HOW MANY KINDS OF COMPANY ARE THERE IN VIETNAM?

by Dr. TRỊNH THỊ LONG HƯƠNG

The economic entity carrying out economic activity consists of:

- Individual: a person carrying out economic activity consistent with his/her own interests. This person has capital, manages his/her businesses and bears full responsibility for his/her decisions.

- Company: a formal association of persons having legal entity, capital, rights and responsibility. Companies operate under company law enforced by the Government.

Those two entities could operate independently or interactively for both common and private interests, so their activities, especially those of individuals, are difficult to bring under control.

In order to survive and develop, all economic entities should have their own capital and other resources (fixed assets, working capital, human resources, etc.), and they should know how to organize and employ factors of production to undertake a venture with a view to making profits by supplying goods or services. They should make enough profits to cover production cost and make new investments in order to develop their businesses

further.

We won't discuss here the economic activity of individuals and how to control it, but we pay attention to kinds of company which the Government has to bring well under control.

For control purposes, companies could be classified according to the following forms:

1. The legal form of a company consists of:

- A state-run company: an economic concern formed, invested, owned and managed by the Government for supplying utilities or making profit consistent with objectives set forth by the Government. Those companies have their head offices in Vietnam and operate under the State Enterprises Act.

- A private company: a company invested and run by private person and legally incorporated under the Private Enterprises Act.

Those two kinds of company operate independently or in cooperation with each other.

2. The investment form of a company consists of:

- A government-invested company: a company with the better part of its equity capital held by the government.

- A foreign-invested company: a company in which foreign parties hold 100%, 75%, 50% or 35% of its equity capital.

3. The equitization form of a government-invested company consists of:

- A government-controlled company: a company with at least half of its shares owned by the government, or the amount of shares

owned by the government is at least twice the amount owned by the biggest shareholder.

- A company with qualification shares owned by the government: a company which is under government control in making decision on certain important matters as provided in its Articles of Association, although the government doesn't own the better part of shares issued.

4. Companies could be classified according to their goals:

- A profit-maximizing company: a company whose objective is profit maximization.

- A public utility company: a company whose goal is to supply goods and services for the good of the community rather than profit maximization.

5. Regarding the cooperation between companies in producing and distributing a product, or in undertaking a number of successive stages of production with a view to enhancing their business performance, companies could be classified as:

- a corporation
- a company
- a subsidiary company
- an independent company

6. Regarding the level of authorities who grant licence, companies could be classified as:

- a company established by a decision made by the PM.
- a company established by Ministers or Ministries.
- a company established by the head of a department at ministerial level (or a department under the central government), provincial or municipal People's Committee delegated by the PM.
- a company established by People's Committee at district level.

7. Regarding the level of authorities controlling companies, they could be classified as:

- Companies under control of the central government.
- Local companies under control of local governments.
- Companies in EPZs.

8. Regarding their products, companies could be classified as:

a. Companies producing measurable and transportable products consist of:

- companies getting minerals or supplying electricity, gas and water.
- companies producing food, drink, tobacco, textile, leather and garments.
- companies producing metal products, machines and equipment.
- companies producing other transportable products (not including metal products, machines and equipment) such as wooden articles, publications, coke, refined oil, nuclear fuel, chemicals, man-made fibers, rubber, plastic, glass, building materials, paintings, etc.

b. Companies making fixed and measurable products are:

- companies building houses, warehouses, playground, parks, schools, hospitals, etc.
- companies building roads, bridges, sewerage, etc.
- companies building networks of underground cables and pipes, national grid, electricity poles, etc.

c. Companies supplying services include:

- trading companies.
- companies supplying entertainment services (hotels, restaurants, dancing clubs,etc.)
- companies supplying services to trade (banking, insurance, transport, etc.)
- companies supplying public utility, consumer and professional services.

d. Companies trading in land and intangible assets:

- property companies.
- companies trading in industrial property and other intangible assets.

9. Regarding the nature of economic activity, we have:

- companies run by the armed forces.
- companies run by civilians.
- companies run by public organizations.

10. In respect of business performance, companies are classified as:

- Profit-making, or successful, companies.
- Well-managed companies.
- Poorly-managed companies.
- Bankrupt and dissolved companies.

11. Companies are also classified according to sector:

- State-run companies.

- Non-state companies.

Thus, in their nature, all economic concerns are call "company", but to managing bodies, they are of different kinds and their activities are intermingled, therefore, in order to control and supervise them, governmental bodies could use one of the following three methods:

a. Controlling companies in each industry in order to direct the development of the industry.

b. Controlling companies by their locations in order to work out a reasonable regional policy ensuring the even development for all regions and removing imbalances between regions.

c. Putting companies under control of related government bodies with the aim of forcing them to operate as required by law and be regulated by taxation.

Thus, according to their activities, companies are obliged to pay the following basic taxes:

- Capital tax, land tax, severance tax.
- Corporation tax.
- Value-added tax.
- Turnover tax.

In addition, the Government could impose other taxes in order to regulate some economic activities, or encourage some others:

- Excise duties.
- Customs duties.
- Licence tax.
- Capital transfer tax.
- Registration fees.
- Taxes on employment.
- Quarantine fees.
- Protective duties.
- Land value tax.
- Personal and company inccome taxes.
- Other regulations on preferential treatment, tax exemption or reduction, etc.

All these taxes are divided into tax rates applied per unit of tax base (commodity, income or service). Thus, in principle, a company will be inspected by related administrative body, local authority and tax agency. In theory, this managing mechanism seems strict but in fact, tax evasion, tax dodge, tax delinquency, and many other crimes committed by companies without managing bodies' knowing about are very common. There are many causes of shortcomings in the task of controlling companies, but we won't discuss here subjective causes. We want to pay attention to objective causes of these shortcomings which are as follows:

(1). The cooperation between related administrative bodies, local authorities and tax agencies is poor and irregular. In reality, government bodies, after granting licence and certificate of incorporation, have failed to supervise the companies' operation; related administrative bodies couldn't control all kinds of company but state-run companies, joint ventures with foreign partners and large-scale companies; tax agencies could only collect taxes according to tax declarations made by companies and failed to analyze and estimate the company performance, thereby making adjustment if need be. In addition, statistics departments didn't complete their task of supplying data to managing bodies, because many companies didn't supply statistics, or supplied them irregularly, or didn't supply all necessary statistics as required.

(2). Companies didn't send periodical reports and statistics to managing bodies. Moreover, these reports were usually inconsistent with one another. They weren't made periodically and included different statistics. Generally, companies tended to exaggerate or overestimate their business performance in reports sent to local governments and their superior administrative bodies in order to impress them or induce them to give support and preferential treatment to these companies. But in reports to tax agencies, they used to tell the reverse in order to ask for tax reduction or exemption. Many companies also made false reports because their performance was poor or their goods or services supplied to the market were taxed heavily so they had to try to evade taxes with a view to surviving. True reports with all necessary statistics and estimates were only available for companies' directors.

This situation is the main cause of the existence of at least two systems of business accounts, reports and statistics, however, we have to accept the fact that managing bodies have demanded companies to make too many different reports with the result that companies tended to make only reports sent to tax agencies instead of spending time and energy on making all kinds of report as required by different managing bodies. That is why these bodies gave different, or even contradictory, estimates of the performance of a company, and all statistics became unreliable.

(3). Companies are suppliers of statistics, but in each company, the relationship between its departments isn't close enough to produce consistent and exact statistics, and as a result, its sources of economic information is poor and unreliable. This is one of causes which make statistics provided by companies inexact and defective, and their reports to managing bodies bad and untrustworthy. Moreover, companies didn't make reports on its financial situation in due course and tax agencies didn't inspect company's reports at the end of accounting periods with the result that companies only started to make their reports and other statements when tax agencies were about to carry out inspection, therefore, these reports are usually inexact and badly prepared.

In order to reorganize the task of managing companies, proper attention must be paid to the following matters:

- In each company, there must be a system specializing in gathering and processing information, especially information and data needed for making reports and statistics. These reports and statistics should be made in due course, and should include all information and data required by each managing body.

- Besides sending reports and statistics to managing bodies, companies should send them to the local Department of Statistics. This department specializes in analyzing and processing statistics and provides managing bodies with exact and objective estimates of the performance of companies.

- Managing bodies, together with tax agencies and statistics departments should carry out periodical visits to companies in order to inspect their accounts, financial statements and the task of keeping books and preparing statistics, instead of leaving tax agencies doing all this alone, thereby preventing tax agencies and companies from making mistakes accidentally or intentionally. This practice will help to enhance the cooperation between managing bodies and make estimates of companies' performance more exact and consistent.

- Companies should periodically and automatically make estimates of their business performance and compare their estimates with those given by managing bodies, especially by statistics departments. This practice will force companies to establish a close relation with statistics departments■