

INDIRECT TAX AND THE NATIONAL FINANCIAL INSTITUTION

by NGÔ NGỌC BỬU

The Government should find out receipts in order to meet public expenditures on the increasing needs of the country. These expenditures tend to increase incessantly, so the Government can't depend on foreign aid or foreign loans because the next generation will pay the penalty for this. The Government, otherwise, can't issue currency notes at will, because this deed will lead to inflation, or hyperinflation, and part of labor of the working class will be taken away.

So all governments want to raise money by imposing taxes on domestic businesses with a reasonable fiscal policy appropriate to the level of the socio-economic development in order to secure enough receipts for the public expenditures.

In Vietnam and developed countries as well, one of the most effective and easiest-to-obtain source of budget income is the indirect tax. The main characteristic of this tax is that it is imposed on goods and services consumed by the people; it is added to prices of goods and services so the consumers rarely protest as they did when direct tax is collected.

In this article, we want to give an overview on the role of the indirect tax in the national financial institution and analyze relation between the indirect tax and the national finance.

1. THE INDIRECT TAX IN THE NATIONAL FINANCIAL INSTITUTION

1. On legal aspect, all indirect taxes should be regulated by law, because they are imposed universally. Everybody, both the rich and poor, should pay this tax. Equality of tax paying is realized on a large scale

mechanically and apathetically. To get exempted from indirect tax, one should go through with a difficult and complex procedure ruled by law.

2. What taxes are indirect tax?

According to current rules and regulations, norms and theory, the following taxes are included in the indirect tax:

- The sales tax in Vietnam, the VAT in many developed countries, the turn-over tax in CMEA countries, and the commodity tax in many other countries.

- The sumptuary tax imposed on tobacco, beer, alcohol, firecracker, playing cards, votive paper: This tax rate is high, from 20 to 70%, and included in the price of goods and collected by suppliers or manufacturers.

- The customs duty imposed on imported or exported goods: In many countries, some exports are taxed (precious stone, mineral, precious wood, etc) and many others are exempted. Many governments took measures to encourage exportation, especially exports in large quantities, in order to gain hard currency, export restitution paid by Thai Government to rice exporter for example.

These taxes constituted a large part of budget income of Vietnam today. For example, the goal of the customs duty is to collect VNĐ 16,250 billion in 1995.

3. In the national budget act of many countries, amount of receipts from each tax is written down in order to help tax agency collect tax correctly and fully and avoid over-taxation. The budget act also states clearly expenditure corresponding

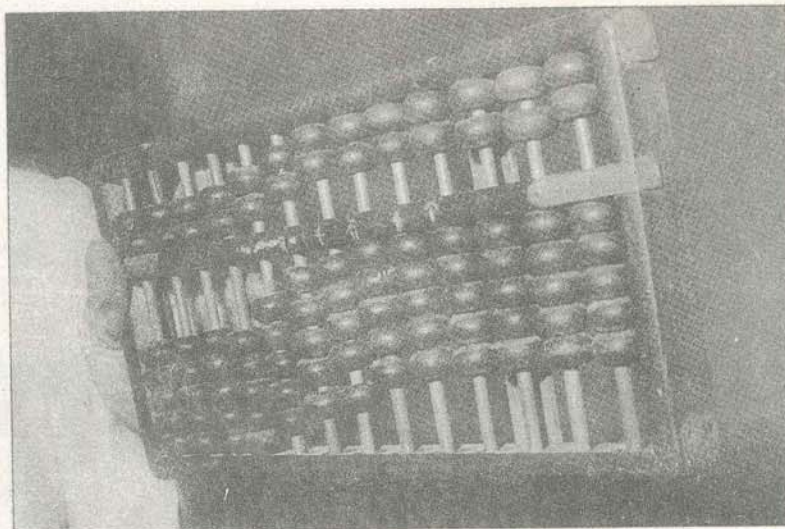
with each receipt in every chapter, item or article, in order to help administrators and accountants understand what they have to do with these receipts and expenditures.

4. The difference between direct and indirect taxes enables legislators, financiers and courts to realize their duties and rights logically and according to the national fiscal policy.

- Direct tax is a tax *in personam* (against persons) based on person's profit or income, and taxpayer is the person who makes payment, whereas the indirect tax is a tax *in rem* (against things) based on the price of goods and services, and the taxpayer and the person who makes payment are two different legal entities or natural persons. This difference enables us to understand arguments, concepts, nature and corollary of the indirect tax in the national institutions. Imposing indirect tax should be ruled by law; and because person who makes tax payment and taxpayer are two different persons so their rights and duties should be regulated strictly, especially for the person who makes tax payment.

The government had better understand the specific nature of the indirect tax in order to make a scientific fiscal policy which can be a lever needed to develop economy in short or long term.

- Legislators and financiers meet no difficulty in making and promulgating an act on the indirect tax because there is hardly any protest against the indirect tax heard, whereas any direct tax (such as income tax, capital gains tax, etc.) usually caused much complaint among



the people. The value-added tax is usually compared with a beautiful girl who has a lot of attraction for the people because they didn't complain about this indirect tax. The value added tax isn't a form of multiple taxation as the sales tax. It is more reasonable than the sales tax and easy to collect.

- The national financial institution should regulate prosecution for those who violates tax law, evades tax or fails to pay the sum they collected to the government. In reality, suppliers, shopkeepers, stores... have to pay the indirect tax at a shortest notice, one week or one month. Because indirect tax is collected by them and they should pay to the government. If they fail to pay it on time, they could be prosecuted before a criminal court for holding or using that sum of money illegally. On the other hand, violations of paying direct tax will be brought to administrative court.

In short, legal problems and realities concerning the indirect tax have an increasingly large extent and are studied in the minutest detail in order to make collecting the indirect tax more efficient.

On the aspect of public finance in developed countries, the indirect tax has brought large and stable receipts to the national budget. But should governments keep the income from indirect tax at such a high level compared with income from direct tax? At what level of the economic development that the indirect tax will contribute a smaller percentage in comparison with the direct tax to the national budget? Solutions to these problems depend on the economic pol-

icy, economic-political line and governing idea in development orientation of each nation.

II. THE INDIRECT TAX AND THE NATIONAL ECONOMIC-FINANCIAL RELATIONS

Because of an organic relation between the financial institution and the economic policy, so the fixing of a reasonable tax policy and tax rate reflecting the operating result of business becomes an essential and important demand in orientation of the economic development.

1. In a society where it's hard to put everybody under an obligation to pay tax correctly and fully according to their real income or profit, the indirect tax which is imposed on consumption of everybody without discrimination is the best way to tax on spent income of citizens and collect large receipts for the national budget. Naturally, the spent income is not the gained income, but when it's hard to assess the gained income of a person because of many objective and subjective reasons of the management machinery, it's wise to tax on what the people spend.

2. On economic aspect, the indirect tax is very flexible, if the tax rate is raised a little, the receipts will increase remarkably. Its flexibility is a two-sided coin: in a period of economic boom, the indirect tax plays a leading role in taxation and helps the national budget keep its balance, but on the other side of the coin, in a period of depression, ability of businesses to pay tax is limited, if the tax rate is raised, the spending power will decrease and cause damage to production, saving and investment.

In a developing economy as Vietnam, where the primary industry (farming, fishing, mining) plays an important role, the light industry constitutes a large part of the secondary industry and provides main products for local and foreign markets, our products (both agricultural and manufacturing ones) have competitive price because of low-priced labor and raw materials and a great demand for our products in foreign market, so the indirect tax is still the main part of the budget income.

On the contrary, when the economy is modernized and industrialized, in order to compete effectively in foreign markets, the government should try to reduce the price of exports by reducing the indirect tax. In order to make up the deficit caused by reducing the indirect tax, the government had better increase income tax and profit tax because in a developed economy, the high income class becomes increasingly numerous so they are under obligation to contribute a larger share to the national budget through the direct tax. This is also one principle of legislators that they should increase income from the direct tax when there is a decrease in income from the indirect tax with a view to balancing the budget.

In short, the indirect tax is not only an effective and sensitive instrument of the national financial institution, but also an important lever of the economic policy in orientation of long-term development. The simpler, more reasonable and flexible the indirect tax is, the greater its effect on the national finance and economy ■