On a New Persnal Income Tax Law for Vietnam

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The personal income tax is a direct one imposed on income all citizens and foreigners make in the host country without discrimination. Taxable income includes regular earnings, such as salary or wages from employment, rent form property, dividend and interest from business.

The personal income tax has long been introduced in developed countries. Britain is the first nation that imposed it (1799) when it needed funds for the war against France. This tax has been adopted by governments all over the world since: Japan (1887), Germany (1899), the U.S. (1903), France (1916), the USSR (1922) and China (1936).

Most countries, when adopting this tax, aim at redistributing personal wealth in order to reduce inequalities of income, raising revenue, and realizing economic targets set by the government. Moreover, the personal income tax is usually used as a regulatory instrument that could be adjusted to socio-economic targets set for each stage of development.

In nature, the personal and corporate income taxes are all direct taxes but the former is imposed on natural persons while the latter on legal entities.

Vietnam has no personal income tax. There is only an ordinance about income tax on high earnings passed on Dec. 27, 1990 by the State Council making it come into effect as of April 1, 1991.

From then on, the Ordinance has experienced many amendments that made it more suitable to realities. The tax threshold for regular incomes earned by Vietnamese nationals and foreigners along with irregular incomes has been adjusted many times since 1990 as shown in the following table.

The Amended Ordinance about the Income Tax on High Earnings has been of service to the effort to raise budget income, ensure social equality and reduce differences in incomes between classes. Revenues from high earnings tax increased over years, from VND62 billion in 1991 to 1,732 billion in 2000.

However, this revenue accounts for only 3% of the tax take. In my opinion, this comes from the following causes:

- Most Vietnamese nationals have low incomes.
- There is no mechanism for controlling the personal income. Many persons get big earnings without paying any tax causing great losses for the budget revenues.

Table 1: Changes in income tax threshold

Date	For Vietnamese nationals' regular incomes (VND)	For foreigners' regular income (VND)	For irregular income (VND)
December 1990	400,000	800,000	1,000,000
April 1991	500,000	2,400,000	1,500,000
April 1992	650,000	3,000,000	1,800,000
June 1994	1,200,000	5,000,000	2,000,000
February 1997	2,000,000	5,000,000	2,000,000
July 1999	2,000,000	8,000,000	2,000,000
May 2001	3,000,000	8,000,000	2,000,000

Table 2: Revenue from high earnings (VND bn.)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
62	153	184	302	340	1,324	1,430	1,500	1,620	1,732

Source: Ministry of Finance

- In spite of various amendments, the ordinance on the income tax on high earning is still a shotgun approach that failed to ensure good taxation. And as a result, when one shortcoming is mended, another makes its appearance. The current Ordinance contains many inadequacies that could be divided into three main shortcomings:

+ It fails to cover all kinds of taxable incomes and classify groups of taxpayers.

+ It fails to clarify components of incomes and pay attention to conditions of taxpayers' families.

+ It allows great differences in tax threshold for foreigners and Vietnamese citizens.

When the globalization becomes inevitable and all countries have to accept it. This trend also affects greatly the Vietnamese economy and forces Vietnam to take part in international and regional organizations. The globalization will lead to cuts in tariffs and removal of non-tariff barriers, which means reductions in the tax revenue. To integrate successfully into the world economy and at the same time, ensure the budget income, the Government should secure reliable sources of finance of which the revenue from income tax is one of the most important. To achieve this aim, the Government needs a personal income tax law as a replacement for the Ordinance about the Income Tax on High Earnings. In my opinion, the main contents of the personal income tax are as follows:

(1) Classes of taxpayers:

The law shouldn't classify taxpayers according to the nationality. It's more reasonable to classify them according to their residencies. Those who stay in Vietnam for more than 183 days could be seen as permanent residents and they should pay tax for income they earn in Vietnam during their stay. According to this criterion, the Vietnamese citizens who earn incomes in foreign countries are exempt from the personal income tax.

In addition, businesspersons who are paying corporate income tax could be allowed to pay the personal income tax only. This practice is suitable to both the Companies Law and international practices.

(2) Taxable income:

The way of determining the taxable income relies on the socioeconomic conditions of the country and this way differs over nations. The current method applied to the Ordinance about the Income Tax on High Earnings is like the one introduced by Britain in which the taxable income is divided into regular and irregular incomes.

In my opinion, the taxable income must be based on the whole income earned every month or year. It could be divided into five kinds:

+ Income from employment,

+ Fees for professional services,

+ Income from property, business interest, dividend, bank interest, etc.,

+ Income from copyright, know-how, intellectual property, etc.,

+ Income from other sources (lottery, gift, etc.)

(3) Tax-free income:

To ensure equality, the assessment of taxable income must take personal expenses and other allowances into consideration. After studying allowances applied by such countries as the U.S., South Korea, Japan, Singapore, Thailand, Malaysia and China, I suggest the following ones for Vietnam:

+ Expense on personal needs: This could be a fixed one for all taxpayers in spite of the fact that the personal expenses differ over taxpayers who pay the same tax rate. This sum must be big enough to cover basic necessities.

+ Allowance for the spouse who live with the taxpayer and has no job, or has income lower than the tax threshold.

+ Allowances for each child: To encourage the higher education, higher allowances could be given to children who attend university or technical school.

+ Allowance for aged parents.

+ Expenses on medical care for taxpayers, their spouses, parents and children, especially when these dependants are seriously ill.

+ More allowances must be granted when the taxpayer or his/her spouse becomes the disabled.

(4) Tax rate:

The progressive taxation is the best choice with the highest rate at 40%. The difference between rates must be wider and there is no 0% tax rate because all necessary expenses have been deducted from the gross income.

(5) Tax declaration and tax payment:

Two methods are available: (i) the taxpayer sends tax declarations directly to the tax agency and makes payment to the Treasury branches; (ii) the employer keeps back part of the employee's pay and sends to the government.

Of courses, the above-mentioned suggestions depend a lot on specific conditions but I hope they are of service to law- makers when working on a new personal income tax law for Vietnam.■