



THE OVERVIEW OF TAX SYSTEM FOR THE PERIOD 1986 – 2014 AND SUGGESTIONS FOR FUTURE TAX SYSTEM FROM 2015 TO 2020

Ma Van Giap

University of Economics, Ho Chi Minh City

Abstract

Over two decades from DoiMoi policies, the Tax system of Vietnam has been changed and improved significantly. Besides the efforts of Government of changing tax policies and achievements from these improvements, Vietnamese tax system still has some limitations. This research will give the brief overview about the tax system of Vietnam over the past 20 years by splitting the timeline into three periods based on the economy development from 1986 to 2014. From this brief overview, this paper also mentions the achievements as well as the limitation of Vietnamese tax system. From these, the recommendations for the improvements will be suggested for the future tax system based on the orientations of Government and the appropriations for Vietnam economy for period 2015 – 2020.

Introduction

Tax is an important fiscal mechanism for each country, which helps the Government to control macro economy and overcome the imbalance of the market in order to ensure the needs of public spending and development infrastructure as well as to help economic development. Thus, in order to enhance the role of taxes in the economy, using the correct tax function needs to be done. However, the roles of the tax on the economy of each country are not the same. They depend on "the art of using" the tax system on different economies. The fundamental of each tax system is that tax systems need to be consistent with the goals and guidelines of economic development – social. In addition, tax system is also considered as an effective tool for the implementation of guidelines and strategies of economic development for every country in certain periods. An effective and stable tax will encourage consumption, investment, political and social stability. Hence, countries must regularly review the appropriateness of the tax system with the strategic development of their socio-economic, and tax reforms implemented in stages in time.

Over the past two decades since the system of tax policy in Vietnam was formed and developed after "DoiMoi" program (after the sixth National Party Congress in 1986). Vietnam has made considerable efforts in the reform and more complete system of its tax policies. Besides the efforts and achievements, tax policy system Vietnam also has some certain limitations that need to analyse. From these limitation, the suggestion for solutions to reform the tax system Vietnam for the remaining period of 2015 -2020

Literature Review

Tax reforming is becoming an important adjustment in the process to develop the countries to match with the current international trend (Shirazi& Shah, 1991). In addition, Shirazi and Shad (1991) mentioned that most of tax structure of developing countries are complex, inelastic, inequitable and unfair. More specifically, the authors argue that tax structures in most of developing countries are difficult to comply with, unresponsive to growth and changing structure of economy, and no different between the treatment for individual and





businesses. As the result, there are significant problems in fiscal policy in developing countries. In their paper, Shirazi and Shah (1991) also introduce some suggestions to improve for tax structure such as broadening tax base and reducing tax rates, or improving the tax administration.

Furthermore, tax structures of most of developing countries and developed countries have been changed significantly from the 1990s until now. In the paper of Tanzi (2013), the author has summarized about the long-term changes of tax structure in some countries. For example, the tax burden in South American countries increases recently weighted by the countries populations. In other words, for the countries with large population, the government has the trend to increase the tax rate in recent years. Furthermore, Tanzi (2013) also compare the tax burden of Latin American countries with the tax burden of OECD countries and conclude that the tax rate in Latin American countries is higher. However, in the opinion of Tanzi (2013), although Latin American countries still have high tax rate, recently, the tax structures are changing in the positive ways. The tax rates have matched with the countries' strategies for stabilizing the economy.

Besides, in the paper of Clinton, Ducan and Simon (2014), the authors have examined relation between tax reform and politics in Australia, New Zealand and UK. Clinton, Ducan and Simon (2014) conclude that the introduction of broad-base consumption tax in these countries have brought the significantly successful for these countries in recent years. In addition, in order to have these successful, the tax reform requires leadership, courage and determination from the politicians. From this view, it is clear that Government has an significant important position to make the tax reform process successfully.

Hence, from the above argument, tax reform process is the obvious process that countries need to implement in order to develop. Besides that, for successful process, identifying the past process of tax reform are necessary for the appropriate suggestion. Therefore, the following part will introduce about the reform process of Vietnamese tax systems, then will suggestion some solutions for improving tax system in the future.

Reforming the tax system in Vietnam from 1986 to 2000

Since the sixth national congress in 1986, the system of taxation Vietnam gradually formed and developed. Before that, the economy operated under the centrally planned subsidy. And, the State budget revenues are primarily from economic state (accounting for 90% of total revenues), and tax only applies to regional economic not belonged to Government under some forms, e.g. corporate tax, sales tax, income tax, tax on agriculture, excises taxes. The roles of taxes in the management of macro economy is not significant.

In the early 1990s, Vietnam implemented the first step in tax improvement process, a new system of taxation was created and uniformly applied to all economic sectors including basic taxes such as sales tax revenue, excise tax, export tax, import tax, resource tax, income tax, income tax for high earners, agricultural tax (since 1994, this tax has been converted to agricultural land use tax), property tax, tax on transfer of land use rights, and a number of charges and fees, such as registration fees, certification fees, transportation fees.

After 10 years of innovation, the market economy has been formed. In addition, the external relations of Vietnam has improved significantly. And, the economy and society has moved into a new stage of development: implementation of industrialization, modernization, and encouraging international economic integration. With all these strategies, the necessary to set out a new reform tax appears the second step of improvement. Beginning the late '90s, markedly, Congress enacted the Law on Value Added



Tax. Corporate Income Tax law has been issued in 1997 (effective as from the date of 01.01.1999), replacing the sales tax law, income tax. In 1998, the Special Consumption Tax Law, Import and Export Tax Law was also amended to ensure consistency. The introduction of the Value Added Tax Act was a significant step of the Vietnam Government Tax because it has resolved the overlapping taxing on different stages of the process burners of goods, services market.

Reforming the tax system policy Vietnam period 2000 - 2010

Entering the new century, the world economy has a great development. With the high competition in attracting foreign investment of developing countries and, the innovation of information technology, the processes of reform of the taxation system Vietnam have many significant changes, especially on tax policy and tax administration. Specifically, in 2003, Congress enacted the Law No. 07/2003 / QH11 and 08/2003 / QH11 to amend and supplement a number of articles of the Law of Value Added Tax which had been issued in 1997. In 2005, Congress enacted Law 51/2005 / QH11 to amend and supplement some articles of the Law on Special Consumption Tax. In 2006, the Tax Administration Law No. 78/2006 / QH was issued. This law is considered as a breakthrough in the administrative procedures of tax system, which has moved from the mechanism of tax notices to self-report and self-payment taxpayers mechanism and strengthen the support and inspection from authorities. In 2008, after the promulgation of the Law on Tax Administration, Congress replaced and amended Law of Value Added Tax, Corporate Income Tax and Special Consumption Tax. In 2009, Royalties Act was enacted to replace the Ordinance on Royalties 1998. In 2010, the tax law to use non-agricultural land was issued on 06/06/2010 which replaced the housing tax ordinance. Also in 2010, the first time the Government issued Decree No. 51/2010 / ND-CP on the bills used for selling goods and providing services in the following forms: self-printing, self-ordering and electronic bills. The application of this decree has helped for the businesses in the process of invoicing sales orders. In addition, this significant changes also reduces the transaction time for waiting the bill issued by Ministry of Finance.

Thus, overall, there are many remarkable outstanding achievements about the tax system of this stage. More specifically, first, tax system has encouraged the production and business development, has increased export and investment incentives. Besides, the new tax system has encouraged technological innovation and has become an important management tool to stabilize macro economy. In addition, the amendments and supplements of the tax policy for the period 2006-2010 have contributed to the economic growth and improvement people's lives. The size of state budget revenues for 2006-2010 increase two times compared with the budget revenue of period 2001-2005. The growth rate of revenues from taxes, charges and fees contributing to the state budget reached an annual average of 19.6%. (Vietnam General Department of Taxation, 2010).

Secondly, tax administration also reached some certain achievements during this period. For implementation strategy to reform the tax system in 2010, the tax administration was initially modernize both management methods and administrative procedures. Specifically, Tax Administration Law and guiding documents has created a logical and more consistency legal system for tax management and synchronization. Tax Administration Act was implemented from 2007 has changed quite fundamental the management approach of the tax authorities in the direction to match with the requirements development and the implementation mechanisms taxpayers. In addition, during this period, the tax system also



has strengthened advocacy, supported taxpayers to declare their tax obligations. In addition, the tax administration has been managed based on risk management principles to promote the inspection and limit the involuntary tax payments. Furthermore, for the organizational structure and human resource development, the organization of the tax service model has been converted to mainly tax administration functions from the central to local levels. And, functions and duties of the department of tax authorities at all levels have been specified, clearer, gradually reducing duplication, deletion removing unnecessary parts. Furthermore, department management of personal income tax was established at three levels of tax authorities to meet the requirements of the individual income tax. Internal audit department was established at three levels of tax authorities to strengthen inspection and supervision of the implementation of tax policies. In addition, the inspection, testing, monitoring compliance taxpayers were initially innovative followed the research-oriented risk management principles. Moreover, tax system has a database system information about the organization or individual taxpayer to use and analyze information to identify the object and the content needed inspections, tests. As a result, the tax system has gradually improved in the efficiency way to ensure objectivity, openness and transparency in the inspection and examination of taxpayers.

Reforming the tax system for the period of 2011-2014

In 2011 and 2013, the Ministry of Finance and the General Department of Taxation has issued various combinations and legal documents to guide, improve and adjust the legislation on VAT and CIT in order to meet the particular circumstances of the economy. Specifically, Circular No. 06/2012 / TT-BTC, No. 65/2013 / TT-BTC of VAT, No. 123/2012 / TT-BTC guiding the EIT. Furthermore, 2014 was a year of strong changes in the reform of the taxation system, a series of documents, tax policy was enacted to simplify administrative procedures, facilitate taxpayers in the declaration and payment of tax. To achieve the goal of tax policy reform, Ministry of Finance has closely collaborated with the other Ministries, the professional associations, and domestic and international enterprises to investigate, evaluate, review and determine the cause of high tax time from. As a result, revised regulations has issued with new additions to appropriate with the current situation. After a series of review and modification in 2014, the total hours for tax declaration was reduced by approximately 290 hours per year for corporations.

With new issue Circular No. 119/2014 / TT-BTC guiding the amendments and supplements to the content and form of seven circulars, this new Circular has been reformed and made the tax declare process simply. The administrative procedures has changed significantly because this new Circulation helps to clarify clearly the condition of exemption or reduction and provides amendments and supplements to the declaration and payment of corporate income tax in the simplicity method. According to calculations, the promulgation and implementation of Circular 119/2014 / TT-BTC will reduce 201.5 hours to declare and pay tax per year.

Besides, the implementation of Resolution No. 63 / NQ-CP of the Government dated 25.08.2014, the Ministry of Finance has asked the government for issuing Decree No. 91/2014 / ND-CP dated 10/01/2014 (with effect from 11.15.2014) to amend and supplement a number of articles in the decree of the corporate income tax, value-added, personal income and tax administration. Thereby, the time shall be paid by businesses continues to decline by 88.36 hours per year. In May 2014, the Ministry of Finance has asked the government about amending and supplementing a number of articles of the Law on





Taxation. Thus, until beginning 2015, after the Law amending and supplementing a number of articles of the Law on tax (Law No. 71/2014 / QH13) has been effected, the duration of administrative procedures corporate tax will be expected to reduce 80 hours per year. Thus, even in 2014, with the efforts of the Ministry of Finance and other relevant agencies, firms performing electronic tax declarations across the country increase from 65% to 95%; taxpayer hours has been reduced about 290 hours from 537 hours per year to 247 hours per year (not including the time of deposit insurance). When the Law amending some articles of the Law on Tax effect, this law will be further reduced to 80 hours, from 247 hours / year to 167 hours / year.

Along with the reform of administrative procedures, the tax system has promoted modernization of tax administration and has facilitated for business. Until now, 63 over 63 Tax Department and over 300 branches Tax Department have implemented the tax system over the network. In addition, online filing system has provided services to more than 397,130 taxpayers who perform electronic filing. Statistically, tax system and the network has received and processed more than 17.6 million electronic tax filing system of tax administration. The implementation of electronic tax services is a big step in the program of cooperation between tax industries with commercial banks operating in the State budget revenues. It contributes to the objectives of administrative reform the tax industry, and has great significance in promoting the development of social services. As a result, the Tax Authority captures timely and accurate information on the taxpayer

STRATEGIC TAX SYSTEM REFORM THE PERIOD 2015-2020

The overall objective to reform the tax system in 2020 is to build a system of tax policy synchronization, consistency, fairness, efficiency, appropriate with economic institutions market-oriented socialist. In addition, the tax system also expects to provide the reasonable the level of encouragement to facilitate taxpayers and increase the competitiveness. In addition, the tax systems will be effective and efficient. The management tax system and tax fee obligations will be unified, transparent, simple, and easy to understand, easy to implement based on three fundamentals: transparency of tax policy, administrative procedures simplified tax, and high human resources quality (Decision No. 732 / QD-TTg)

Based on the objectives of tax systems, there are some suggestions for tax policy reforms. Amendments and supplements to improve the tax system's policy towards synchronization, consistency, fairness and efficiency in accordance with the institutional market economy oriented socialist. In addition, the tax system need to be boost the production business development, in accordance with the requirements of regional integration and international. Law promulgated fees and charges replace the Ordinance fees and charges applicable. How annul the license transfer fees and management operations annually.

Basic Orientations amend and supplement a number of major taxes and fees and charges as follows:

- **Value Added Tax:** this tax should increase the number of classes of goods and services which are not subjected to value added tax; reduce the group of goods and services subject to VAT rate of 5%. In addition, the provisions to determine the mechanism of revenue for some types of goods, services should be add more to appropriate with the arising from the development of the market economy. In 2020, basically VAT law should have one tax rate (excluding the 0% tax rate applies to goods and services exports). As a result, tax system should complete tax calculation method and perform basic method of tax deduction. In addition, regulations about





tax rate to apply for the declaration of value added tax should be in accordance with the actual business of the taxpayer.

- **Special Consumption Tax:** the special consumption tax should be research carefully and be subjected to additional excise duty in order to regulate consumer guide appropriate to the situation of economic and social development; partly adjust tax law for tobacco products, beer, wine, cars formatching with the international commitments.
- **Export and import tax** should be amended and supplemented export tariff to encourage the production and export of products with high added value as well as limit the mineral resources exported.
- **Business Income Tax:** adjusted tax rate generally consistent roadmap to attract investment and create conditions for enterprises with more financial resources, cumulative investment to accelerate the development, improve competitiveness; simplify the tax preferential policies towards narrowing the field, continue to encourage investment in manufacturing products with high added value, industry support, the use of high-tech biotechnology, high-quality service, Adding provisions for expenses to be deducted and not be deducted when determining the taxable income; adding provisions to cover the economic activity in emerging market economic integration and in accordance with international practices, such as multi-level marketing activities, e-commerce, the development of economic groups, the phenomenon of "thin capital" when determining the cost, especially the cost of borrowing, transferring or revalued asset restructuring businesses, agreed on the price of the enterprise link ...
- **Personal Income Tax:** amending and supplementing tax law by expanding the tax base and determine taxable income; adjusting tax calculation method for each income, and making tax rate consistent with international practices to improve law-abiding taxpayers and facilitate the collection of taxes; adjusting the amount of tax in accordance with taxable income and tax payers; making essentially uniform tax rate on income and types of activities or similar activities to ensure fair tax obligations between persons and legal entities (companies);
- **Royalties:** amending and supplementing resource tax to become an effective tool to help manage, protect and promote the efficient use of national resources, especially for resources not renewable; promoting the exploitation of natural resources associated with deep processing and contribute to minimize the export of unprocessed natural resources; environmental protection in the mining process

Conclusion

Over two decades from Doi Moi policies, the Tax system of Vietnam has been changed and improved significantly. Besides the efforts of Government of changing tax policies and achievements from these improvements, Vietnamese tax system still has some limitations. The improvements and changes in tax systems are need to be adjusted. These improvements should reduce the complexity in tax structure, and make the process for tax declaration simple. In addition, the adjustment should reduce the tax fees, increase the transparency, create the efficient investment environment and become the effective fiscal mechanisms.





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