

I. PERSONAL INCOME TAX IN FOREIGN COUNTRIES

The development of the market economy has divided the population into two groups: the majority are the poor and the minority the rich. The living standards of these two groups are very different, so there must be policies to redistribute incomes and wealth more evenly. However, these regulating policies will not work if they depend on the sense of charity and willingness of the rich. Therefore the redistribution of incomes and wealth is realized by introducing taxes on incomes. The tax take will be used by the government to help the poor by means of different measures taken. If the government collect indirect taxes only, the poor will be forced to pay taxes with their meagre incomes. So there must be the direct taxes which have to be paid by high income earners to the government. The personal income tax is one of these direct taxes.

The personal income tax came into being in the United Kingdom in 1842 and proved to be an effective measure to redistribute incomes. It



SOME OPINIONS ABOUT PERSONAL INCOME TAX

was welcomed by many other governments later on and became the main source of revenue for governments of developed countries; for example the income tax represents around 70% of the tax take in the USA and 40% of the tax take in Japan.

All incomes such as salary or wages, fees for professional services; profits or interest from business, bank deposit, shares... generated in any countries will be imposed the income tax on by local governments.

All citizens and foreign residents who have said incomes above a certain limit should pay the income tax.

The income tax is usually charged at an increasing rate as the taxable income increases. The tax rates are different from one to another country.

There are two popular methods of calculating the income tax in the

world:

- Imposing tax on incomes of each person: this method is simple and favorable to the work of tax assessors, but it pays no attention to citizens who have to give allowances to their children, etc. With this method, workers of equal incomes will not certainly enjoy the same living standard.

- Imposing tax on the total income of a family: this method is more complicated but it could offset shortcomings of the above mentioned one.

In addition, there is a method combining the said two methods. It imposes tax on taxable income of a person, that is, after taking off the tax-free allowances.

The task of collecting the personal income tax depends on statements of people's incomes and on the strict system of statistics which all

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organizations and governmental bodies must carry out, and on the coercive taxation. All these factors have made the collecting of the income tax and other taxes possible and effective.

II. THE INCOME TAX ON HIGH-INCOME EARNERS IN VIETNAM

This tax came into being in Vietnam on Dec. 27, 1990 and into effect on April 1, 1991 (it will be called the income tax for short hereafter).

This tax in Vietnam also aims at redistributing incomes and wealth and narrowing the gap between the rich and the poor, and of course, it didn't aim at levelling all differences in living standard unreasonably or depriving people of their legal right to enjoy a high standard of living.

The gap between the rich and the poor in Vietnam has increased considerably in recent years. In rural areas, the income of the rich was from

six to eight times as much as the income of the poor in 1980s, and this income gap is of 20 times now. While in cities, this gap could be from 40 to 100 times. In future, this gap will widen naturally as the market economy develops.

So imposing the income tax in order to force the rich to contribute more money to the running of public services is a necessity in Vietnam.

In realities, there are many obstacles to the collection of income tax. These obstacles makes the imposition of this tax become unequal. The obstacles are as follows:

1. Management aspects: Accounting and statistical requirements weren't realized properly and strictly in all concerns, so accounting data aren't reliable and useful for assessing income of a person. Therefore, persons or organizations who make honest statement of income have to pay more in tax, while those who are not honest will pay less or pay nothing in tax. Moreover, there are many incomes which weren't written down in any account book and can't be taxed.

When the income tax can't be collected properly and strictly the social gap can't be bridged and worst of all, a new gap is created, the gap between high-income earners.

2. The habit of paying cash: If the people have got into the habit of using bank account and making all payments through banks, the shortcomings in making personal income statements and keeping account books could be offset.

Unfortunately, in Vietnam, all payments are made in cash, and the people have got into the habit of keeping cash. This habit comes from the small scale production where the banking system hasn't been developed. To break this habit will take us a long time.

3. Problems with the Vietnam personal income tax:

a. The income tax is imposed on incomes of each person. The tax collection is simple and easy to do but it will produce inequality as stated above. In fact, it's very difficult to combine both equality and simplicity in a tax. This fact could be seen in tax system of all nations.

b. The gross income subject the income tax is of VND1.2 million and above. Is this limit high or low?

According to a survey in 1993, we see the following data:

+ The average employed laborers in a family was 2.78 persons.

+ The average size of a household was 4.97 persons

One-person household : 2.69%

Two-person household : 7.63%
Three-person household : 14.25%
Household of 4 to 10 persons: 75.43%

In the country, with total household of 14 million and a population of 70 million people, we can work out:

+ Around 8.5 million people lived in 3.4 million households of 1 to 3 persons. As for these persons, the VND1.2 million limit was acceptable.

+ Around 62 million people lived in 11 million households of 4 to 10 persons. Of which, the number of employed laborers were:

11 million households x 2.78 = 30 million persons

Thus, one employed laborer should give allowance to another person and could accept the VND1.2 million limit.

c. Tax rate: The income tax rate which varies from 10% to 60% on gross income from VND1.2 to 8 million a month. The following table can show the revenue from the income tax.

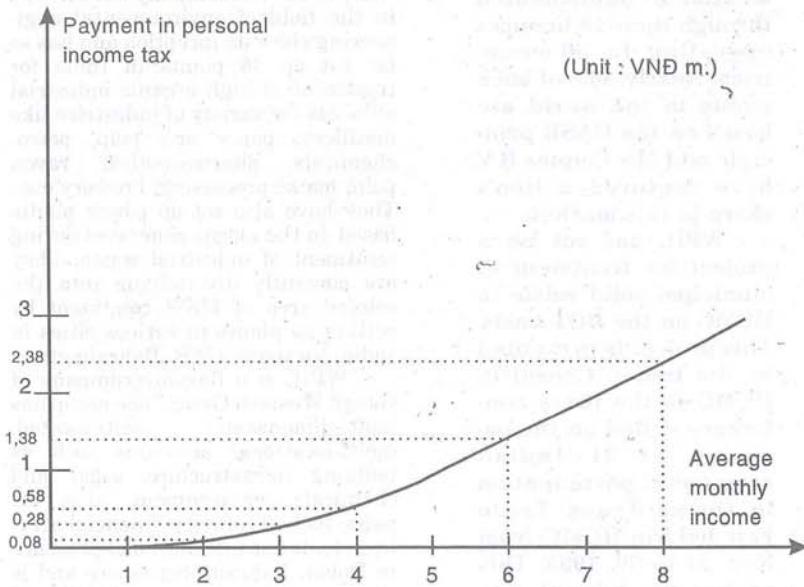
0.6% in 1993.

III. SUGGESTIONS

The income tax isn't the only tool reducing the gap between the rich and the poor. When we haven't got perfect conditions for collecting the income tax correctly and fully, we had better limit the category of taxable incomes: income tax will be imposed on irregular incomes of Vietnamese citizens and on regular income of foreign residents.

In addition to the income tax, we can impose indirect taxes heavily on luxuries, property... Moreover, we should remember that high-income earners not only pay officially taxes, but also contribute to a lot of public works in their localities.

We can impose tax on regular income of Vietnamese citizens when the mechanism for collecting information about people's income is formed and work well: account books are kept strictly in all concerns and organizations, and the banking system can attract all money from the



We see that a laborer with a monthly income of VND2 million will pay 0.08 million in the income tax (2%), while a person with a monthly income of VND8 million will pay VND2.38 million (over 29%).

Thus, in my opinion, the Vietnam income tax is acceptable and reasonable. The problem remained to be solved is to find measures to collect this tax properly and strictly. According to the 1994 Statistics Yearbook, revenue from income tax represented only a small percentage in the tax take: 0.6% in 1991, 0.8% in 1992 and

people and all payments are made through banks. The people will soon realize that paying income tax is only a normal and trivial matter, and it's good to be served by the banking system.

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