

Interests of either individual or community affect greatly production and distribution of goods and services. They come into being from certain socio-economic conditions and change or disappear along with these conditions. Each interest is linked with an economic activity. Taxation is also an economic activity that aims at ensuring interests of both community and individual (either producer or consumer), but it is mainly in favor of the

proves harmful to interests of certain sector, it will hinder the economic development.

The tax policy should ensure equal treatment to all taxpayers: individuals of equal income should pay equal taxes. This feature also means that person of high income should make bigger tax payment. Regarding this feature, Vietnam's tax system at present fails to ensure such equal treatment to all taxpayers whatever sector they belong to.

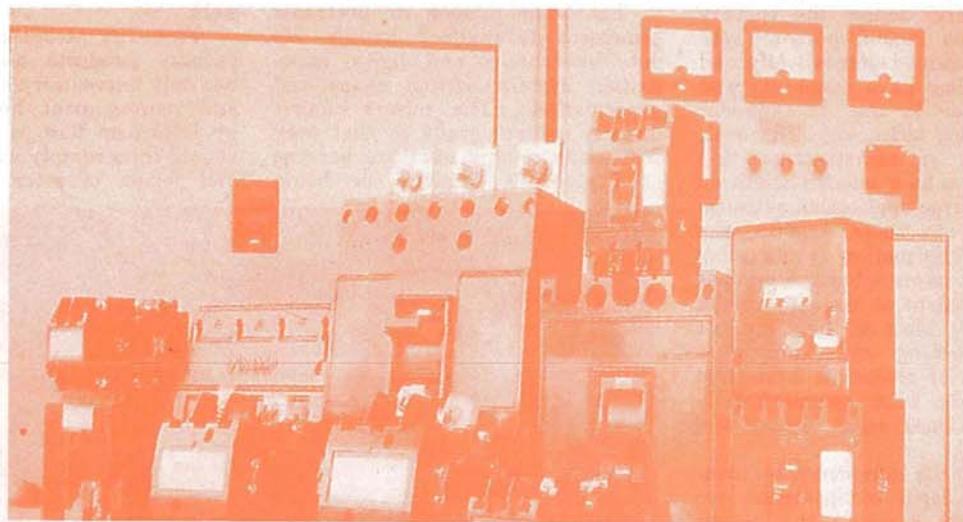
To achieve this aim,

is introduced as a replacement for the sales tax. The VAT, in nature, aims not only at increasing the budget income but also at ensuring interests for businesspersons by saving them from multiple taxation when paying sales tax. The application of the VAT in Vietnam in the past eight months, however, has posed many problems to be solved.

a. The assess-

ON INTERESTS FROM THE VAT

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interest of community.

1. The VAT and interest of different sectors in Vietnam in the past eight months

Tax is the main source of national budget income and the main factor that ensures sound public finance. Thus, the tax system reflects the government's effort to support the interest of community.

In developed countries, the tax take accounts for over 80% of the national budget income (95% in the U.S., 95.3% in France, 95.4% in Japan) and in Vietnam this figure is about 88.3%. Taxation is used as a tool for implementing macroeconomic policies, especially in the mixed economy in Vietnam today. So if the taxation

governments set up various taxes: sales tax and corporate tax on companies, VAT and excise duty on consumers or personal income tax on all individuals for example. The factor that determines success of a tax policy is the way it ensures interests of all taxpayers. A reasonable and detailed tax policy without good organization will certainly end in failure. In Vietnam, complicated procedures for assessing and collecting taxes, lack of necessary facilities and badly-trained army of tax collectors have made the taxation machinery ineffective with the result that a great amount of tax payment is lost and corruption becomes widespread.

At present, the VAT

ment of tax rate with the aim of ensuring interests for producers is no easy task. Just because of the difficulty in estimating the value added to products or services, the two methods of tax assessment in use now are based on presumptive, not on true, value added. In the direct method of assessing the VAT, because the real added value can't be worked out, the tax is imposed directly on the selling price in the same way that the sales tax is charged; while the deduction method seems to be inapplicable because of the lack of proper invoices.

This situation should be considered as inevitable in Vietnam today when the personal sector is still large. This sector is both

a buyer and a seller to other sectors but most family businesses in this sector couldn't make invoices for what they sell. To solve this problem, the tax authorities allow taxable person to set a percentage against the output tax if he has to buy raw materials (mainly farm products) from the producers making no VAT invoice. But a taxable person who buys raw materials on which the VAT has been imposed from small suppliers with no VAT invoice isn't allowed to set the input tax against the output tax. In my opinion, this solution is contradictory to the deduction method.

b. The VAT is charged without distinction, therefore, it doesn't really ensure interests of different

sectors. The VAT with only three tax rates, as replacement for the sales tax with 11 tax rates, makes things difficult for companies producing a wide range of goods on which the same tax rate, instead of different ones, is imposed. The Government had better use taxation as a means of regulating economic activities besides raising money.

c. The introduction of the VAT has disturbed tax payments by businesspersons. The income from the VAT was calculated to replace that from the sales tax but not all businesspersons feel satisfaction with it. In comparison with paying the sales tax, businesspersons in this industry have to make bigger payments while their counterparts in other industries make smaller ones. In other words, interest of all sectors isn't ensured. Distribution relation between industries and between sectors changed. Problems arising from this fact are related to profit, loss and capital of all businesses. If the Government has to allow reduction in VAT payments for businesses that had to pay bigger payments for the VAT in comparison with previous payments on sales tax and places an extra burden on businesses that enjoy smaller VAT payments, this act will affect objectives of the VAT law to a certain extent.

d. The VAT law fails to pay proper attention to many kinds of service, especially those affecting directly production and economic growth (scientific research, consultant's service, etc.), when it sets no tax rate for these services with the result that tax rates for other services are applied to them. This fact shows that the VAT law gives no preferential treatment to those important services.

2. Opinion on measures to deal with problems arising

from the VAT and ensure interests of all sectors

The application of the VAT in the past eight months shows that it takes time to replace the sales tax with the VAT, otherwise lack of experience and necessary skills from tax collectors and irresponsibility from taxpayers will cause damage to interests of both individuals and communities. In our opinion, the following measures could help apply the VAT step by step:

a. At the first stage when both small traders and buyers haven't get accustomed to invoices, the tax authorities had better not apply the deduction method to all businesses when assessing tax rates. Businesses in Vietnam today are of different sizes and development levels, therefore the application of the deduction method to all of them will certain cause damage to interests of some taxable persons. In the transitional period, the direct method seems preferable. The tax authorities could also allow businesses to choose the method applied and this measure could help overcome certain difficulties in tax assessment.

b. In applying the deduction method, the tax authorities should fix a reasonable rate (lower than the current one) allowed to be deducted as the input tax from the output tax and the input tax will be deducted provided that taxable persons could produce legal invoices. The tax authorities should try their best to supply legal invoices to all suppliers and fine heavily those who fail to produce invoices as required by buyers. This measure could make the deduction method feasible.

c. Taxable persons could be allowed to claim sales tax refund on the stock of goods and materials held before Dec. 31, 1998. This reflects the fairness

necessary to all laws because the government had better not avoid difficulties in calculating taxable earnings and collecting tax payments and thereby causing damage to businesses. Besides, goods and materials kept in stock before that date, there were many unfinished construction works and intermediate goods that used raw materials for which sales tax payments had been made.

d. The tax authorities had better not collect tax payment when goods haven't been sold because this practice forces sellers to pay tax in advance. This happens when a company sends goods to its agents or stores and only if goods are sold is payment made to the company. As for the VAT on imports, the tax authorities should allow a longer time for importers to pay the VAT, or the importer should be allowed to pay tax after imports are sold.

e. The regulation that allows tax reduction for business suffering loss caused by higher tax payment should be revoked because this regulation doesn't ensure equal treatment to all businesses. Profit and loss depend on various factors, not only taxes, and moreover, some businesses must have been forced to pay more in tax but they don't certainly suffer losses.

Tax reduction should be made into general regulations instead of being offered on a case-to-case basis because it will make the workload of tax agencies heavier. Moreover, procedures for getting tax reduction are certainly time-consuming if there is no such regulation and as a result, businesses will lose a lot of time and energy.

f. Tax refunding couldn't be done quickly in current conditions because tax agencies should spend a long time investigating applications for tax reduc-

tion. A possible solution is to pay tax refund according to application submitted by businesses on condition that they will be fined heavily when making false declaration. This solution forces businesspersons to bear full responsibility for their application and allows tax officials to examine the application carefully.

g. The VAT rates on scientific services should be made clear. It's reasonable to impose the same tax rate on these services and products in which they are involved, instead of imposing a tax rate applied to other services on them. This measure allows preferential treatment to these important services and facilitates the taxation process.

h. The Government had better ask the National Assembly to make adjustments to the VAT rates in the following directions:

+ reducing tax rates on six lines of goods and services (from 20% to 10% and from 10% to 5%): machines, chemicals, coal, tourism, hotels and restaurants.

+ cutting taxes on goods whose sales are low: machines, ferrous and non-ferrous metals, coal, computers, basic chemicals, raw materials for pharmaceutical industry and molds of all kinds.

+ Allowing deduction of input tax for concerns buying farm products from farmers who couldn't produce official VAT invoices on condition that these farmers should produce their own lists of goods sold.

The above-mentioned opinions aim at dealing with problems arising from the implementation of the VAT law in order to ensure favorable condition for economic activity of all sectors. Thinking through, the implementation of the VAT law is a complicated process and requires well-thought-out plans.