and direct taxes. Direct taxes are taxes levied on the income and wealth received by taxpayers who can't shift the burden of the tax to other persons. Examples of direct taxes are income tax, profits tax, etc. Indirect taxes (turnover tax and excise duty for example) are levied on goods and services when they are traded in the market. These taxes are included in prices of goods or services and are not paid by the taxpayer direct to the government.

The distinction between two kinds of taxes is very relative but necessary for studying and making the tax policy. In Vietnam, it's difficult for the Government to raise its revenue from direct taxes because personal income and profits of companies are relatively low, unstable and hard to estimate, whereas the budget income from indirect taxes is stabler because all persons and businesses have to buy or sell something. In professional and psychological aspects, indirect taxes in the eyes of the taxpayers are more acceptable and understandable than direct taxes.

The tax system should be perfected with a view to imposing equal taxes on all legal entities or natural persons in the market economy. There must be absolutely no discrimi-

nation against, or in favor of, any private person or businesses because the market economy works on the principle that all businesses can enjoy the free competition. In the transition to the market economy in Vietnam, discriminatory taxes are needed, because, for example, the state enterprises should have time to adjust themselves to the market mechanism; commercial banks should supply soft loans in order to encourage new investment; foreign investors should be encouraged to put money in Vietnam, etc. However, the preferential treatment couldn't be prolonged. In the coming years, we had better give up this approach. All social matters (providing social security benefits to unemployed, war invalids, the war dead's families, etc.) should be settled by the public treasury, not by the tax system.

- Finally, big shortcomings of the present tax policy should be amended. The process of imposing and collecting turnover tax is complicated and multiple, and leads to corruptions and losses to the public treasury. The turnover tax should be replaced with the VAT in order to avoid multiple taxation. In the world, over 60 countries have considered the VAT as a cornerstone of their tax reformation. The VAT is levied on goods and services consumed and collected at all stages of production and distribution. It isn't charged as a percentage of the retail price. The VAT levied on the value added to a good or service at each stage of production, thus the value taxed at each stage doesn't include the tax paid at earlier stages. In short, the VAT is the turnover tax after taking away tax paid at earlier stages, so it can avoid multiple taxa-

tion.

In replacing the turnover tax with the VAT, the following conditions should be given enough attention to:

- + The value added to goods at each stage of production should be assessed exactly. This requires all businesses to keep their account books well in order. All sellers should send an invoice to the buyer for each sale.

- + The application of the VAT can put companies in difficulty, because many companies can produce a same product and sell it at the same price, but its production cost is different from one company to another. A company with higher production cost should pay a bigger sum in tax. Two alternatives will open to this company: to raise the selling price or to go out of business. So when the VAT replaces the turnover tax, we should think of precautions against bankruptcy of companies and price increase.

- + The imposition of the VAT should bring about the same receipts as the turnover tax does, that is, we should secure the stable budget income.

- + The army of tax collectors should be provided with training courses in the VAT. Tax collectors of bad quality should be fired.

These matters should be taken into consideration seriously and appropriate measures should be taken in order to impose the VAT successfully, if not, the application of the VAT could lead to social unrest, budget deficit and decrease in the growth rate.