

In order to meet public expenses, the Government has promulgated many tax laws. There are, however, many unrealistic features in the tax policy, especially in taxes charged on the banking system.

#### 1. Taxes charged on the banking system

According to law, the turnover tax on banks is charged on the difference between interest paid by a bank to customers and interest paid by customers to a bank, or on total bank charges.

The turnover tax on banks for agriculture is 2%. It increases to 15% to commercial banks, investment and development banks, finance companies, branches of foreign banks, joint-venture banks and other credit societies. Banks for foreign trade should pay the corporation tax of 25% of the net profits in trading foreign exchange.

Besides the corporation tax, banks have to pay the company income tax of 45% charged on the difference between bank's total income

directly by the customers (or taxpayers). Paying this tax, the bank, or other credit organizations, had to raise the interest rate of bank loans. Paying a high interest rate of bank loans, enterprises-especially the state-owned ones-can hardly make a profit in doing their business.

If the turnover tax charged on the banking system is reduced, or removed, the interest rate of bank loans will decrease. A low interest rate will encourage businesspersons to develop their enterprises, supply more jobs and make bigger profits. The budget income will not decrease, but contrarily, it will increase because of the company income tax paid by enterprises outside the banking system. So the Government had better remove the turnover tax and the foreign exchange trading tax charged on the banking system.

b. The company income tax rate of 45% charged on the banking system and other commercial businesses (such as restaurant, service or tourism ones) as well is inappropriate. The banking system has its own char-

acteristics which are different from those of tourism or trading businesses, because the bank charges or bank interest, unlike prices of other goods and services, have profound effects on all economic activities. Moreover, functions performed by a bank are different from those of a trading or tourism company. Besides making a profit, another function of the banking system is to supply capital in response to the economic growth rate. In the transition from the centrally planned economy to the market mechanism, the ability of both state-owned or joint-stock commercial banks is limited, therefore, the company income tax should be reduced in order to help banks increase their working capital, supply more loans of low interest rate to businesses and integrate to the world

banking system. Furthermore, the Government had better remove the additional income tax charged on the banking system in order to give equal treatment to all businesses (businesses in other industries didn't pay this tax).

c. The capital tax: when the State Bank supplies the starting capital to state-owned commercial banks, it has invested in the banking system. The commercial bank has to transfer to the State Bank the reserve ratio which changes according to the inflation rate, if the commercial bank makes a profit, it has to pay the company income tax also. Thus the capital tax rate of 6% is irrational. No company can pay such an interest rate for the loan capital. The banking system petitions the Government for the abolition of the capital tax.

All banks and credit societies operate in the same industry but each kind of bank pays different tax rate: branches of foreign banks and joint-venture banks pay the turnover tax rate of 15%, the income tax rate of 25%, while local commercial banks pay the turnover tax rate of 30% and the income tax rate of 45% plus the additional income tax rate of 40% and the capital tax rate of 6%: this is the inequality of opportunity.

According to the Party's policy, the public sector should play the leading role in the economy, but the tax policy offers preferential treatment to the joint-stock banks and foreign banks, instead of giving it to state-owned commercial banks and local banks.

So we petition the Government to charge the same income tax rate of 25% on all banks and credit societies (including foreign and joint venture banks). All allowances for special purposes (investment fund, precaution-against-risk fund, etc.) should be tax-free so as to protect interests of depositors and save credit organizations from risk.

In short, we petition for adjustments to the tax policy on the banking system: abolition of the turnover tax, the foreign exchange trading tax, the additional income tax and the capital tax charged on the banking system; and imposition of the income tax rate of 25% on both foreign and local banks.

Many international financial institutions, foreign banks, commercial banks and other businesses have petitioned the Government to adjust the tax policy to the international practices with a view to helping the banking system attract all sources of capital and turn them into investments.

# SOME SUGGESTIONS ABOUT TAXES CHARGED ON THE BANKING SYSTEM

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and total expenses, and the additional income tax.

The commercial banks have large taxable income, they should pay the company income tax, and then the additional income tax of 40% for the amount that is left after taking off allocations for their various funds.

In addition to the corporation tax and the company income tax, the state-owned commercial banks should pay the capital tax 6%, although they have held the reserve ratio as required by the State Bank (this ratio in 1994 was 14.4%).

#### 2. Petition for adjustments to the tax policy

a. The turnover tax charged as a percentage of the retail price of goods or services is collected by suppliers of goods and services and paid to the Government instead of being paid