



# **VIET NAM FAIR TAX MONITORING REPORT 2017**

**Ha Noi, 8/2018**

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## **ABOUT BTAP**

**The Global Movement for Budget Transparency, Accountability and Participation (BTAP)** was established in 2014. Its causes are to search, experiment and promote the application of the efficient solution to budget transparency, accountability and people's participation in the state budget decision process of Viet Nam, in order to bring about positive changes to the development of the country.

The movement encompasses state agencies, organizations, and activists in financial and economic areas. BTAP seeks to become a reliable organization to advance budget transparency, accountability, and participation via collaboration in researching, experimenting and promoting policy solutions to enhance the effectiveness of state budget management.

## **ABOUT VEPR**

**Viet Nam Institute for Economic and Policy Research (VEPR)**, formerly known as Viet Nam Center for Economic and Policy Research, was established in 2008. As a research institute within the University of Economics and Business, Viet Nam National University, VEPR has legal status. Its headquarter is in the University of Economics and Business - Viet Nam National University, Xuan Thuy Street, Cau Giay District, Ha Noi.

Its primary mission is to carry out economic and policy research which helps policy-making agencies, businesses and interest groups make the better decision by providing insights into the nature of the economic movement and the macro policy management in Viet Nam. The main activities of VEPR include (i) providing quantitative and qualitative analysis of Viet Nam's economic issues and their impact on interest groups; (ii) organizing workshops for policy dialogues which enable policy-makers, business leaders and civil society organizations to exchange perspectives so as to propose solutions to the current pressing policy problems; (iii) organizing intensive training courses on economics, finance and policy analysis.

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Ha Noi, May 23<sup>th</sup>, 2018

On behalf of the authors

**Assoc. Prof. Dr. NGUYEN DUC THANH**

## CONTENTS

<i>About BTAP</i> .....	2
<i>About VEPR</i> .....	3
<i>Contributors</i> .....	4
<i>Acknowledgements</i> .....	5
<i>Contents</i> .....	6
<i>List of Figures</i> .....	9
<i>List of Abbreviations</i> .....	11
<i>Executive Summary</i> .....	12
<b>CHAPTER 1: INTRODUCTION</b> .....	<b>17</b>
Background .....	17
Rationale of the Research .....	18
Research Objectives .....	18
Research Methodology .....	19
Research Structure .....	19
<b>CHAPTER 2: OVERVIEW OF THE TAX SYSTEM IN VIET NAM</b> .....	<b>20</b>
Brief Introduction.....	20
Tax Reforms.....	20
Legal Framework .....	22
<b>CHAPTER 3: TAX CLASSIFICATION AND PROGRESSIVITY</b> .....	<b>24</b>
Total Tax Revenues .....	24
Direct taxes .....	25
<i>Corporate Income Tax (CIT)</i> .....	25
<i>Personal Income Tax (PIT)</i> .....	26
<i>Wealth tax</i> .....	28
Indirect Taxes.....	29
<i>Value Added Tax (VAT)</i> .....	30
<i>Import-Export Duties</i> .....	32
<i>Other Indirect Taxes</i> .....	33
<i>Presumptive Tax</i> .....	34
The progressivity of the tax system .....	35
Gender Equality in Budget Revenue Collection .....	37
Result of grading Fair Tax Monitor Index .....	37

<b>CHAPTER 4: REVENUE SUFFICIENCY .....</b>	<b>40</b>
Total Budget Revenues .....	40
Size of state budget revenues from taxes .....	41
Total Non-tax Revenues .....	41
<i>Non-tax Current Revenues</i> .....	43
<i>Non-current Revenue</i> .....	45
Nature Resource Revenues .....	46
Taxpayers .....	47
Informal Sector .....	49
Tax Evasion and Illegal Financial Flow .....	50
Tax Exemptions .....	52
<b>CHAPTER 5: TAX ADMINISTRATION .....</b>	<b>57</b>
Organization.....	57
Resources .....	58
Expenses on Budget Revenue Collection .....	59
Result of grading Fair Tax Monitor Index .....	61
<b>CHAPTER 6: FAIRNESS IN GOVERNMENT EXPENDITURE .....</b>	<b>63</b>
Government Expenditures .....	63
Expenditure on Education.....	65
Healthcare Expenditure.....	67
Expenditure on Agriculture.....	69
Result of grading Fair Tax Monitor Index .....	70
<b>CHAPTER 7: TRANSPARENCY AND ACCOUNTABILITY IN THE REVENUE AND EXPENDITURE OF THE STATE BUDGET .....</b>	<b>72</b>
Accessibility to information on budget revenues and expenditures .....	72
Audit .....	73
Transparency.....	73
Corruption .....	75
Complaints and Denunciations .....	77
Participation of citizens.....	78
Result of grading Fair Tax Monitor Index .....	79
<b>CHAPTER 8: CONCLUSION AND RECOMMENDATION.....</b>	<b>81</b>
The results of grading Fair Tax Monitor index.....	81



Recommendations .....	84
APPENDIX.....	87
REFERENCES .....	95

## LIST OF FIGURES

Figure 3.1. Tax Revenue, 2006-2016 (%).....	24
Figure 3.2. Direct Taxes, 2006-2016 .....	25
Figure 3.3. The Corporate Income Tax, 2006-2016 .....	26
Figure 3.4. Personal Income Tax, 2006-2016.....	27
Figure 3.5. Wealth taxes, 2006-2016 .....	29
Figure 3.6. Indirect Taxes, 2006-2016.....	30
Figure 3.7. Value Added Tax, 2006-2016 .....	31
Figure 3.8. Import-export Duties and Excise Tax on Imported Goods, 2006-2016 .....	32
Figure 3.9. Excise Tax on Domestic Goods and Environmental Protection Tax, 2006-2016.....	33
Figure 3.10. The share of direct and indirect taxes in some countries, 2006-2016 (%) .....	35
Figure 3.11. The proportion of expenditure for the commodity groups, 2016 (%) .....	36
Figure 3.12. Progressivity of tax system by FTM marking scheme 2017 .....	37
Figure 4.1. Total Budget Revenues, 2006-2016 .....	40
Figure 4.2. Tax Revenue, 2006-2016.....	41
Figure 4.3. Non-tax Revenue, 2006-2016.....	42
Figure 4.4. The Structure of Non-tax Revenues, 2006-2016.....	43
Figure 4.5. Non-tax Current Revenues 2006-2016.....	43
Figure 4.6. The Structure of Non-tax Current Revenues, 2006-2016 (%).....	44
Figure 4.7. Fees and Charges, 2006-2016.....	44
Figure 4.8. Non-current Revenues, 2006-2016.....	45
Figure 4.9. Nature Resource Tax , 2006-2016.....	46
Figure 4.10. Non-tax revenues from Land, 2006-2016 .....	47
Figure 4.11. The number of enterprises, 2013-2016.....	48
Figure 4.12. The average income and taxable threshold, 2006-2016 .....	49
Figure 4.13. Revenue sufficiency and governance of tax exemptions .....	55
Figure 5.1. State budget expenditure of the Ministry of Finance, 2006-2016 .....	60
Figure 5.2. Budget expenditure structure of the Ministry of Finance by unit, 2007-2016 (%) ....	61
Figure 5.3. Tax administration.....	61
Figure 6.1. The State Budget Expenditure, 2006-2016 (%) .....	63
Figure 6.2. The structure of state budget expenditures, 2006-2016 (%).....	64
Figure 6.3. State budget deficit and public debts, 2006-2016 (%GDP) .....	64

Figure 6.4. Expenditure on Education, 2006-2016 .....	65
Figure 6.5. The Global Competitiveness Index, 2014-2017 .....	67
Figure 6.6. Healthcare Expenditure, 2006-2016 .....	68
Figure 6.7. The Global Competitiveness Index, 2014-2017 .....	69
Figure 6.8. The State Budget Expenditure on Agriculture, 2009-2012 .....	70
Figure 6.9. State budget expenditures for the group of vulnerable people .....	70
Figure 7.1. Viet Nam's Open Budget Index compared to the region in the OBI 2017 .....	74
Figure 7.2. Transparency .....	75
Figure 7.3. Corruption and Informal Fees .....	76
Figure 7.4. Corruption Perceptions Index, 2016-2017 (points) .....	77
Figure 7.5. Participation at Local Levels in PAPI, 2011-2016.....	78
Figure 7.6. Transparency and accountability .....	79
Figure 8.1. Viet Nam's Fair Tax Monitor Index in 2017.....	81

### **LIST OF TABLES AND BOXES**

Table 2.1. Current Tax Laws since 1993 .....	23
Table 4.1. Tax incentives under taxes.....	52
Box 4.1. Tax incentives for enterprises in Viet Nam.....	52

## **LIST OF ABBREVIATIONS**

ASEAN	Association of Southeast Asian Nations
ASEAN-5	Including Indonesia, Thailand, Malaysia, Philippines, and Viet Nam
FDI	Foreign Direct Investment
FTM	Fair Tax Monitor Index
GDP	Gross Domestic Product
GINI	Gini coefficient
ILO	International Labour Organization
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
OBI	Open Budget Index
GSO	General Statistics Office of Viet Nam
PIT	Personal Income Tax
CIT	Corporate Income Tax
VAT	Value Added Tax
WDI	World Development Indicators
WTO	World Trade Organization

## EXECUTIVE SUMMARY

Equity in mobilizing and utilizing tax resources is one of the top concerned issues in all countries worldwide. Assessing the fairness of taxation, however, is always a challenge and has not yet attained complete consensus.

Viet Nam is a transitional economy and has been experiencing solid transformation with the mindset to which the economy is oriented. The government has made more firm commitments to opening the market and developing the private sector. Taxation has been one of the major reforms since the opening of the economy and the implementation of Doi Moi in Viet Nam.

In general, Viet Nam's current tax system is similar to that of the world's other long-established market economies. Nonetheless, which level of fairness have Viet Nam's tax policies met? Does the tax system cover the full range of revenues? Is tax administration done in a transparent manner? How should the tax system continue to improve? etc. This report is expected to contribute to answering the above questions.

The report utilizes a framework developed by Oxfam Global to evaluate the tax system in Viet Nam for the past 10 years. The criteria used in this framework include the progressiveness of the tax system, the adequacy of revenue collection, the equity through analysis of tax exemptions and tax administration as well as the equity through government spending and accountability.

According to the 2015 Law on State Budget, Viet Nam's budget revenue sources comply with the general regulations of the central government. Localities are not allowed to issue taxes and fees/charges. The revenues, especially taxes, fees/charges are all regulated by law and implemented uniformly nationwide. This relative size of the state budget compared to GDP tends to decrease: total state budget revenues accounted for around 24% of GDP in 2016, less than 30% of GDP in 2006. Similarly, tax revenues fell from 24% of GDP (2006-2008) to 18% of GDP (2014-2016).

In terms of revenue structure, the share of indirect taxes in total tax revenue has increased sharply to over 60% while that of direct taxes has fallen below 40%. This has a negative impact on the progressiveness of Viet Nam's tax system. Compared with the ASEAN-5 and OECD countries, the ratio of taxes to GDP of Viet Nam is lower than that of OECD countries but higher than the ASEAN-5 countries. The direct tax rate in Viet Nam is also much lower than the OECD

and the second lowest in ASEAN-5. In contrast, the proportion of indirect taxes in Viet Nam is higher than that of other OECD countries and is also the second highest among the ASEAN-5 countries.

According to the Fair Tax Monitor (FTM) questionnaire, Viet Nam is highly appreciated for the completeness of budget revenue sources. However, this report still points out some notable issues. Fees/charges (except for registration fees) accounted for nearly 10% of total revenue (2016) with about 100 types of fees and nearly 50 kinds of charges. Non-tax revenues on land continue to play an important role in total budget revenue (the highest was up to 11% of the total state budget revenue). In this source of revenue, land use fees account for about 80%. It should be noted that this is a one-time source and thus is not sustainable.

In addition, the problems of tax evasion and tax administration in Viet Nam were also taken into consideration in the report. Over the past decade, Viet Nam has devoted a lot of resources to the tax sector, especially investment in the information system. The General Department of Taxation and the General Department of Customs has a very modern and more well-established information system compared to other departments. They provide software for tax declaration, tax refund, and tax payment via the Internet. Since 2007, the total spending of MOF has occupied about 2% of the total state budget revenue and about 2.4% of total tax revenue. That is the same as in Uganda (2014), which is almost twice as high as in Bangladesh (1.3% in 2013) and far exceeds the OECD countries' average level (about 1%). Of the total spendings of the Ministry of Finance, the spendings of the General Department of Taxation and the General Department of Customs account for more than 80%. The tax sector is in the process of reducing the number of employees and merging local small tax departments.

The Report also takes into account tax evasion and tax incentives. Good tax policy is designed and applied with few exceptions. However, Oxfam's research (2016) shows that tax exemptions of Viet Nam are still abundant, especially for corporate income tax. Many multinational corporations, when investing in Viet Nam, can enjoy a tax rate of 10% as low as half of the normal tax rate of 20%. Tax avoidance of multinational corporations also frequently occurs, yet has only been newly investigated since 2010.

Legal documents on tax incentives are widely publicized, but other information on this issue has not been statisticized. Budget losses due to tax incentives have also not been statisticized and reported. The benefit-cost analyses of tax incentives are not implemented fully in details.

The report also considers the equity in public expenditure. Expenditures on basic public services in Viet Nam such as education and health in Viet Nam were also fairly well evaluated in the FTM questionnaire. Education expenditure accounted for 18% - 20% of total state budget expenditure (2014-2016), much of which was for general education.

On the other hand, expenditure on health accounted for only 7% of the total state budget expenditure (2016). The government also issued a number of policies to increase access to health care for vulnerable groups, especially in terms of health insurance. However, as in the design of the tax system, budget spending policies do not discriminate on the basis of gender.

In addition to education and health, the report also took into account agricultural expenditure, a sector considered by many to be underachieving in Viet Nam. Agricultural expenditure accounted for more than 6% of total state budget expenditure (2012). Viet Nam's budget spendings are not categorized by sector, so accessing to updated data on budget expenditure for agriculture is quite difficult. That being said, Viet Nam has a number of policies to assist farmers in accessing to irrigation and capital.

However, like in the design of the tax system, there are no gender differences in tax policies. Men and women pay the same tax rate when earning the same income or consuming the same goods. Specialized goods for women or men are subject to common tax rates. Likewise, when designing the budgets for education and health, no policy is specifically designated towards men or women. However, in corporate income tax and social enterprise regulations, there are still some small incentives for businesses that employ more female workers.

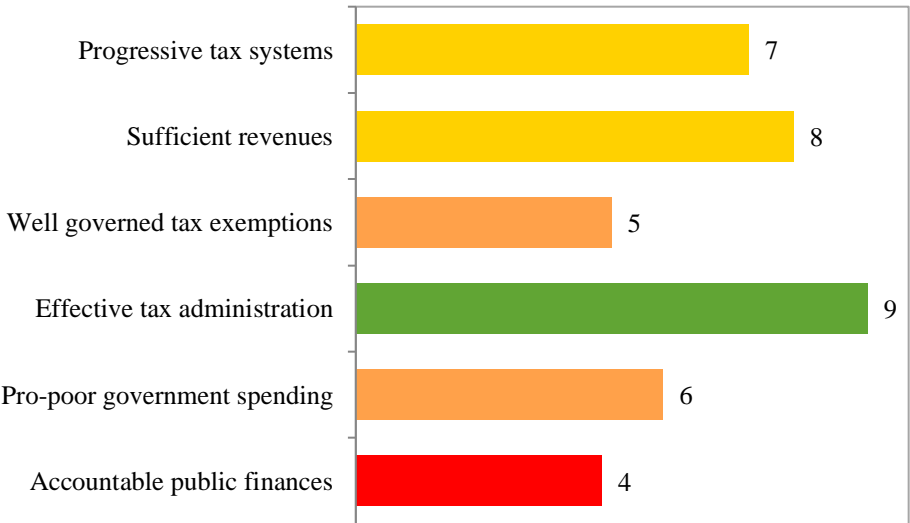
Viet Nam has made positive steps to publicize information on the budget, but still, a lot of work needs to be done. Data on the budget published nationally and internationally are inconsistent. Non-state budget revenues are not disclosed even though they are collected in accordance with legal documents such as the petrol fund, the oil fund, and the tobacco fund. The information of corporation and individual taxpayers is inaccessible. Auditing reports on budget revenues and expenditures are not publicly available to the public. According to the OBI 2017, the index of state budget disclosure in Viet Nam is the second lowest among ASEAN countries after Myanmar.

Although the mechanism of complaints and denunciations is proposed in the Law on Complaints and Denunciation, corruption in Viet Nam remains a matter of concern. The Corruption Perceived Index worsened in three recent years (2014-2016). Compared to that of other

ASEAN countries, the Corruption Perceptions Index of Viet Nam is on par with the Philippines and only higher than Laos, Cambodia, and Myanmar.

The report also shows that despite the regulations on the consultation of people and enterprises in policy making, the participation of people and social organizations in the formulation and implementation of tax policies and public spending, in practice, is limited. Citizens are only given the opportunity to comment on draft laws while barely having a voice in legal documents. The citizens are also not involved in the process of formulating and monitoring the implementation of state budget revenues and expenditures.

The assessment of Viet Nam's tax system according to the FTM Questionnaire is as follows:



Source: Author's calculation form FTM's questionnaire

Tax administration is highly evaluated on the FTM scale (9 out of 10). Followed by sufficient revenues to score 8/10. Tax incentives and accountability are the two lowest rated indicators with a score of 5 out of 10. Pro-poor taxation is also the second lowest with a score of 6/10.

From the analysis and evaluation of the FTM framework, the report also draws some key recommendations:

- ❖ Direct tax accounts for a declining share, indicating that Viet Nam's state budget revenue sources are largely depending on consumption tax (highly regressive taxes). Therefore, any



proposal on increasing consumption tax should be considered with caution. Although consumption tax is considered neutral and effective in terms of revenues, it has a negative impact on the fairness in spending.

- ❖ The analysis also shows the limited role of tax related to property such as non-agriculture and agriculture land use taxes. In the coming time, Viet Nam needs to put effort into issuing an appropriate wealth tax instead of increasing consumption taxes. For example, wealth tax can be used in place of non-agriculture land use tax (with a suitable tax design).
- ❖ Checking available tax exemption policies for enterprises, especially FDI enterprises, and openly public to citizens to let them know and based on that to calculate the tax loss due to tax exemptions.
- ❖ Stabilizing reform orientation in separating social policies from tax policies. To compensate for this, the government needs better budget allocation for vulnerable groups.
- ❖ Continuing implementing tax reforms conducted by the taxation department to improve the effectiveness of tax administration.
- ❖ Viet Nam should clearly inform the people of the revenues from non-budgetary funds. Since these funds' amounts are stipulated by the legal documents, they are, in nature, not different from the fees or charges in the economy.
- ❖ Paving the way for the participation of both social organizations and the people in the state budget cycle, so that the tax system and expenditures from taxes can reach the goal of equality and target the vulnerable groups.

## CHAPTER 1: INTRODUCTION

### Background

Fairness in the mobilization and utilization of tax resources is one of the issues of primary concern in all countries around the world.

In order to strengthen advocacy activities at both national and international level, the Fair Tax Monitor Project (FTM)<sup>1</sup> has supported the assessment of fairness in the tax system in developing countries. The project investigates the general characteristics of tax systems in different countries and identifies major difficulties that they have to cope with. The results from the project serve as an evidence-based source of information to facilitate the advocacy and lobby activities of various partners. This project focuses especially on the tax policies and the implementation of these policies in the countries. In addition, the project considers fairness in terms of expenditure for some areas such as education, health, and agriculture.

The Common Research Framework (CRF) for the project was developed throughout the pilot phase in 2015/2016 and was first applied to four pilot countries, namely Bangladesh, Pakistan, Uganda, and Senegal. In 2017, this CRF was further revised and implemented in nine countries, including Senegal, Tunisia, Nigeria, Uganda, Occupied Palestinian Territories, Pakistan, Bangladesh, Viet Nam, and Cambodia.

Viet Nam is among the countries which joined the official phase of the project in 2017. The FTM report for Viet Nam is developed upon the CRF 2017 edition to collect qualitative and quantitative information in a standardized manner. After that, the data will be processed and incorporated into the FTM online tool, from which a more detailed research report can be accessed at [www.maketaxfair.net](http://www.maketaxfair.net).

It is always difficult to measure fairness, especially when information is not available. In the case of FTM project, the comparison and evaluation of fairness are based on a common research framework developed by the FTM project experts. The questions in the study framework were mainly answered through the secondary evidence search and the macro analysis of the tax system. This approach allows comparison of fairness in the mobilization and utilization of tax resources in the countries involved in the project. However, it does not analyze in detail all aspects of fairness, especially in the view of the micro. Besides, in reality, it should be noted that the mobilization of state budget revenues from taxation needs to meet not only the requirement of fairness.

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<sup>1</sup> The Fair Tax Monitor (FTM) project was started in December 2014. The FTM project was developed by Oxfam Novib and Tax Justice Network–Africa in collaboration with partners and Oxfam Country Offices

## The rationale of the Research

Viet Nam has proposed the orientation of reducing the tax burden for the economy since 2011. It is addressed in Decision No. 732/QĐ-TTG of Prime Minister regarding “Reforming Strategy for Tax System in the Period of 2011-2020”. According to this, the ratio of state budget mobilization over the period of 2011-2015 was 23-24% GDP (in which the mobilizing ratio from taxes, fees and charges is 22 - 23% GDP) and the average annual growth rate of revenues from taxes, fees, and charges is 16% - 18% per year. From 2016-2020, the ratio of state budget mobilization and the mobilizing ratio from taxes, fees, and charges on GDP are reasonable in reducing the level of tax mobilization per unit of goods and services, to encourage competition and capital accumulation for manufacturing and business.

There are mixed opinions regarding Viet Nam’s current tax system. Some experts say that the tax system is very positively reformed in both tax burden and tax management (tax administration). It is typical to mention the alleviation in the burden of tax on enterprises (reducing the corporate income tax rate) and on citizens (increasing in family circumstance deduction rate). Others, however, support that the current tax system is increasing the tax burden on low-income people. Especially, the proportion of VAT tax on total tax revenues is growing while personal income tax still accounts for a small percentage and the proportion of corporate income tax tends to decline.

In addition to the World Bank study (2011), there is still a lack of comprehensive analysis of Viet Nam's tax system in terms of fairness in the mobilization and utilization of tax revenue. Based on the proposed Oxfam research framework, this study will review the overall tax system of Viet Nam. A wide range of content will be analyzed such as the progressivity or completeness of the tax system. The report also has a section about tax collection and accountability in tax collection. In addition, as required by the FTM framework, the report will also analyze the utilization of tax revenues in a number of basic public services such as healthcare and education.

We hope that the report will provide a general, systematic, and authentic view of revenue and tax administration for policy-advocates, developers, and experts. Simultaneously, this report is also hoped to serve as clear and specific pieces of evidence for policy-advocates to improve the equity and efficiency of Viet Nam’s state budget revenue and expenditure system.

## Research Objectives

The goal of this study is to contribute to a better understanding of tax issues in Viet Nam as well as to bring more insight into such issues to the readers, providing a firm basis for both civic education and advocacy campaigns to promote a fairer tax system.

Aligning with the broader aspiration, four specific and target oriented objectives are defined as below:

- Identifying the main bottlenecks in the tax systems of Viet Nam.
- Providing strong evidence-based support for country-level advocacy work.
- Creating a framework for comparing the tax systems of selected countries over time.
- Contributing to global-level advocacy on taxation through an evidence-based tool showcasing the relative fairness of selected tax systems.

## Research Methodology

The main research method of the report is synthesis and interpretation through secondary information. Report on the use of the common FTM framework for measuring a number of indicators and assessing relevant content (quantitative methodology). For further evidence, the report also uses qualitative research methodology through group discussions and in-depth interviews with some experts.

Many group discussions between the research team and stakeholder groups/organizations were conducted. In the discussions, the subject, scope, and method of this study were presented. Feedback from the participants in the discussion was collected and served for research. With a careful selection, a limited number of persons were interviewed for their expertise, experience, and perceptions on the country's tax system, tax administration and on overall revenue structure.

Exploratory methods are mainly applied in this study. Information is acquired via two channels: (1) by researching secondary data and archival resources, and (2) by using rapid assessment techniques such as key informant interviews.

It should be noted that this report evaluates fairness under the FTM Research Framework. Therefore, the assessment results can be different when compared to other studies using different research methods. The FTM questionnaire is described in detail in Appendix 4.

## Research Structure

The report includes eight chapters, which holistically concerns Viet Nam tax system. After the introduction chapter, the study has six main chapters with content that closely follows the structure of the FTM questionnaire. These six chapters include the introduction of the tax system, tax classification and progressivity, revenue sufficiency, tax exemptions, tax administration, government spending, and accountability. The last one is Chapter 8 that summarizes the content of the report and give some policy recommendations.

## CHAPTER 2: OVERVIEW OF THE TAX SYSTEM IN VIET NAM

Before analyzing and assessing the Viet Nam's tax system using FTM questionnaire in the next chapters, Chapter 2 will briefly introduce the system of budget revenues and expenditures of Viet Nam. This chapter provides a general view on Viet Nam's tax system over the years. In addition, the legal framework of state budget revenues and expenditures of Viet Nam from 2006 to 2016 is also mentioned.

### Brief Introduction

The Viet Nameese feudal dynasties issued taxes to supplement the national treasury. The main income of feudal dynasties was direct taxation (head tax and land tax) because of inexperienced domestic trade and foreign trade (Dao Duy Anh, 1992). Tax on the person (*thue dinh* or also so-called *thue than*) and land tax had been levied since Ly dynasty. Over 800 years with several feudal dynasties, these two taxes continued to be imposed by the French during the French colonial period (1858-1945).

Following the establishment of the Democratic Republic of Viet Nam in 1945, legal documents on the state budget were also created to replace the previous system. Specifically, the Provisional Government of Viet Nam Democratic Republic abolished the tax on the person in 1945, in accordance with Decree No. 11. In December 1945, the Government issued Decree No. 81 on state budget revenues and expenditures in 1946. In 1946, the Decree no. 32 allocated budget and off-budget funds for the agriculture and economy.

During the period of economic development in the model of the command economy, Viet Nam applies a system of state budget revenue differences compared with other countries in the model of the market economy. Prior to 1990, taxes which were levied to mobilize revenues for the State Budget included the Agriculture Tax (taxation in rice) (Order No. 40-SL in 1951), the Business-license Tax (Decree No.559-TTg in 1958), the Business Tax, the Corporate Profit Tax, the Wholesale Tax, the Trade Tax, the Slaughter Tax, the Artistic Business Tax, the Poverty Tax, the Registration Tax, the Salt Tax, the Alcohol Tax, the Export Tax, the Import Tax, the Stamp Tax (Phan Hien Minh, 2015). These taxes are mainly applied to the non-state economic sector.

The national area will apply the proceeds to mobilize the budget separately. According to Circular No. 93-TTg of 1962, before 1962, every year, state-owned enterprises had to pay business taxes to the state budget, and from 1962 on, this amount would be collected twice a month. According to Decree No. 236-CP of 1971, SOEs must distribute profits under this Decree. With profit in the plan, enterprises must pay into the budget at least 10%. With profits exceeding plan and not registered in advance, enterprises may have to pay 60% to the state budget.

## Tax Reforms

By 1990s, Viet Nam implemented the first tax reform by issuing a series of resolutions on the implementation of the current tax law that replaced the previous ones, including: the turnover tax (270B-NQ/HDNN8), the Special Sale Tax (270B-NQ/HDNN8), Law on Special Sales Tax (270B-NQ/HDNN8), high income tax, export-import tax, severance; tax on land and houses, and tax on agricultural land use. By 1997, the Law on Value Added Tax was promulgated to substitute the Law on Turnover Tax. Meanwhile, the Law on Return Tax was replaced by Law on Corporate Income Tax and came into effect from January 1st, 1999.

On December 6, 2004, the Prime Minister issued Decision No. 201/2004/QĐ-TTg, proposing the tax system reform program up to 2010. The overall target is *"establishing a consistent system of tax policies whose structure is suitable to the socialist-oriented market economy and in line with the modernization of tax administration so as to ensure the policy of encouraging the national income to secure financial resources for the countries' industrialization and modernization; contributing to the equality, social justice and active integration into the global economy."*

Some notable tax reforms during this time include:

- ❖ VAT and special excise duty shall be imposed more extensively on taxpayers while a single tax rate shall be applied in order to ensure the fairness and equity of tax obligations.
- ❖ The export and import duties are finalized to submit to the National Assembly in the direction of encouraging export to the fullest extent and simultaneously adjusting the import tax to fulfill international commitments in the context of globalization and deep integration, especially Viet Nam's accession to the World Trade Organization (WTO) in 2007.
- ❖ Corporate income tax will be finalized with a view to reducing the tax rate to encourage investment and production.
- ❖ Personal income tax comes into effect as a replacement for the Ordinance on Income Tax on High-Income Earners, extending the scope of taxpayers.

On 17 May 2011, the Prime Minister further issued Decision No. 732/QĐ-TTg, approving the strategy for reforming the tax system in the period 2011-2020 with the overall target of *"Building a uniform, effective and consistent system of tax policies in line with the socialist-oriented market economy that acts as a macroeconomic management tool of the Party and the State with reasonable incentives to facilitate domestic production."*

Some notable tax reforms during this time:

- ❖ Adjusting and supplementing the scope of special excise taxpayers; adjusting taxes on cigarettes, alcohols, and automobiles, etc. to regulate consumption and implement international commitments.

- ❖ Corporating income tax will continue to be reduced in line with the appropriate roadmap to attract investment, facilitate enterprises to have more financial resources, increase accumulation to boost development investment and enhance the competition capacity.
- ❖ In 2011, it is noted that Law on environment tax came into force. Simultaneously, Non-agricultural Land Use Tax was put into effect in place of 1994 Ordinance Housing and Land Tax.

In 2017, The Ministry of Finance is collecting opinions in increasing VAT rate in order to complement sources of revenue for the state budget in the context of continuously declining in the proportion of import-export taxes and corporate income taxes. This work brings mixed opinions among citizens and experts regarding the impact of such an increase in the VAT on the economy and citizens' life.

After several reforms, by 2016, the main source of revenues from the state budget comes from the following 11 taxes and charges: Value Added Tax (VAT), Export and Import Duties, Excise Tax, Environmental Protection Tax, Corporate Income Tax (CIT), Personal Income Tax (PIT), Agricultural Land Use Tax, Non-agricultural Land Use Tax, Natural Resources Tax, Business License Fees, and Registration Fees.

### **Legal Framework**

The Law on State Budget of Viet Nam stipulates that all revenue sources of the budget are consistently issued by the central government throughout the country, especially taxes and fees/charges. Local government must comply with the regulations on the subject and the rate of taxation of the corresponding law. In terms of fees, local governments may charge fees for some local charges (Law of Fees and Charges, 2015), but may not charge new fees. However, revenues from taxes and fees/charges are allocated between central and local levels in accordance with Articles 35 and 37 of the 2015 Law on State Budget. There are three types of taxes and fees/charges: tax revenues enjoyed 100% by the central government, tax revenues allocated between central and local government budgets and tax and fee/charge revenues enjoyed 100% by the local governments.

Apart from tax revenues, the State budget also has other sources of revenue such as revenues from sales of state-owned houses (including land), income from shareholding, revenues from state-run lotteries, revenue from public land and income earned on other public properties at communes (Appendix 1). According to current regulations, local authorities can mobilize local people to contribute funds for local infrastructure development (on the basis of consensus and voluntary). Therefore, in some localities where income is limited, people will have to pay money to build roads in the commune/village, pay money for building cultural houses, or make sewage system in the village ( Interview with local people 01).

Documents of highest legal effects for the 11 current taxes and fees/charges are contributing to Viet Nam's current tax revenue are listed in Table 2.1.

**Table 2.1. Current Tax Laws since 1993**

Order	Types of taxes	Legal document
1	Value Added Tax (VAT)	Law on Value Added Tax No. 13/2008/QH12 (amended and supplemented in 2013 and 2016 by the Laws No. 31/2013/QH13 and No. 106/2016/QH13)
2	Export and Import duties	Law on Export and Import Duties No. 107/2016/QH13
3	Excise tax	Law on Excise Tax No. 27/2008/QH12( amended and supplemented in 2014 and 2016 by the Laws No. 70/2014/QH13 and No. 106/2016/QH13)
4	Environmental protection tax	Law on Environmental Protection Tax No. 57/2010/QH12
5	Corporate income tax	Law on Corporate income tax No. 14/2008/QH12 (amended and supplemented in 2013 by the Law No. 32/2013/QH13)
6	Personal income tax	Law on Personal Income Tax No. 04/2007/QH12 (amended and supplemented in 2012 by the Law No. 26/2012/QH13)
7	Agricultural land use tax	Law on Agricultural Land Use Tax No. 23-L/CTN in 1993 (and Resolution No. 15/2003/QH 11 and 55/2010/QH12 providing for the exemption and reduction on Agricultural Land Use Taxes)
8	Non-agricultural land use tax	Law on Non-agricultural Land Use Tax No. 48/2010/QH12
9	Natural Resource Tax	Law on Natural Resource Tax No. 45/2009/QH12
10	Business license fee	Decree providing for regulations on licensing fees No. 139/2016/NĐ-CP
11	Registration fee	Decree on Registration Fee No. 140/2016/NĐ-CP

*Source:* The author compiled from <http://vbpl.vn>.

The Law on State Budget 2015 provides detailed regulations on expenditures of different government levels. State budget expenditures are often utilized for two main purposes, namely investment expenditure and current expenditure. Although being the first priority, investment expenditure accounts for a smaller proportion than current expenditure. Central government's budget also includes debt payment and aid, budget complement for local authorities and transferring source to the following year (Appendix 2). Local governments' budget only consists of budget complement for local authorities and transferring source to the following year. According to State Budget Law 2002, in Viet Nam, local governments are not permitted to borrow on interest<sup>2</sup>, but the only central government. Law on state budget 2015 allows provincial authorities to borrow. Law on State Budget 2015 also offers more specific rules on spending responsibilities between levels of authorities. The central government budget often covers

<sup>2</sup> Except for loans under Clause 3, Article 8 of Law on State Budget 2002 for infrastructure development.



interregional expenditures. Meanwhile, the local governments spend on items that are directly related to the citizens in that areas.

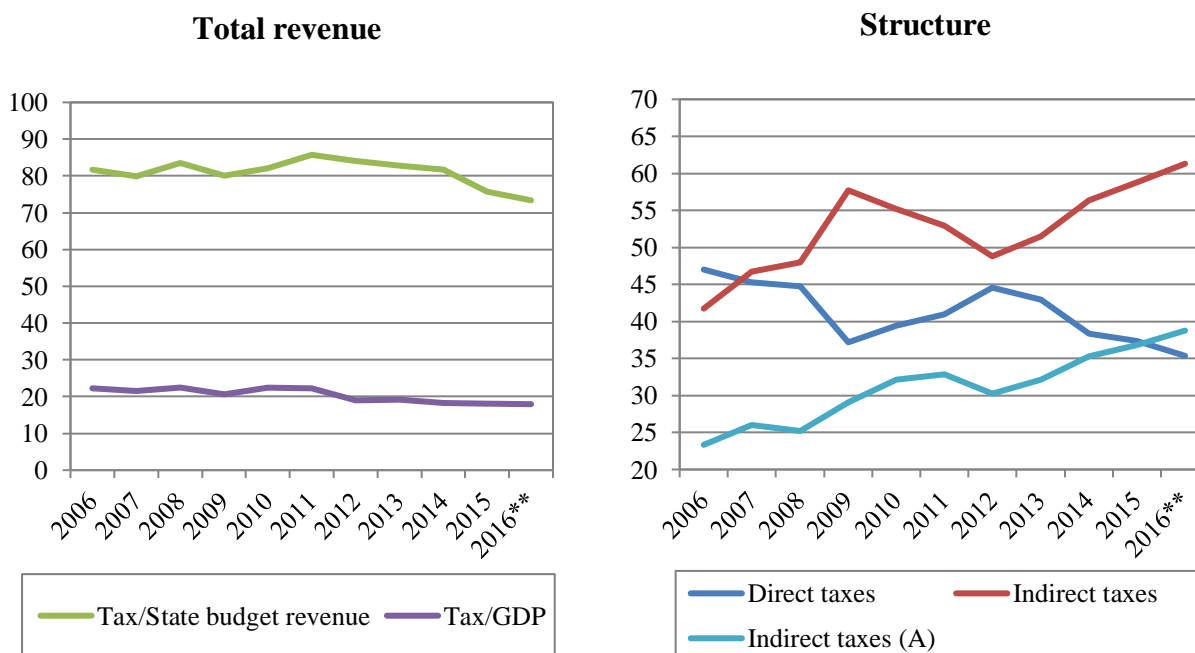
## CHAPTER 3: TAX CLASSIFICATION AND PROGRESSIVITY

Chapter 3 focuses on types of taxes making up the majority of the state budget revenues. The report analyses proportions of taxes of the total tax revenues and describes taxpayers and tax rates. This chapter also highlights two factors that FTM takes into consideration, including progressivity and fairness of the tax system

### Total Tax Revenues

Taxation is the main revenue source in the state budget of Viet Nam. According to calculations based on data from the Ministry of Finance, taxation accounts for above 70% to more than 80% of the total state budget revenue (Figure 3.1). The total tax revenue per GDP declined gradually from 24% (2006-2008) to below 18% (2014-2016). The total budget revenue from taxation is formed by two basic sources, one is the tax on incomes, and another is the tax on consumption. According to classical classification, taxes on income are often referred to as direct taxes, while taxes on consumption are called indirect taxes. In developed countries, the direct tax rate is usually higher than the rate of indirect taxes. In 2006, the proportion of direct taxes was nearly 50% and that of indirect taxes was over 40%. However, by 2016, direct taxes only accounted for 35%, while indirect taxes increased to over 60%. Even with the elimination of excise tax and Import-Export taxes, indirect taxes also surpassed direct taxes in 2016 (Figure 3.1).

**Figure 3.1. Tax Revenues, 2006-2016 (%)**



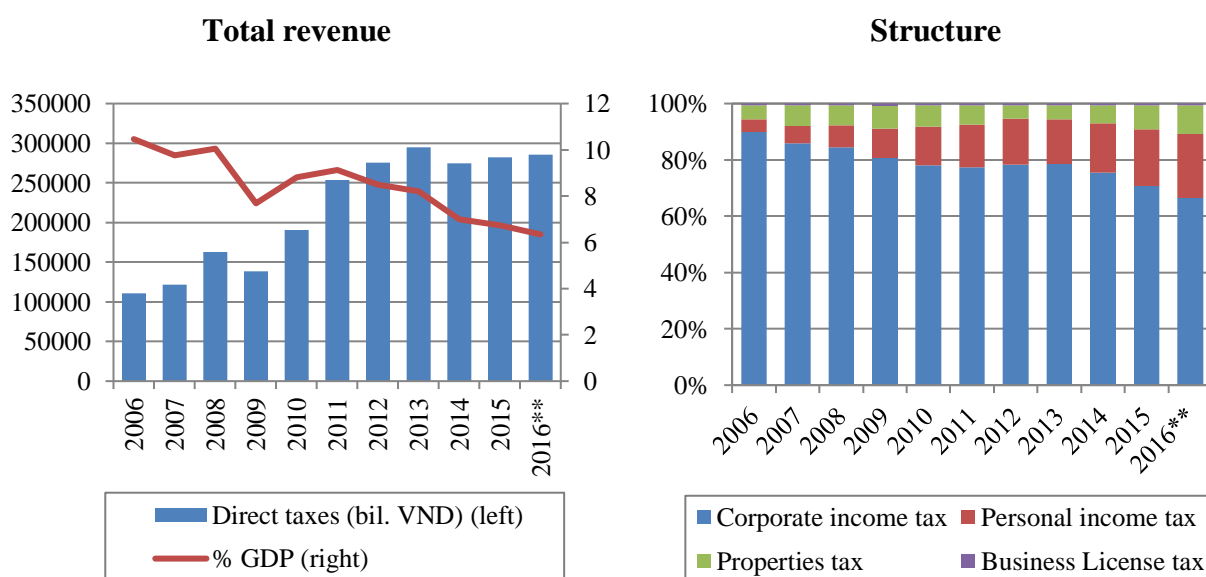
Note: \*\* Data for 2016 is estimated for the second time. (A) Including only VAT and Environmental Protection Taxes.

Source: The author's calculation based on data from the Ministry of Finance (2007-2017).

## Direct taxes

As defined in the FTM Research Framework, direct taxes include corporate income tax, personal income tax, and wealth taxes. Relatively speaking, direct tax revenues are declining. Figure 3.1 shows that the proportion of direct tax revenues to the total tax revenues is decreasing, especially from 2012 to 2016. Figure 3.2 also shows that direct tax revenues per GDP is also decreasing from about 11% in 2006 to about 6% in 2016. Contrary to the relative figure, absolutely speaking, revenues from direct taxes have doubled (Figure 3.2). Corporate income tax always accounts for the largest proportion of direct taxes in Viet Nam.

**Figure 3.2. Direct Taxes, 2006-2016**



Note: The 2016 data is the second time estimation.

Source: The author's calculations based on data from the Ministry of Finance (2007-2017).

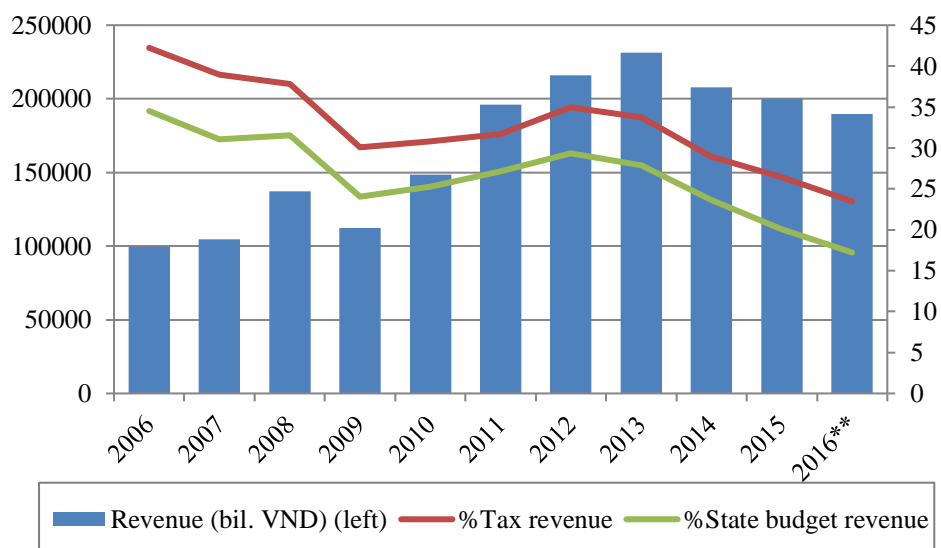
## Corporate Income Tax (CIT)

Before 2013, corporate income tax was the largest source of revenue for the state budget of Viet Nam. After 2013, both corporate income tax rate and its proportion to total budget revenue have been declining. Revenues from corporate income tax, however, still accounted for 17% of the state budget (2016), and ranked second, after VAT. The main reason is that Viet Nam has reduced its CIT rate while CIT revenue from crude oil has decreased in recent years.<sup>3</sup>

<sup>3</sup> Due to the sharp drop in oil prices, the profit from oil production has dropped sharply



**Figure 3.3. The Corporate Income Tax, 2006-2016**



Note: \*\*The 2016 data is the second time estimation.

Source: The author's calculations based on data from the Ministry of Finance (2007-2017).

Roadmap for reduction of corporate income tax rate for the period 2006-2016. The 2008 Corporate Income Tax (Law No. 14/2008/QH12) continued to reduce the common tax rate to 25%. Petroleum and precious metal enterprises are subject to a tax rate of 32% to 50%. By 2013, the Law No. 32/2013/QH13 has reduced the common tax rate to 22% and by 2016, the common tax rate has been decreased to 20%. For enterprises whose turnovers do not exceed \$ 20 billion VND, the common tax rate is 20% since the application of the Law No. 32/2013/QH13. This law also details non-taxable incomes and tax exemption.

The business unit in Viet Nam can be divided into enterprises, cooperatives, households and individual businesses. Enterprises and cooperatives pay corporate income tax, while individual business and households will be subject to presumptive.

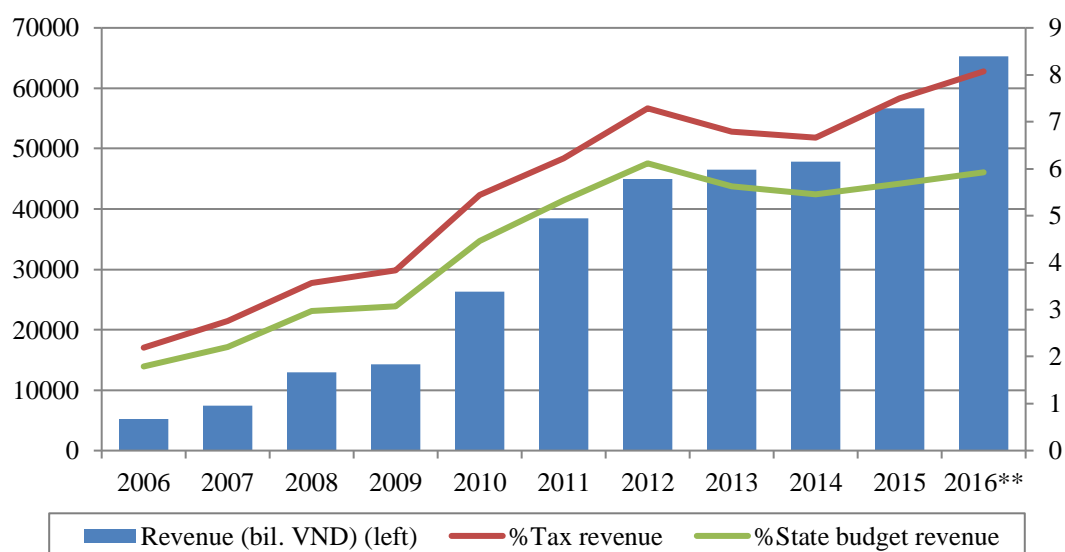
Besides CIT, in Viet Nam, all business units are subject to Business License Tax. Since 2016, Viet Nam has renamed Business License Tax into Business License Fee under the Decree 139/2016/ND-CP. According to this decree, Business License Fee is usually 300,000 VND/year, 500,000 VND/year, one million VND/year, two million VND/year and three million VND/year. The proportion of business-licensing fees in total tax revenue is less than 0.7%, on average over the period 2006-2016.

### **Personal Income Tax (PIT)**

Revenue from Personal Income Tax contributes modestly to the total budget revenue. However, over the past decade, revenue from personal income tax has grown impressively from 5 trillion VND (2006) to 65 trillion VND (2016) (Figure 3.4). This growth has raised the proportion

of PIT revenue in the total tax revenue from 2% (2006) to 8% (2016). The proportion of PIT to the total state budget revenue has also increased from nearly 2% (2006) to 6% (2016).

**Figure 3.4. Personal Income Tax, 2006-2016**



Note: \*\*The 2016 data is the second time estimation.

Source: The author's calculations based on data from the Ministry of Finance (2007-2017).

In Viet Nam, the personal income tax is finalized from income tax on high-income earners. Ordinance on income tax on high-income earners was first introduced in 1994, then added in 1997, 1999, 2001 and 2004. By 2007, the Law on Personal Income Tax was introduced to replace the Ordinance on Income Tax on High-Income Earners. At the same time, income from transfer of land use rights under Law No. 17/1999/QH10 and income of individual business households in the Corporate income tax Law No. 09/2003/QH11 are included in the PIT from 2007.

In 2013, according to Personal Income Tax Law 2007 which has been amended and supplemented in the Law No. 26/2012/QH13, the reduction based on family circumstances has been increased to VND 9 million/person/month (for taxpayers) and VND 3.6 million/person/month (for a dependent person). The threshold has not changed since 2013. Incomes that are subject to personal income tax is divided into two groups. As early as the 1990s, taxable incomes were split into two groups: regular and irregular income. Regular incomes will be taxed according to the progressive tax schedule and irregular income is taxed according to the full tax schedule (Appendix 3).

The Law on Personal Income Tax of Viet Nam mentions group differences but does not take gender differences into account. Incomes of a man or a woman are subject to the same tax rate prescribed by the Law. The tax exemption is based on family circumstances and the dependents of the taxpayers as mentioned above. Consequently, individuals with multiple dependents will receive more family circumstance deduction. Besides, the tax law also introduces non-taxable

income and exempted income. Non-taxable income consists of some allowances and some bonuses. There are 16 income exemptions from personal income tax, including incomes from agriculture, forestry and fishery production, pensions, incomes from life insurance contracts, and remittances and aid income, extra work and night work. Persons suffering natural calamities, fires, accidents or dangerous diseases, which affect their tax payment ability, shall be considered for tax reduction corresponding to the extent of the damage but not exceeding the payable tax amounts.

### **Wealth taxes**

In Viet Nam, taxes on the property are not fully stipulated in a tax law. According to international practice, there are three types of taxes on property, including the tax when the property is formed, taxes on property ownership and taxes on sale/transfer of property. Several types of taxes nowadays in Viet Nam function similarly to the taxes on property ownership: taxes on the utilization of non-agricultural land (before 01/01/2012, formerly referred to as taxes on home and land/ building taxes), taxes on the utilization of agricultural land, stamp duty. Before 2010, income from the land transfer (in Viet Nam referred to as taxes on the transfer of rights on land use) was also separated and calculated on its own terms. Since 2010, this revenue has been attached to personal income tax and corporate income tax, similar to taxes on other incomes sources. In Viet Nam, the registration fee is the amount payable when registering ownership or use rights with the authorities and can be considered as a tax on the formation of assets.

When the property is formed, the buyer of the property will have to pay an amount of registration fee, which is a form of wealth tax. In Decree No. 140/2016/NĐ-CP, there are eight types of assets that must be registered: houses, land, guns, boats, aircrafts, motorcycles and automobiles.

Viet Nam only levies Agricultural Land Use Tax (Law No. 23-L/CTN1993) and Non-Agricultural Land Use Tax (Law No. 48/2010/QH12). For individuals and enterprises, the holding of other assets has not been taxed. For individuals, income arising during the holding of a property is not subject to tax, except for the interest on loans and dividends (Article 4 of the Personal Income Tax Law 2007). For enterprises, the income derived from holding assets is taxed (Article 3 of the Law on Corporate Income Tax 2008).

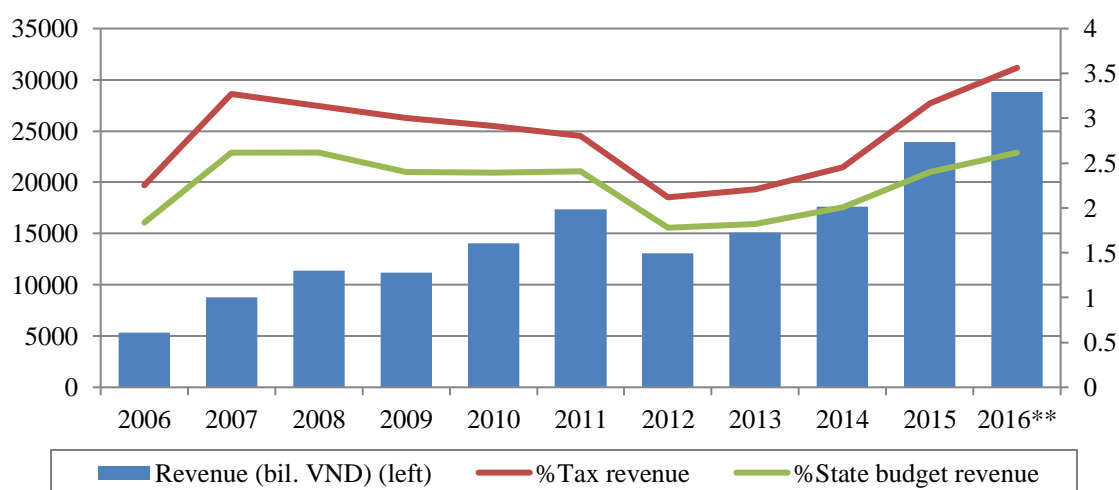
The tax rate for each type of assets is specified in the corresponding tax law. Concerning the registration fee, the normal rate is 2%. Low-level fees include housing and land (0.5%) and boats (1%). Cars under 10 seats can be subject to a registration fee of 10%. For individual, interest, dividend, and income when transferring copyright, franchise tax rate is 5%. The tax rate is 20% for capital transfer and 25% for the transfer of real estate. For an enterprise, income from asset holdings and asset transfers are included in the firm's revenue. The enterprises are taxed on the profit of the business. Moreover, there are no separate tax rates for enterprises with incomes from holding and transferring assets.

The fixed tax rate for agricultural land use has been maintained in Viet Nam since 1993. According to the 1993 Agricultural Land Use Tax Law, agricultural land is divided into two types: annual and perennial crops and six land grades. The tax rate is calculated in kilograms of paddy rice and varies with each land grade. Currently, Viet Nam is implementing a tax exemption policy for agricultural land use within the limit set forth by Resolution No. 55/2010/QH12. Therefore, the revenue from agricultural land use tax has a negligible contribution to the total budget revenue.

With non-agricultural land use tax, subjects subject to non-agricultural land use tax are land categories such as land for construction of production and business establishments, residential land. The rate of non-agricultural land use tax has three levels of 0.03% for land within the quota, 0.07% for the land size in excess of quota not more than three times and 0.15% (Law No. 48/2010/QH12). Land price frames are set by the Provincial People's Committee. But in fact, the land price is often very low compared to the market price. For example, the land price in Ho Chi Minh City 2017 is 10 times lower than the market price.<sup>4</sup>

The revenue from taxes on property accounts for a modest share of the total revenue. For the period 2006-2016, revenues from these taxes took up 2.8% of the total tax revenues and 2.3% of total state budget revenues.

**Figure 3.5. Wealth taxes, 2006-2016**



Note: \*\*The 2016 data is the second time estimation.

Source: The author's calculations based on data from the Ministry of Finance (2007-2017).

### Indirect Taxes

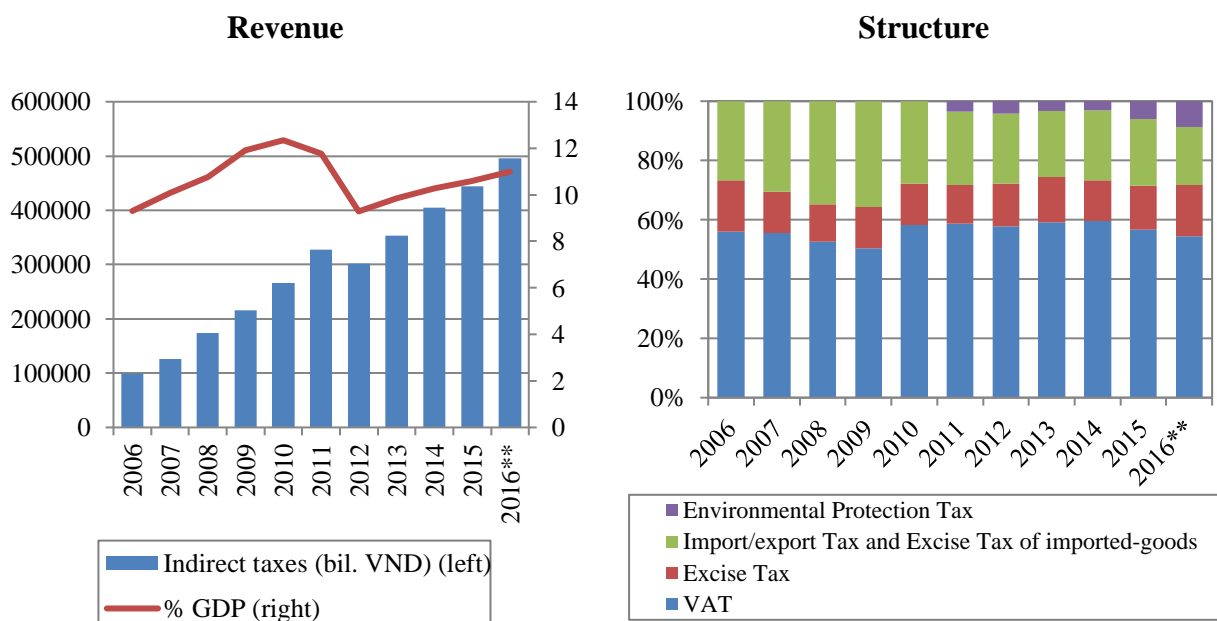
Indirect taxes include taxes such as value added tax/turnover tax, export and import duties, excise tax, and environmental protection tax. The proportion of indirect taxes in the total tax revenue has

<sup>4</sup> <https://news.zing.vn/bang-gia-dat-tphcm-cong-bo-thap-hon-10-lan-gia-thuc-te-post767848.html>



been increasing over the years, surpassing the proportion of 60% in 2016, accounting for 11% GDP. Value-added tax is the largest revenue source of indirect taxes. Figure 3.6 shows that the proportion of VAT always accounts for between 50% and 60% of the total indirect tax revenues for the period 2006-2016. In Viet Nam, the excise tax on imports is generally included in the import and export duties.

**Figure 3.6. Indirect Taxes, 2006-2016**



Note: \*\*The 2016 data is the second time estimation.

Source: The author's calculations based on data from the Ministry of Finance (2007-2017).

In theory, the indirect taxes are regressive, but there are different views on the regressions of excise taxes. Firstly, the excise tax in Viet Nam is progressive. Although excise taxes are levied on consumption, only luxury goods (cars, yachts, large-capacity mills) and state goods are discouraged (alcohol, beer, cigarettes, gold code) is taxed. In Viet Nam, the excise tax on cars accounts for a large proportion of the total excise tax revenue. Consequently, excise taxes may be levied on the rich. Consequently, excise taxes may be levied on the rich. Therefore, in order to accurately measure the progressivity of the tax system, this view holds that excise taxes should be excluded from the indirect taxes.<sup>5</sup> Secondly, consumption taxes should have a cumulative nature as other consumer taxes. Therefore, when assessing the fairness of the tax system, excise taxes should be classified as indirect taxes.

<sup>5</sup> However, due to the fact that in Viet Nam the excise tax on imported goods was included in the import/export tax, this study did not have data to exclude excise taxes from indirect taxes.

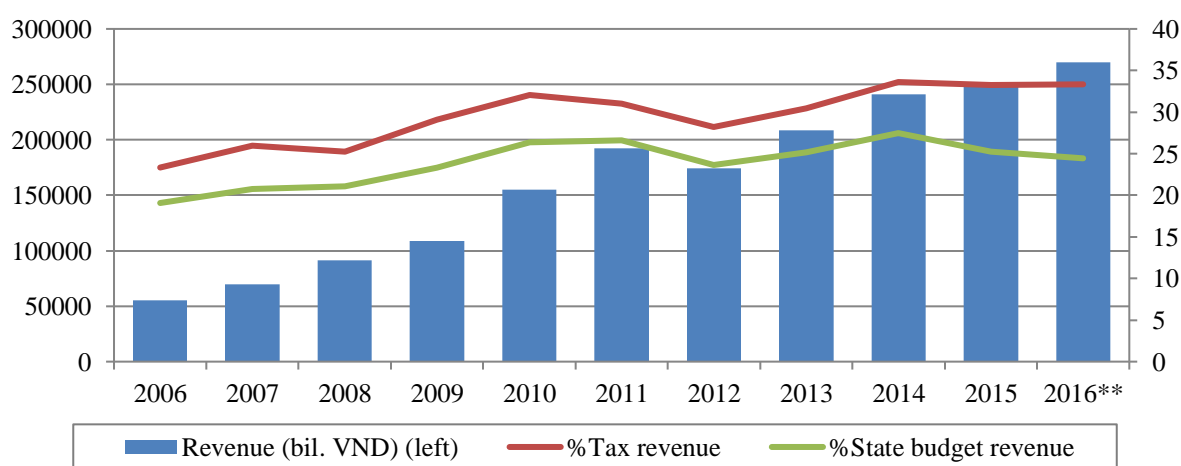
## Value Added Tax (VAT)

Value added tax has been gradually becoming the largest revenue source of the Viet Nam state budget. Figure 3.7 shows that revenue from VAT always accounts for over 23% of the total tax revenue and over 19% of total state budget revenue in 2006. By 2016, VAT has accounted for 33% of total tax revenue and 24% of total state budget revenues.

In Viet Nam, not all goods are subject to VAT and the tax rate for the taxable goods is different. According to the latest VAT Law (Law No. 13/2008/QH12), the common tax rate for VAT is 10%. However, this Law also specifies 24 groups of goods not subject to VAT, including unprocessed agricultural products, water for agricultural production, salt, education, medical examination and treatment, transfer of land use rights, some financial services, humanitarian aid or goods, specialized goods for the disabled or seriously ill. The goods and services of business individuals with less than 100 million VND/year turnover are also not subject to VAT (Law on Amendment of the 2013 VAT Law).

There are three tax rates applicable to taxable goods, which are 0%, 5%, and 10%. The tax rate of 0% applies to exports, or goods temporarily imported for re-export. The goods and services that ordinary people often use (can be considered essential goods) are subject to a tax rate of 5%. The 2008 VAT Law also specifies 15 groups of goods and services that are subject to a 5% tax rate, and by 2013 there has been a supplement of one additional group, while two categories are removed. As a result, there are now 11 groups of goods and services that are subject to a 5% tax rate. The reason for separating multiple VAT rates is to reduce the regression of VAT.

**Figure 3.7. Value Added Tax, 2006-2016**



Note: \*\*The 2016 data is the second time estimation.

Source: The author's calculations based on data from the Ministry of Finance (2007-2017).

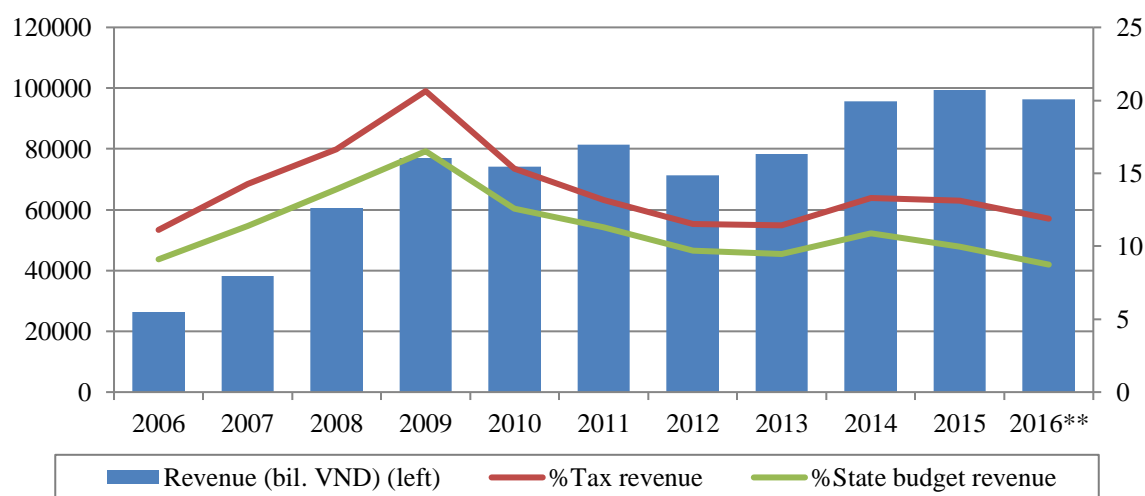
The proposal on increasing VAT was put forward by the Ministry of Finance of Viet Nam in 2017 due to the pressure of budget deficit and difficulties in cutting down expenditure tasks of the state

budget. Submission of the draft amendment for the VAT Law should be issued in line with the two ways that the Ministry of Finance wants to proceed. First, raising the current tax rate by 1.2 times. Goods-services currently subject to a 5% tax rate will increase to a 6% tax rate under this proposal. The common tax rate will increase to 12% instead of 10% as in the 2008 Tax Law. Secondly, the Ministry of Finance is proposing to reduce the number of goods and services subject to 5% tax rate and agree on a common tax rate for all taxable commodities.

### Import and Export Duties

The import and export duties of Viet Nam are showing a downward trend in both proportion and revenue. Import and export taxes in Viet Nam include excise taxes on imported goods. The revenue of these taxes is continually falling from 2009. If the export tax and import tax are levied on separately, the share of the export tax and import tax is reduced even further.

**Figure 3.8. Import and Export Duties and Excise Tax on Imported Goods, 2006-2016**



Note: \*\*The 2016 data is the second time estimation.

Source: The author's calculations based on data from the Ministry of Finance (2007-2017).

The tax rate of the import tax is quite complex. The current import and export tax rates are specified in the Law on Import and Export Duties 2016 (Law No. 107/2016/QH13). The detailed tax rates for each commodity are stipulated in Decree No. 122/2016/ND-CP, then amended and supplemented in Decree No. 125/2017/ND-CP. Basically, the export tax rate for commodities is 0%, except for commodities such as Agarwood (*trâm hương*) and Calambac (*kỳ nam*) of 20%, minerals and ores subject to a tax rate of 5% to 40% The hides of animals are subjected to the highest tax rate of 10%. Import tax rate depends on the origin of imported goods. If imports originate from countries where Viet Nam has signed bilateral and multilateral trade agreements, they will be taxed according to the tax schedule committed in those agreements. WTO countries that have not signed bilateral and multilateral agreements with Viet Nam will have their tax rates

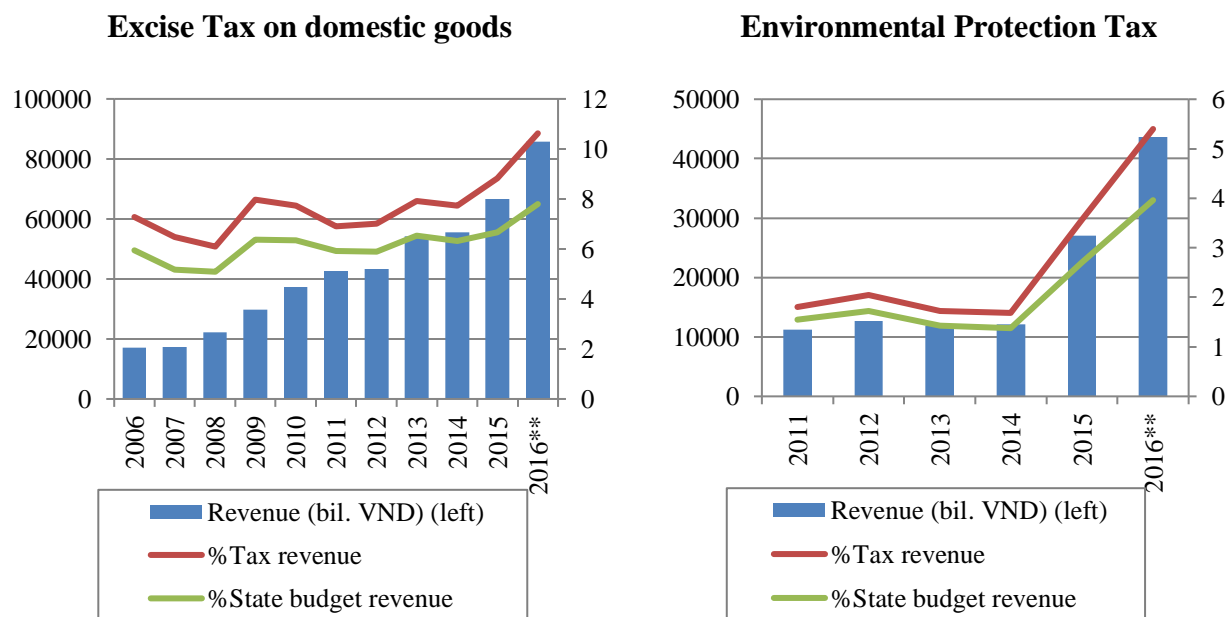
specified in the schedule committed by Viet Nam on WTO accession. Goods from countries other than those mentioned above shall be subject to taxation in Decree 125/2017/ND-CP. Normally, the import tax rates in the trade agreements are the lowest, followed by the Viet Nam tax schedule as committed in the WTO accession.

Concerning tax exemption in import/export taxes, the Law on Import and Export Duties in 2016 specifies 23 categories of goods which are exempted from import tax. This includes some typical goods such as export and import goods which serve social security and welfare and serve to overcome the consequences of natural calamities, disasters, and diseases. Goods traded and exchanged cross-border by border residents are also exempted from taxation. Additionally, tax exemption applies to raw materials, supplies, and components imported for processing of export products; finished products imported for attachment to manual products; manual products for export.

### Other Indirect Taxes

Two other indirect taxes are the special excise duty and the environmental protection tax. Commodities that are not encouraged for use by the State or luxury goods are subject to special excise duty. Goods whose production and consumption process negatively affects the environment are subject to the Environmental Protection Tax (Law No. 57/2010/QH12).

**Figure 3.9. Excise Tax on Domestic Goods and Environmental Protection Tax, 2006-2016**



Note: \*\*The 2016 data is the second time estimation.

Source: The author's calculations based on data from the Ministry of Finance (2007-2017).

According to the Law No. 57/2010/QH12 (Article 3), there are eight groups of goods and commodities subject to environmental protection tax, including petroleum, coal, hydrocarbon-fluoro-carbo, plastic bags, herbicides and termites, some forest preservatives and some disinfectants. The environmental protection tax rate is an absolute tax rate rather than a relative one. The goods subject to environmental tax will be refunded if they are exported.

According to the Law 27/2008/QH12 (Article 2), there are 10 groups of goods and six groups of services subject to special excise duty, including cigarettes and cigars, spirits, beer, cars under 24 seats, large motorcycles (cylinder capacity over 125 cm<sup>3</sup>), airplanes and yachts, petroleum, air conditioners, card packs and joss paper. The following services are subject to the special excise duty: disco, massage and karaoke, games and casino, bets, golf, and lottery.

### **Presumptive Tax**

Individual business households do not fully meet the requirements of the accounting regime. Therefore, like many other countries, Viet Nam applies the presumptive tax to the individual business households. In essence, this is a sum of taxes that applies to both revenue and income.

The latest regulation regarding presumptive tax is Circular No. 92/2015/TT-BTC. Households which run small business having turnover equal to or less than VND 100 million per year do not have to pay presumptive tax. According to this circular, the revenue of presumptive tax on each business-household depends on the taxable turnover and tax ratio on turnover. For business-households with apparent turnover records, the revenue of presumptive tax is equal to turnover multiple tax rate on the respective business industry. For those without complete turnover records, taxable revenue is assigned by local tax authorities. Such taxable revenue is on the consultancy of Local Tax Consulting Council and the consensus of business-households. A business-households can complain about its own tax rate and its neighbor's one.

There are conflicting opinions on the tax burden for individual business households when applying the fixed tax. The taxable turnover via negotiation or vote often brings more benefits than paying VAT and CIT (Informative experts interviews No. 03, 04). Presumptive taxation does not require business-household having any accounting cost and accounting books/records system. Additionally, inspection/detection teams also less frequently inspect/detect business-households than enterprises. Moreover, when presumptive tax revenue is higher than VAT and CIT, business-household is able to issue invoices and maintain its accounting books/records to avoid presumptive tax. Therefore, although Viet Nam has policies that encourage small business-households transferring to small and medium enterprises, not so many households respond to them. Some experts, however, support that the households do not have as sophisticated accounting books/records as large enterprises (especially multinational corporations) for tax avoidance. Consequently, the tax rate on small business households profit can be higher than large enterprises or multinational corporations.

Some opinions address that presumptive tax may increase tax burdens on female and disabled people. However, considering among presumptive taxpayers, female and disabled persons are not really people who are subject to more burdens on tax. According to Circular No. 92/2015/TT-BTC, industries that female and disabled people working in are not designed with the tax rate on turnover higher than other industries. In specific, industry that the female and disabled people tend to work in such as distributing and supplying commodity are only taxed at 1.5%. Moreover, services related to commodity are taxed at 4.5%, whereas revenue of tax on services, in general, accounts for 3% of overall turnover. On the other hand, the occupations involving male are often subject to higher or equal taxes. Services and construction excluding raw taxable materials are subject to 7% tax. Production, transportation, services associated with goods, construction with contracted raw materials are subject to 4.5% tax.

It is difficult to affirm gender inequality, but there are grounds to assert that there exists inequality among the areas. Revenue management practices show that in poorer localities management practices are more frequent and stronger than urban and rural development. Hence, tax burdens on households and individuals doing business in urban areas are usually slightly lower than those in rural areas (Interview with expert 05).

### **The progressivity of the tax system**

In the FTM questionnaire, the progressivity of the tax system was generally measured by comparing the proportion of direct taxes and indirect taxes. Figure 3.1 shows that for the 2006-2016 period, the share of direct taxes on total tax revenues fell from 47% (2006) to 35% (2016). Meanwhile, the proportion of indirect taxes increased from 41% (2006) to 61% (2016). The significant difference between the proportion of direct taxes and indirect taxes in the period 2012-2014 partly stemmed from increasingly high inflation which tremendously raised total indirect taxes. Also, the variability is caused by the reduction in corporate income taxes due to Viet Nam's policy on tariff reduction to compete with other countries in the region.

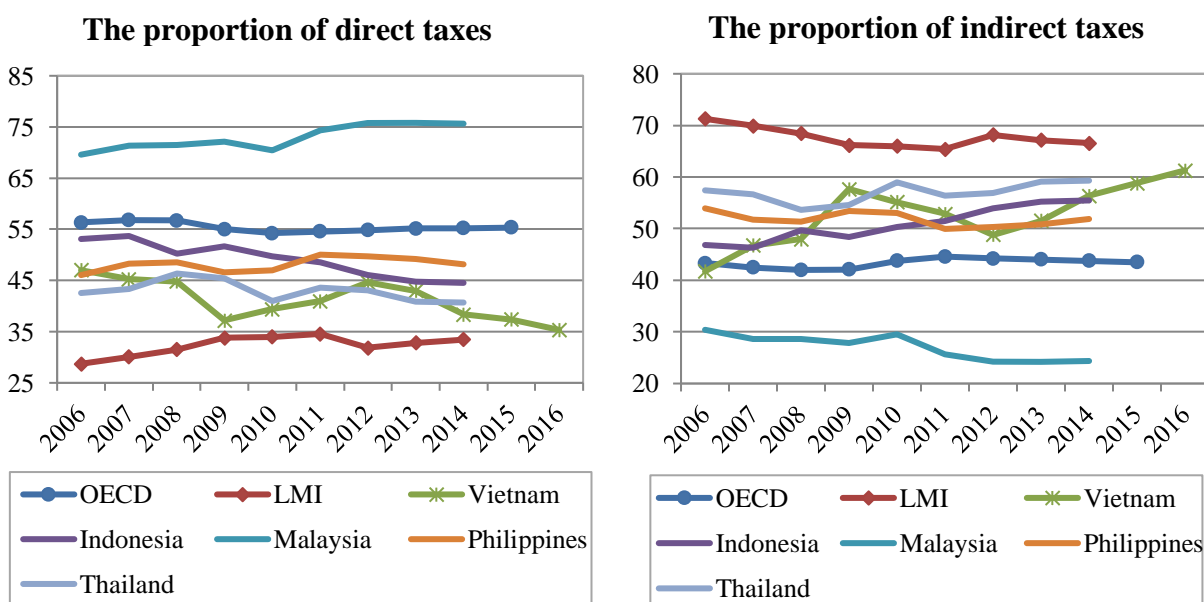
However, indirect taxes included both excise taxes, luxury taxes (mainly consumer goods) and non-incentive goods (tobacco) in the calculation. To better reflect the regression of indirect taxes, the study excluded excise taxes from indirect taxes. But in Viet Nam, the excise tax on imported goods is not deducted from the import/export taxes. The excise tax on imported cars accounted for a large proportion of the excise tax. As a result, the group eliminated both import and export taxes from indirect taxes. The figures for indirect tax (A) (Figure 3.1) only include VAT and environmental protection taxes. This figure was 39% (2016), higher than the 35% of direct taxes.

Compared to some other countries, the proportion of direct taxes and indirect taxes of Viet Nam is between OECD group and low average income. The proportion of direct taxes in Viet Nam is lower than the OECD countries, including the Philippines, Indonesia, Malaysia (Figure 3.10). The proportion of direct taxes of Viet Nam is equivalent to Thailand and higher than the mean proportion of countries with low average income. Although Viet Nam has the lower share of indirect taxes than Thailand and other middle-income countries, it has the highest share among all of such countries (2016).

The share of indirect taxes in total tax revenue is higher than the that the main component of direct taxes. The data for the proportion of VAT in 2016 was 33%, while the figures for corporate income tax and personal income tax were 23% and 8%, respectively. According to the assessment of FTM, the tax system of Viet Nam is now regressive.

According to the assessment of FTM, the tax system of Viet Nam is now regressive. However, many argue that goods that low-income people often consume are essential goods which are subject to 5% VAT rate and non-taxable goods. Meanwhile, the rate, in general, is 10%. According to this view, relying on VAT in total tax revenue to conclude that the tax system of Viet Nam is regressive is not accurate.

**Figure 3.10. The share of direct and indirect taxes in some countries, 2006-2016 (%)**

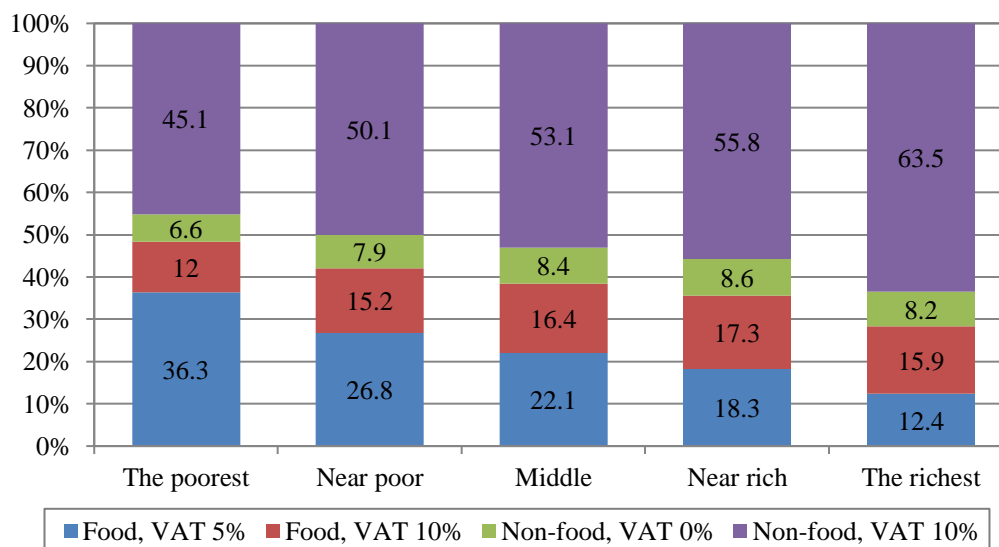


Source: Calculation based on WDI (2018).

Figure 3.11 shows that the percentage of consumer goods - services subject to tax 10% of the poor in Viet Nam is not small. 20% of the population with the lowest expenditure making up 57% of total expenditure on goods and services is subject to a tax rate of 10%. Groups of goods -

services with 5% tax rate accounted for 36%. Group of non-tax goods (can be considered as 0%) was 6.6%. Thus, with 20% of the poorest population, consumption of goods - services subject to a tax rate of 0% and 5% was 42.9% of this group's total spending. Meanwhile, goods and services with 0% and 5% tax rates accounted for 20.6% of total spending of the richest population (making up 20% of the total population). As such, the regression of the tax system in Viet Nam is undeniable when the proportion of VAT in Viet Nam is high.

**Figure 3.11. The proportion of expenditure for the commodity groups, 2016 (%)**



*Source: Nguyen Viet Cuong (2018).*

### Gender Equality in Budget Revenue Collection

The tax policies of Viet Nam do not take gender differences into account. During the drafting process for taxation laws, policymakers in Viet Nam do not pay attention to gender issues. Regardless of genders, people's income will be subject to the same tax rate. Viet Nam's tax policies neither issue separate tax rates between male and female, nor do they impose higher tax rate on jobs usually done by women or vice versa.

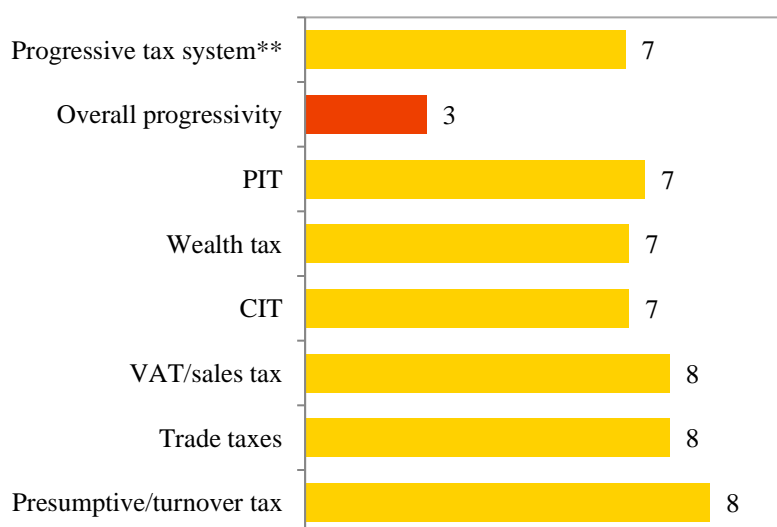
Furthermore, in the Corporate Income Tax Law, enterprises which employ a large number of female workers are even entitled to tax incentives (according to Article 21 Circular 78/2014/TT-BTC). In order to further enforce the issue of gender equality, the National Assembly promulgated the Law on Promulgation of Legal Documents in 2015. This law stipulates that policies to be promulgated must be accompanied by reports on gender equality (often assessed by the Ministry of Labor - Invalids - Social Affairs). Basically, tax policies in Viet Nam generally do not have any negative impacts on gender equality.



However, UN Women (2016) argues that Viet Nam's tax policies have a negative impact on gender equality. This report has examined some specific tax policies and tax incentives in Viet Nam (i.e. CIT, PIT and VAT). The results show that tax policies are restricting women to unpaid family and business work. Due to the great needs of time allocation for other unpaid works, the time spent on paid work for women is less than that of men. Therefore, the income and promotion opportunities of women are also lower. The tax rate on women's income is also higher than that of men, especially consumption taxes. In addition, UN Women (2003) has also pointed out that women are often the owners of small- and medium-sized enterprises or household businesses. Furthermore, according to this study, these enterprises and household businesses are often subject to higher tax rates.

### The result of grading Fair Tax Monitor Index

**Figure 3.12. Progressivity of tax system by FTM marking scheme 2017**



Note: \*Point were concluded from the two common questions on tax systems in the FTM questionnaire, part I, criteria 1; \*\*The average of the 7 parts of criteria 1 (Appendix 4).

Source: Authors' calculation from FTM questionnaire

According to FTM questionnaire, the progressivity of Viet Nam's tax system is rated at the middle level and graded 7-8 points out of 10.

In terms of personal income tax, the income tax threshold of Viet Nam has not changed since 2012. In some countries, income tax thresholds are adjusted according to inflation rate annually. Notably, the fact that income from agricultural activities is not levied can generate inequality among different groups. Moreover, farmers are not taxpayers of personal income tax while those who grow coffee or breed shrimps make billions of VND each year.

For wealth tax, ownership of financial assets has not been taxed while the tax rate on real estate is very low (there are only taxes on land). In addition, there are no progressive tax rates for high-value assets. In Viet Nam, no inheritance has been levied. Therefore, the rich easily transfer assets to the next generation without any taxes.

For corporate income tax, tax rates of corporate income tax of Viet Nam have followed a downward trend and reached 20% in 2016 which is much lower than the average tax rate of non-OECD countries (25%). For import and export tariffs, there are no incentives for import tariff of all products for women. Finally, tax paid by business households is based on their taxable turnover (tax rates are defined via an explicit mechanism), which puts them at a disadvantage compared to enterprises, especially multinational companies. Some experts claim that multinational enterprises with professional accounting and financial staff are subject to tax rates which are highly advantageous for them.

Even VAT, a highly regressive tax, is graded 6 out of 10 points according to FTM questionnaire. Viet Nam has introduced some effective measures to reduce the regressivity of VAT. For essential commodities, the tax rate is at 5% instead of the common tax rate of 10%. Some essential commodities are even not subject to VAT. Luxurious goods and services are subject to both the common VAT tax rate of 10% and excise tax.

Nonetheless, if considering merely the proportion of direct tax revenues and indirect tax revenues, the progressivity of Viet Nam tax system is graded 3 out of 10 points. Although a low tax rate is levied on consumption of essential goods, revenues and proportion of indirect taxes of Viet Nam still surpass those of direct taxes. In 2016, the proportion of direct tax revenues decreased to 35% while that of indirect taxes was roughly 60% (Figure 3.1). If excluding excise tax revenues (as the majority of excise tax revenues comes from luxurious goods) and import and export tariff revenues (excise tax on imported goods is included in this type of tax), the proportion of indirect tax revenues still reached 39%. VAT revenues accounted for 33% of the total in 2016 while that of corporate income tax and personal income tax made up respectively 23% and 8% of the total.

## CHAPTER 4: REVENUE SUFFICIENCY

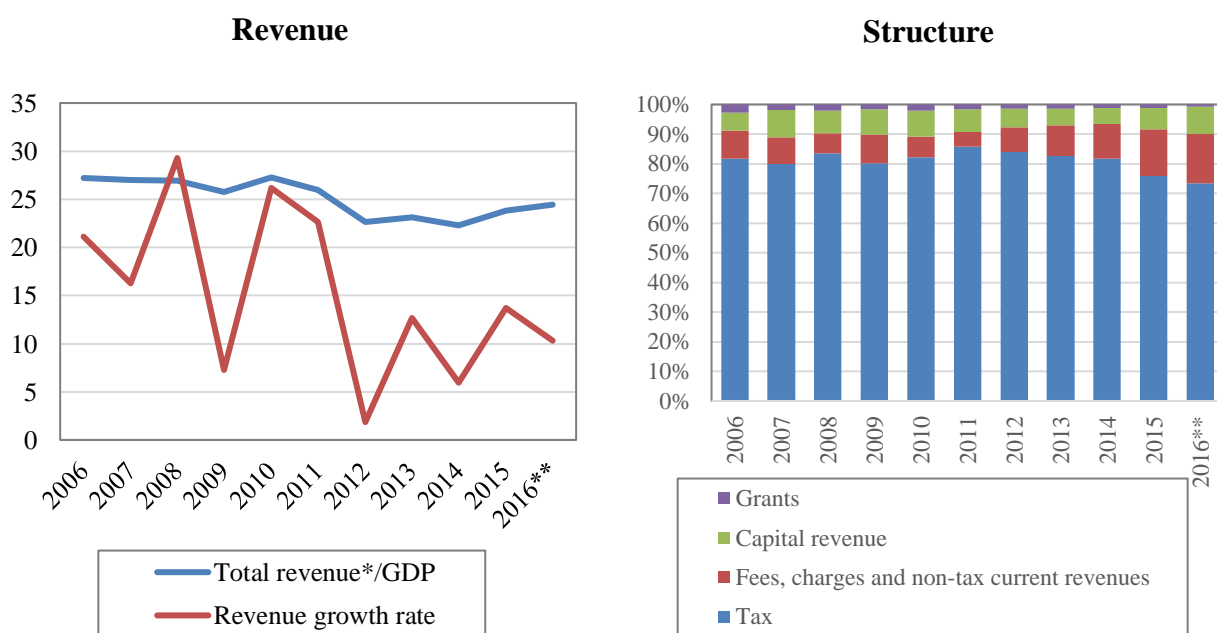
Chapter 3 discussed all types of taxes contributing to the state budget revenues. Chapter 4 provides a general view of state budget revenue sources. To assess the sufficiency of state budget revenue sources, this chapter not only mentions revenue sources of the state budget but also sheds light into other factors such as the number of taxpayers, administration of tax incentives and the informal sector.

### Total Budget Revenues

Total budget revenues to GDP has declined over the past decade. This figure fell from nearly 30% in 2006 to 23% in 2012, then slightly increased to over 24% in 2016 (Figure 4.1). The growth rate of state budget revenues also tends to decrease, from the peak of 30% in 2008 to 11% in 2016.

Taxes accounted for the largest share in state budget revenues with an average of 80% over the period 2006-2016.

**Figure 4.1. Total Budget Revenues, 2006-2016**



Note: \*\*The 2016 data is the second time estimation.

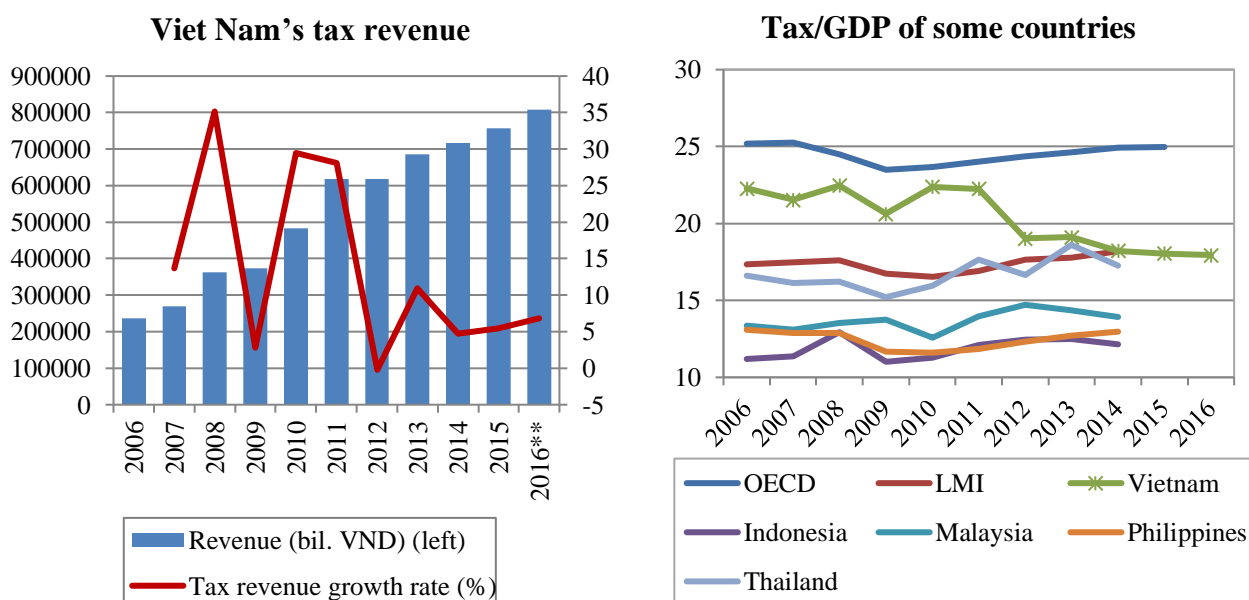
Source: The author's calculations based on data from the Ministry of Finance (2007-2017).

Besides the main source of revenues described in detail in Chapter 2, the state budget stems from other sources as well (temporarily referred to as non-tax revenue source). According to the Ministry of Finance's classification, budget revenue sources are divided into two types, current revenue sources, and non-current revenue sources. Taxes are classified to current revenue sources. Non-tax current revenue sources include fees/charges, land renting and other non-tax current revenues. Non-current revenue sources consist of revenues from capital and grant aids.

## Size of state budget revenues from taxes

Total tax revenues had increased 13% per year on average in the period 2006-2016. The growth rate of total tax revenue is also on the downward trend and it has stabilized at 5-6% since 2014. Tax/GDP declined from around 24% GDP (2006) to 18% GDP (2016). Viet Nam's tariff/GDP is lower than that of other OECD countries (comparable to low-middle-income countries from 2014). However, during the period of 2006-2014, Viet Nam's tax/GDP is much higher than ASEAN-5.

**Figure 4.2. Tax Revenue, 2006-2016**



Note: \*\*The 2016 data is the second time estimation.

Source: The author's calculations based on data from the Ministry of Finance (2007-2017).

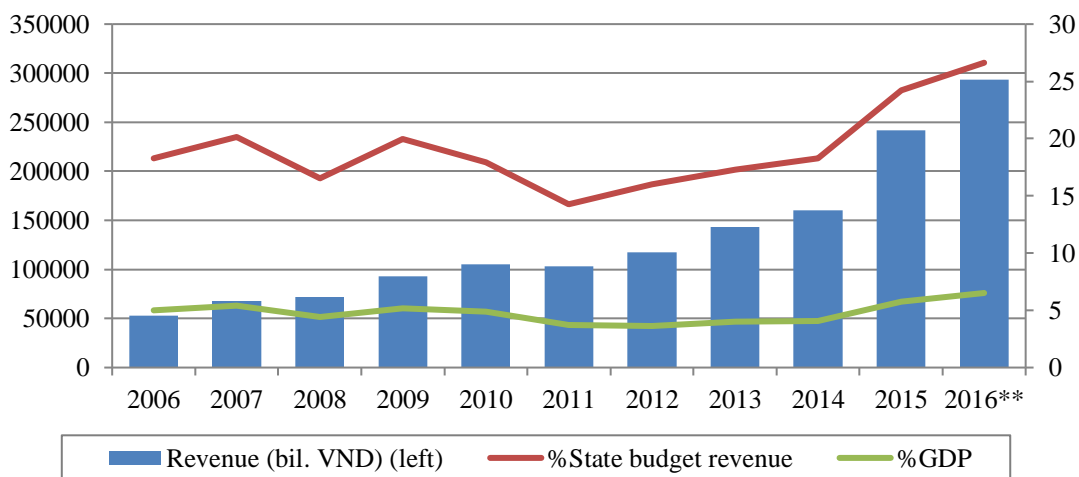
Since 2011, the government has set a target of reducing the level of taxes/GDP to boost economic growth. Decision No. 732/QĐ-TTg of 2011 on "Tax System Reform Strategy for the period 2011-2020" has indicated the orientation of reducing the tax burden for the economy. The rate of mobilizing state budget for the period 2011 - 2015 is about 23-24% GDP, of which the mobilization rate from taxes, fees and charges is about 22 - 23% of GDP. The annual growth rate of tax revenue, fees and charges are 16% - 18% per year. In the 2016-2020 period, the level of tax per unit of goods and services will be reduced to encourage competition and accumulate capital for production and business.

## Total Non-tax Revenues

Non-tax revenue has been on the upward trend in proportion over the total budget revenue and over GDP since 2012. Figure 4.2 shows that the proportion of this revenue source increased from 18% (2006) to 26.7% (2016) while the average proportion for the whole period was 19%. This

revenue source also accounted for 3.6% of GDP to 6.5% of GDP, averaging at 4.8% of GDP over the period.

**Figure 4.3. Non-tax Revenue, 2006-2016**

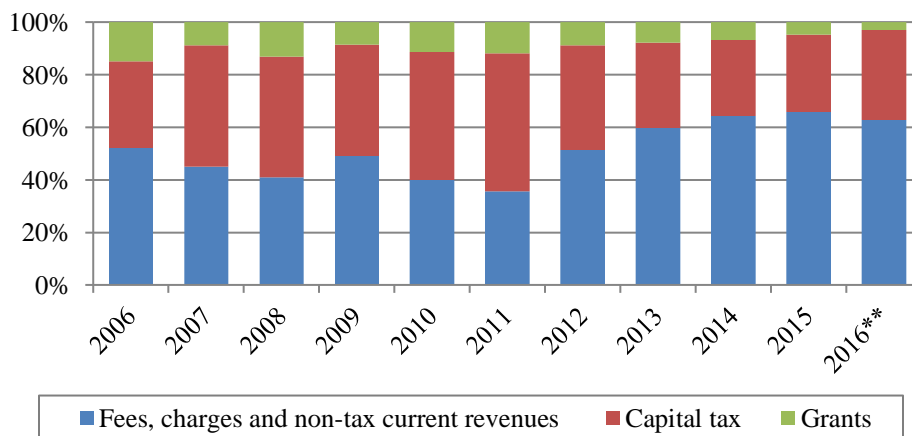


Note: \*\*The 2016 data is the second time estimation.

Source: The author’s calculations based on data from the Ministry of Finance (2007-2017).

Fees, charges, and other non-tax current revenues are accounting for the largest proportion of non-tax revenue. In the classification of the Ministry of Finance, the registration fee has been listed as a tax. Therefore, charges and fees in this section do not include the business registration fee.

**Figure 4.4. The Structure of Non-tax Revenues, 2006-2016**



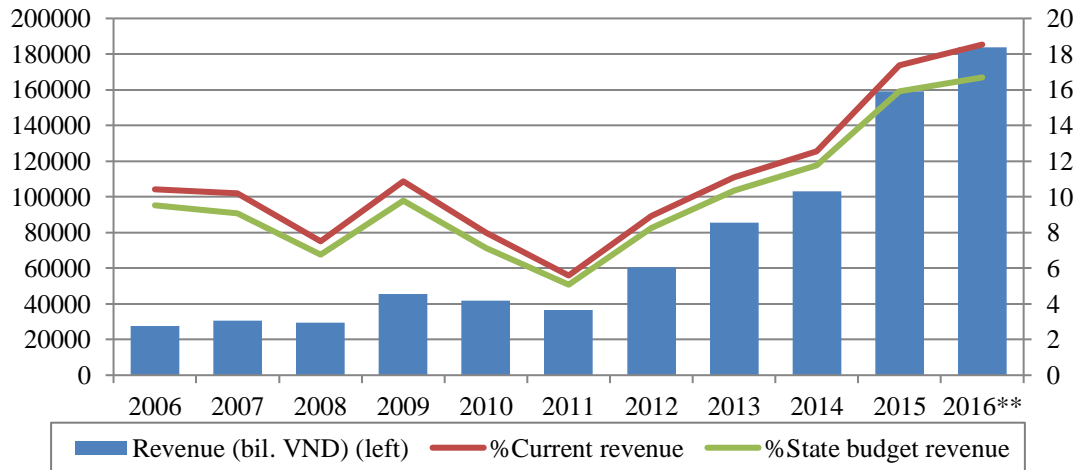
Note: \*\*The 2016 data is the second time estimation

Source: The author’s calculations based on data from the Ministry of Finance (2007-2017).

## Non-tax Current Revenues

Figure 4.5 shows that non-tax current revenues in 2016 are 6 times higher than which in 2006. According to the Ministry of Finance, non-tax current revenue sources include fees, charges, land rent, and other non-tax current revenues. Fees and charges in this section do not include registration fees, as these fees have been included by the Ministry of Finance in the total tax revenue.

**Figure 4.5. Non-tax Current Revenues 2006-2016**

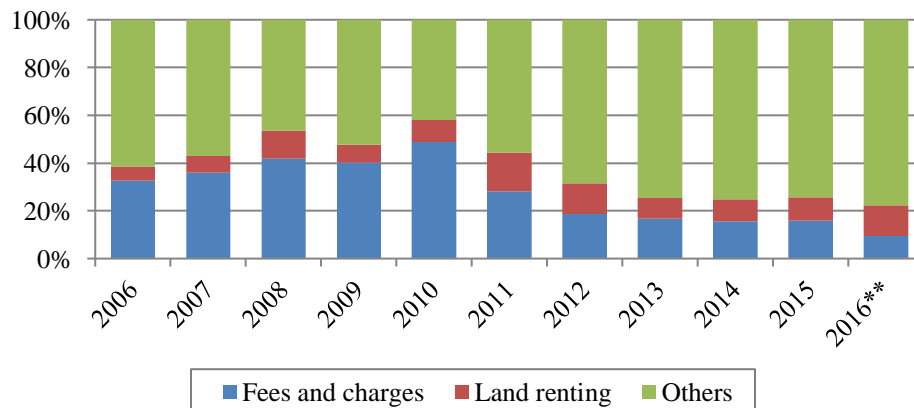


Note: \*\*The 2016 data is the second time estimation

Source: The author's calculations based on data from the Ministry of Finance (2007-2017).

In non-tax current revenue sources, fees and charges have not been the largest source of revenue over the last six years. The proportion of fees and charges had gradually increased from 33% (2006) to 49% (2010), and then steadily decreased to 10% (2016).

**Figure 4.6. The Structure of Non-tax Current Revenues, 2006-2016 (%)**

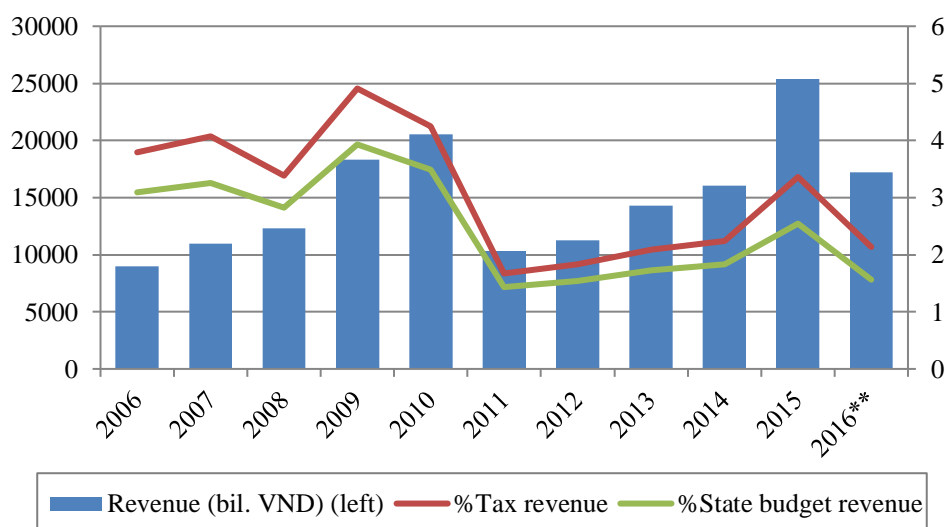


Note: \*\*The 2016 data is the second time estimation

Source: The author's calculations based on data from the Ministry of Finance (2007-2017).

Revenues from fees and charges are accumulated from various types and fields. According to Circular No. 324/2016/TT-BTC, revenues from fees stem from around 100 types of fees and over 13 different fields. Also, based on this circular, tuition fees and hospital fees are not sources of stage budget revenue. Similarly, revenues from charges are aggregated from nearly 50 different charges in five main groups. Fee revenue is declining relative to total state budget revenue and total tax revenue (Figure 4.7).

**Figure 4.7. Fees and Charges, 2006-2016**



Note: \*\*The 2016 data is the second time estimation

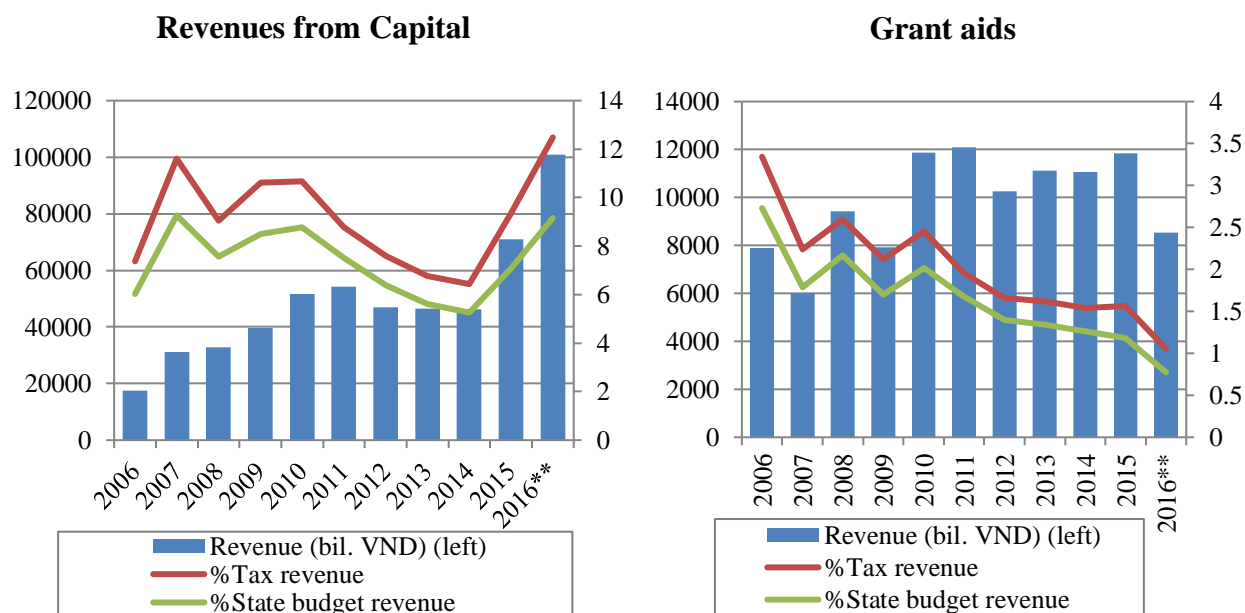
Source: The author's calculations based on data from the Ministry of Finance (2007-2017).

Since 2017, the Law on Fees and Charges (Law No. 97/2015/QH13 2015) which abolishes some fees has come into effect. According to the provisions of this law, fees are still divided into 13 fields but have been reduced to 89 charges. Meanwhile, fees are divided into 5 fields with 64 types of fees. There are 17 types of goods and services that have been transferred from fees to services priced by the state.

### Non-current Revenue

Revenue from capital accounts for the largest proportion in the non-current revenues of the state budget. According to the Annual Statement of the State Budget of the Ministry of Finance, non-current revenues of the budget include the revenue from capital and grant aids. According to the Circular No. 324/2016/TT-BTC, the capital revenue includes the revenues from domestic and foreign loans, interests on domestic and foreign loans, revenues from the state's share in different companies. Also, the revenue includes revenues from the sale of State-owned houses, land user right assignment. In addition to capital revenue, non-current revenue also consists of grant aids. Figure 4.8 shows that grant aids decreased both in proportion and revenue.

**Figure 4.8. Non-current Revenues, 2006-2016**



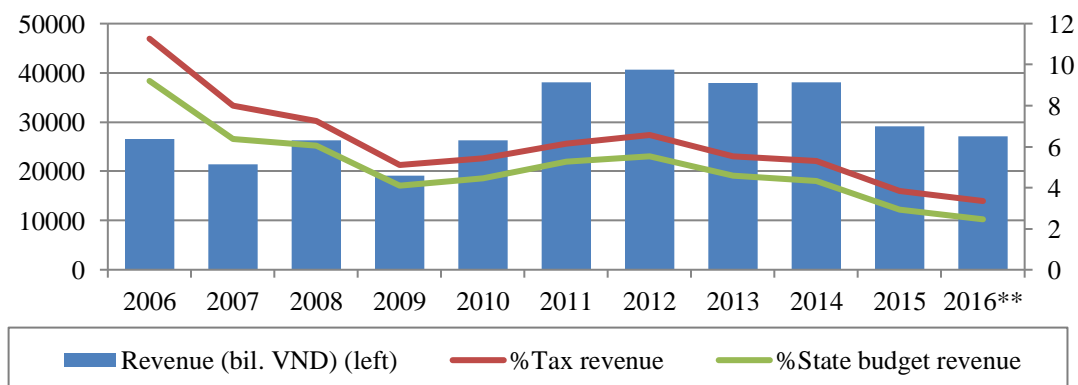
Note: \*\*The 2016 data is the second time estimation

Source: The author's calculations based on data from the Ministry of Finance (2007-2017).

### Nature Resource Revenues

Tax on the natural resource is decreasing in both proportion and revenue. According to Law No. 45/2009/QH12, nature resource tax is applied for mineral, oil and gas, natural forest products (except animals), natural aquatic products, natural swallow's nests, natural water. Individuals and enterprises that exploit such resources are taxpayers. Article 4 of this Law also regulates clearly natural resource tax is calculated based on natural resource quantity, price, and tax rate. The lowest tax rate of this tax is 1% and the highest is 40%.

**Figure 4.9. Nature Resource Tax, 2006-2016**



Note: \*\*The 2016 data is the second time estimation

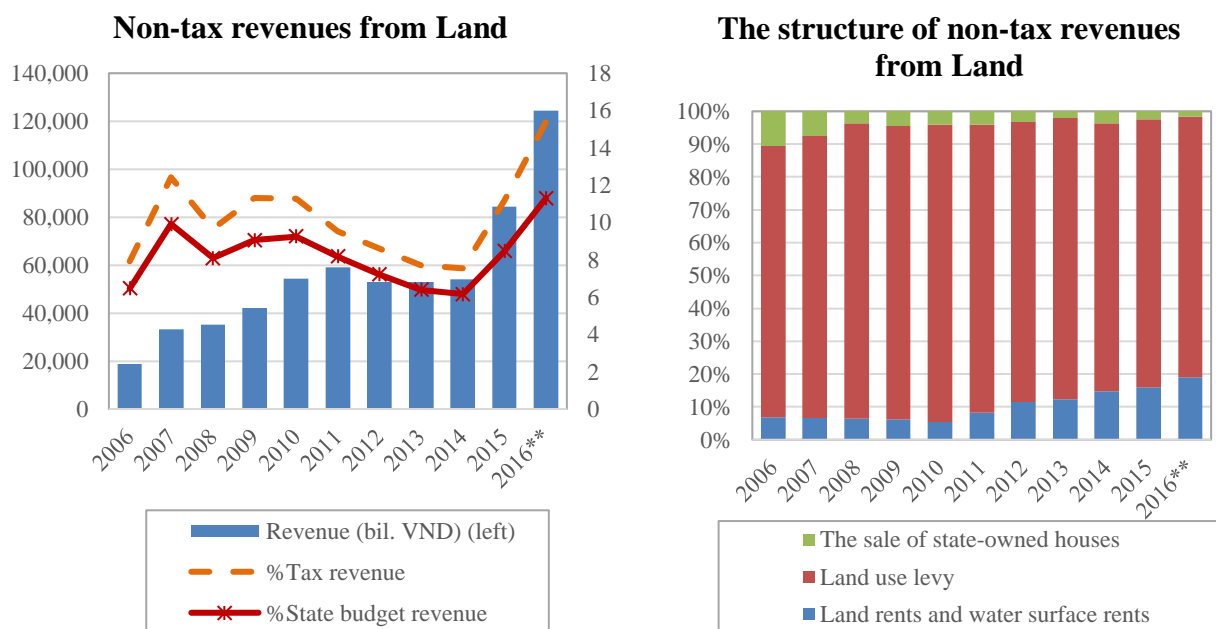


Source: The author's calculations based on data from the Ministry of Finance (2007-2017).

Besides natural resource tax, enterprises or individuals that exploit resources shall pay some other expenditures. In article 77, 2010 Law of Mineral (Law No. 60/2010/QH12), enterprises shall pay for issuing mineral mining rights. This payment is based on price, volume, quality, kind or group of mineral, mining conditions. According to Article 65 in Law of Water Resource No. 17/2012/QH13, payment for issuing water resource exploitation is based on the quality of water source, type of water source, exploiting conditions, scale, exploiting duration and use purpose. Charges for exploiting-crude-oil enterprises are regulated in 1993 Law of gas and oil and continued to be supplemented in 2000 and in 2008. Following Law of Corporate Income tax 2008, corporate income tax rate of oil and gas enterprises is higher than that of other ones (from 32% to 50% depends on each project, each enterprise).

Some land revenues (other than agricultural land use and non-agricultural land use tax) may also be considered as revenue from natural resources. These revenues include land rents and water surface rents, land use fees, sales of state-owned houses. As shown in Figure 4.10, both the proportion and value of this revenues have grown sharply since 2014. In 2016, these revenues accounted for 11% of total state revenues and 15% of total tax revenues. Of these revenues, land use fees accounted for the largest share.

**Figure 4.10. Non-tax revenues from Land, 2006-2016**



Note: \*\* Data for 2016 is estimated for the second time.

Source: Authors' calculation based on data from the Ministry of Finance (2007-2017).

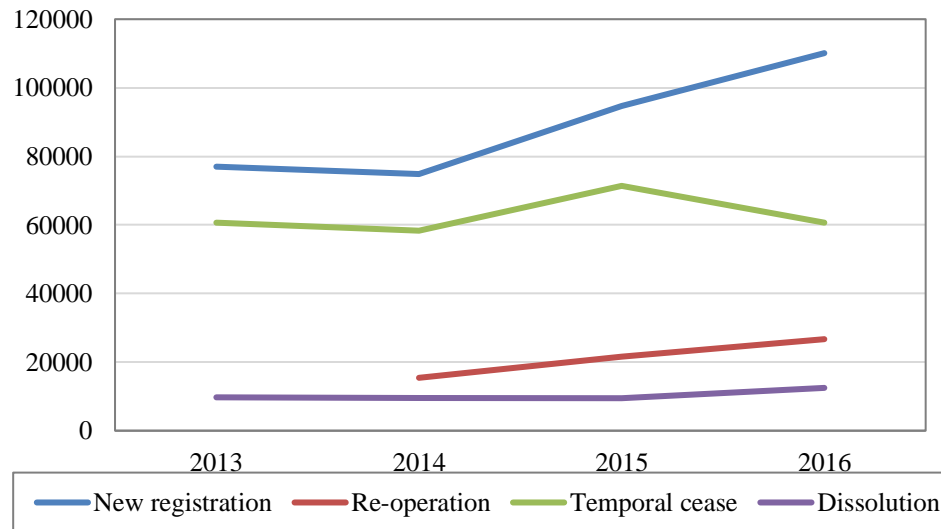
## Taxpayers

The tax base in Viet Nam is not widely publicized. Therefore, this research cannot access the data on PIT and CIT base in Viet Nam. The data on the number of PIT and CIT taxpayers are not available on any website, including the websites of the General Department of Taxation and the Ministry of Finance. The research team also tried to reach this data through the media, and yet, obtained no updates on the figures. In addition, direct interviews with experts in the field of taxation, including those currently working in the financial and fiscal research institutes or in the General Department of Taxation, also failed to find the data.

Thanks to thoroughly investigating, the research team found out that the total number of PIT and CIT taxpayers were not regularly updated even at internal meetings of tax authorities at all levels (Interview with expert No. 04). The figures reported by tax authorities at such meetings relate to the total tax revenue, the percentage of people or businesses declaring taxes online or the use of electronic invoices by enterprises. According to the Ministry of Finance Inspection (2017), 99.81% of enterprises conducted online tax declaration and 98.71% of enterprises registered to use electronic tax payment, and over 2,700 enterprises implement electronic invoices.

Concerning the number of enterprises that pay taxes in Viet Nam, on the website of IMF, Dang Ngoc Minh (2013) shows that the total number of CIT taxpayers is over 612,000, of which nearly 487,000 have legal status. Of the 612 thousand enterprises paying taxes in 2012, nearly 31 thousand enterprises have applied for temporary cessation. After more than six years of existence, the Department of Large Corporate Tax Administration for the first time published the list of the Top 1000 largest CIT taxpayers (Customsnews, 2017). Since 2012, the economy of Viet Nam has prospered and the state has also cut down regulations on the establishment of enterprises. In addition, the Ministry of Planning and Investment has also opened the website <https://dangkykinhdoanh.gov.vn/> so that the enterprises can register their businesses online. Figure 4.8 shows the number of newly established enterprises and the number of enterprises suspended operation from 2013-2016. The number of running enterprises at the end of 2016 is estimated at 740 thousand enterprises, which is higher than the average estimation of the 2012-2015 period (637 thousand enterprises).

**Figure 4.11. The number of enterprises, 2013-2016**



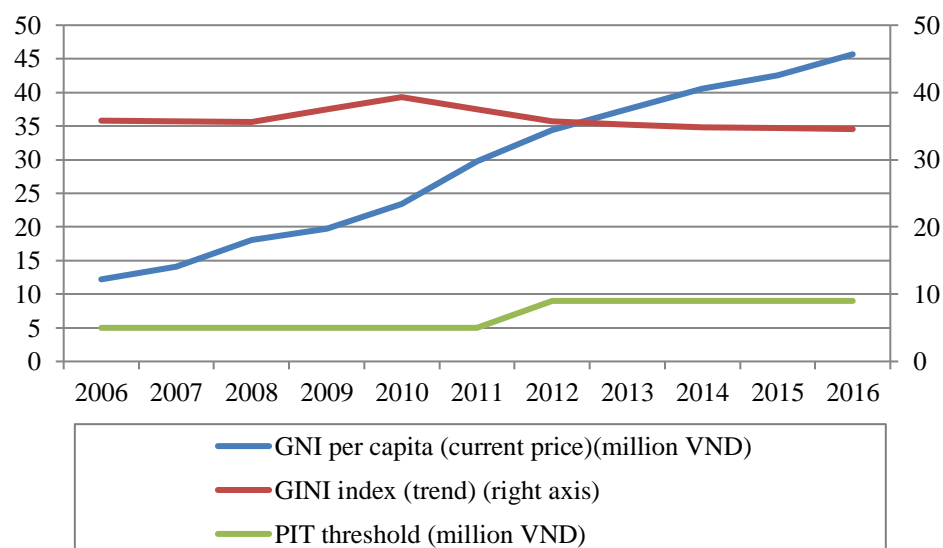
Source: GSO (2018), The Socio-economic Situation, <http://gso.gov.vn/default.aspx?tabid=621>

Regarding the number of PIT taxpayers, Dang Ngoc Minh (2013) also indicates that 1.8 million business households and 26.3 million individuals pay income tax in 2012. Taking enterprises into account, in 2012, Viet Nam has 30.4 million taxpayers and declaring the tax rate is 93.5%.

According to the General Department of Taxation, in 2015, the number of people subject to personal income tax (both regular and irregular income) is more than 17.7 million. However, only 9.3 million people made a tax statement and more than 1.2 million people received tax refunds (representing 13.7%). As a result, the number of people paying regular PIT is estimated at 8.1 million people (2015).

Figure 4.10 shows that the average income of the Viet Nameese people has increased continuously over the past decade. Particularly in the period 2010-2016, the average annual income per capita growth according to the calculation of WDI (2018) is 4.8% per year. Viet Nam's per capita income reached 45.6 million VND in 2016. Meanwhile, Viet Nam's taxable income has not changed since 2012. The average income distribution in Viet Nam is quite uniform. According to WB, Viet Nam's GINI index is around 35. Therefore, it is certain that the number of people paying PIT in Viet Nam in 2017 has greatly increased compared to that over the past 5 years. Unfortunately, the research team cannot have access to this data despite our attempts in several ways.

**Figure 4.12. The average income and taxable threshold, 2006-2016**



Source: WDI (2018), <http://databank.worldbank.org/data/>

### Informal Sector

The informal sector of Viet Nam is still significant. Some experts believe that the informal sector accounts for about 30% of Viet Nam's GDP (Viet Nam Financial Times, 2017). The number of non-registered business households (informal business households) is 4.9 million households which accounts for 60% of total business household in Viet Nam. Many experts attribute a large number of informal business households to the high cost of formalizing in Viet Nam. When an enterprise moves to the formal sector, it is likely to incur a high level of formal and informal charges. Official costs can be up to 39.4% of profit (KPMG, 2018). According to PCI (2017), more than 9% of businesses surveyed said that informal payments accounted for more than 10% of their total business income. This could be a significant barrier for informal business households to become formal, although, in terms of policy, Viet Nam has created very favorable conditions for business households to register their business or register the establishment of enterprises. Households who do not pay their VAT and CIT will also be subject to no VAT and CIT levies after having been officially transferred if they have paid full presumptive tax.

The vast majority of Viet Nameese non-agricultural workers are in the informal sector. In Viet Nam, the ILO (2016) indicates that 70% of non-agricultural workers work in the informal sector. The GSO's published figure (2017) is 57.2%. According to the ILO (2017), the formal workers mainly work in the manufacturing, construction, retail and wholesale - repairing automobiles and motorcycles sectors. More remarkably, according to the same study, 98% of informal workers are currently not covered by social insurance and their average wage is only two-thirds of the labor force in the formal sector. The number of informal workers accounts for 60% (2016) of employed people aged 15-24. Informal workers are often not protected by labor laws because the number of

those having no written labor contract is 77%. On the basis of the tax base, these informal workers are not required to pay PIT.

### **Tax Evasion and Illegal Financial Flow**

The tax agencies in Viet Nam have known about the avoidance of tariffs through price transferring since the beginning of Doi Moi. Tax agencies of Viet Nam have discovered the phenomenon of tax evasion committed by multinational corporations since the 1990s - BGI Tien Giang Brewery (Interview with expert 01). However, the tax agencies of Viet Nam cannot prove that the company transferred the price before the court because the tax administration regulations of Viet Nam was not strict at the time. After the case of BGI Tien Giang Brewery, tax agencies also suspect that many other multinational companies have been transferring price to move their profits abroad, but they can not prove it. By 2005, Circular No. 117/2005/TT-BTC issued to guide tax agencies in localities throughout the country to identify and inspect enterprises with signs of price transfer.

Since 2010, Viet Nam has issued relatively positive policies to prevent tax evasion. In 2010, the Ministry of Finance issued Circular No. 66/2010/TT-BTC, guiding the identification of market prices in business transactions between affiliated parties. In 2012, the Law on Preventing Money Laundering came into effect. In 2013, the Ministry of Finance issued Circular 201/2013/TT-BTC, guiding the application of advance pricing agreements (APA) in tax administration to prevent price transference and restrict tax avoidance. In 2016, Viet Nam made positive moves to implement the base erosion and profit shifting (BEPS) (Vneconomy, 2016). In 2017, the Government issued Decree No. 20/2017/ND-CP, which has updated the world's standards in this field.

The campaign against tax avoidance and evasion in Viet Nam has shown positive movement. According to Do Thien Anh Tuan (2014), in 2010, the tax agencies conducted an inspection at 575 FDI enterprises, which detected 43 enterprises that showed signs of price transfer and handled 37 enterprises. Since 2010, the Viet Nameese tax agencies have taken strong actions on price transfer and launched major inspections on FDI companies which reported losses. By 2014, the inspection of tax agencies at 870 FDI enterprises has detected 720 enterprises that committed violations (Do Thien Anh Tuan, 2014).

In spite of several policies, tax avoidance is still a challenge for the Viet Nameese tax agencies. Besides participating in the BEPS, Viet Nam has also signed the Multilateral Convention on Mutual Assistance in Tax Matters with about 10 countries (Expert Interviews 04). Viet Nam can send official documents to the countries that have signed the treaty for counterpart tax authorities to inspect and collect tax but the results are not very optimistic. In addition, the cost of proving a company's price transfer and profit shift abroad is huge. This is because the data management systems of these companies are complex and highly interconnected among the subsidiaries (Interviewer 04). In addition, the accounting staff and financial experts of these companies are very professional and well-trained (Interview with expert 02).

Large domestic companies also seek to evade taxes. Experts indicate that large domestic firms also have some methods to reduce the amount of CIT that they are subject to. Big companies can either set up subsidiaries in tax havens and transfer profits there like multinational companies, or implement tax incentive projects and transfer profits into this project. In Viet Nam, local authorities often publicize the fields, industries or specific projects that are entitled to tax incentives. Small and medium-sized companies have ways to increase costs to reduce the profits they have pay to the tax agencies.

Smuggling is also a way of evading taxes that needs to be mentioned. With a relatively long land border, Viet Nam borders China, Laos, and Cambodia. Small-scale trafficking is common, especially with China. According to the Livestock Newspaper (2017), although since 2012, China has not issued import quota of live pork originating from Viet Nam due to disease, in 2016 Viet Nam still exported 10% of the total pig herd to China. The mode of export is mainly through trafficking. In the same way, other commodities of China also spilled into the Viet Nameese market. Every year, the authorities of the border provinces have the official document to promote anti-smuggling. However, according to many experts, these efforts are not enough as smuggling has been greatly reducing the tax base of import duties.

Many Customs officers help businesses evade payment of taxes. It is not difficult to find in the newspaper a case of customs officers being prosecuted for helping businesses cheat. In 2012, the Customs was one of the three most corruption organizations to have taken bribes in the survey "Corruption from the Perspective of Citizens, Enterprises, and Officials" by the Government Inspectorate (Thanh Nien Newspaper, 2012). This result was confirmed again in 2013 in the survey "Promoting Business Participation, Promoting Business Integrity in Viet Nam" chaired by VCCI (Cafef, 2013).

Two measures expected to address the problem of tax evasion to the grassroots level will be more widely implemented in Viet Nam in the future, including non-cash payment and electronic invoices. Non-cash payment has been proposed since 2010 by Decree No. 101/2012/ND-CP of the Government. However, this Decree has not reached a satisfactory progress, and in 2016, was replaced by Decree No. 80/2016/ND-CP. Electronic invoices have been mentioned in Decree No. 51/2010/ND-CP of the Government, but in 2015, the Ministry of Finance issued Decision No. 1209/QD-BTC to guide the implementation of electronic invoices. Since 2016, the General Department of Taxation has piloted the use of electronic invoices with the confirmation codes by the tax agencies in Hanoi and Ho Chi Minh City for 249 enterprises. Electronic invoices will be widely deployed in the near future.

### **Tax Incentives**

Concerning direct taxes, tax incentives are stipulated in Section I Chapter III of the Law on Investment 2014 and Article 4 of the 2008 Law on Corporate Income Tax which provides for

exempted income. Chapter III of the 2008 Law on Corporate Income Tax provides for tax incentives. These exemptions are further amended and supplemented by the Corporate Income Tax Law 2013 and the Law on taxation No. 71/2014/QH13 2014.

In the Corporate Income Tax, some incomes in some fields are not subject to tax such as the income of agricultural cooperatives, the income of agricultural enterprises in poor areas, the income from scientific research, income from training and vocational training, enterprises with more than 30% of employees are the vulnerable, etc. Apart from non-taxable income, Viet Nam's legal documents also stipulate several tax exemptions which do not only apply in the tax rate but also allow loss transfer in five years and expansion of taxation duration. Many experts address that Viet Nam is implementing too many tax exemptions for enterprises. Some multinational corporations take advantage of tax exemptions to enjoy the tax rate of only 10% when investing in Viet Nam (Box 4.1).

#### Box 4.1. Tax incentives for enterprises in Viet Nam

Table 4.1. Tax incentives under taxes	
Kind of taxes	Incentives
Corporate Income Tax	Tax exemption for some types of income: Income from cultivation, husbandry, aquaculture, agricultural product processing, fishery and salt production of the cooperative; income from transfer of emission reduction certificates; ...
	Tax incentives: Tax rates are 10% 15 years and 17% for 10 years (compared to the common tax rate of 20% from January 1, 2016).
	Preferential time for tax exemption and reduction: 4 years of tax exemption and reduction of 50% of tax payable for the next 9 years or 2 years of tax exemption and reduction of 50% of tax payable for 4 subsequent years (depending on the investment projects by field or geographical area, including investment expansion).
	Switching losses: Enterprises with losses carried forward losses in subsequent years. The period for carrying forward losses shall not exceed 5 years from the year following the year when losses arise.
	The rapid depreciation of fixed assets: The maximum rate shall not exceed two times the normal depreciation rate.
	Other cases: Enterprises employ many female workers; Enterprises employ many workers that are from ethnic minorities.
Import-Export Tax	Exemption of import tax for i) Imported goods for the implementation of projects in the field of investment encouragement such as machinery, equipment, specialized means of transport and construction materials which are not yet produced in the country that are imported to form fixed assets of some projects; ii) Exemption from import duty on raw materials, components, parts, samples, machinery, and equipment imported for export goods; iii) Exemption from import duty on raw materials,

	equipment and components for a period of 5 years from the start of investment projects in operation in the area of investment is particularly encouraged.
<b>Value-added tax</b>	Exemption from VAT: There are 25 types of goods and services not subject to VAT (some agricultural products, credit services and derivative financial services, some insurance services, medical services, education training, printing and publishing, some books, etc.).
	Preferential tax rate: The 5% tax rate is applicable to some essential goods and services (domestic water, fertilizers, medicines, educational equipment, ...).

*Source: Oxfam (2016).*

According to Clause 1, Article 13 of the Law on Corporate income tax, hi-tech enterprises or enterprises investing in hi-tech parks or economic zones shall enjoy the tax rate of 10% within 15 years.

Clause 5 of Article 13 of the Law on Corporate Income, 2012, be revised and supplemented in Law No. 71/2014/QH13 also provides businesses with the following criteria may be extended subject to a tax rate of 10% more 15 more years:

- Products and goods with global competitiveness, turnover of over 20,000 billion VND/year at the latest five years after the turnover from the investment project;
- Employ more than 6,000 workers;

Article 14 of the 2012 Corporate Income Tax Law also stipulates that new investment projects in Article 13, Clause 1, may be exempted from tax for the first four years and reduced by 50% in the following 9 years.

At present, Samsung is receiving many investment incentives from the Government: corporate income tax of 10% for 30 years, 4 years for exemption and 50% reduction for the next 9 years (CafeF (2017)).

"In 2016, foreign-invested enterprises (FDI) will be given preferential treatment to over 35,300 billion dong. In particular, Samsung's tax incentives in Viet Nam are about VND20,189 billion (nearly \$ 1 billion). The FDI sector is receiving 91.9% of the total corporate income tax.

According to statistics of the Ministry of Finance, 100 enterprises received the largest reduction of corporate income tax, not to mention land preferences and other incentives. Samsung is one of the largest recipients. According to an expert from the Ministry of Finance, FDI enterprises can also enjoy other incentives such as import tax, VAT, etc., if they are export processing enterprises. "

*Source: Ngoc An (2017).*

Under Clause 2, Article 13 of the Law on Corporate income tax, the income of enterprises from the socialization of education, training, healthcare, culture, and sports is 10%. At present, there are many multinational education, training, and healthcare corporations operating in Viet Nam and are subject to a tax rate of 10% according to this regulation.

Regarding consumption tax, in the Law on Value-Added Tax, enterprises with the turnover of less than 100 million VND/year are not required to declare tax. In the import duty, hand goods on entry no more than 300 USD, spirits no more than 2 bottles, drug no more than 200 cigarettes, etc. will be exempted from tax. In addition, import and export goods for humanitarian purposes and goods mainly serving vulnerable groups are also entitled to tax deductions and exemptions.



The National Assembly is the one that enacts the laws on tax. The function of the National Assembly is to supervise the implementation of the Law. Every year the government must report on the implementation of the revenue-expenditure plan and the National Assembly will approve the state budget finalization. If the enterprises have any complaints about the tax obligations to the representatives, the National Assembly will request the Government to explain or request the State Audit to verify and report. Therefore, the tax exemptions in the above tax laws must be passed by the National Assembly. At local levels, the land rent exemptions may be approved by the People's Council. The tax incentives are very consistent among enterprises which operate in the same industry and geographical area. The land rent alone is decided by the local authorities, so the level of incentives may vary from one location to another.

However, the Law System of Viet Nam has many Laws that specifically regulate tax incentives (such as the former Foreign Investment Promotion Act). The legal framework also allows governments and local authorities to decide on tax incentives for special cases. The case of Samsung is a typical one. Samsung received many investment incentives from the Government: corporate income tax at 10% for 30 years, 4 years exemptions and 50% reduction for the next 9 years, etc, along with the incentives of local authorities on land rent.

Before introducing the Laws, there is no cost-benefit report which evaluates the tax incentives. However, some experts argue that the cost-benefit approach in the reports is not scientific because the report does not specify who gains profits and who is placed in disadvantage from the tax incentives. More importantly, the report does not estimate the benefits and costs of stakeholder groups.

In the case of self-declaration and self-payment, the taxpayers shall determine the tax rates that they are subject to. According to public tax laws, enterprises will know whether they are entitled to a tax exemption and reduction or not, and how much they are exempted from. During the course of filing tax declarations, if the enterprise, deliberately put itself into the conditions eligible for tax exemption, yet cannot manage to implement them, the tax agencies still apply the tax rate as prescribed by law. The tax agencies, or tax officials, who deviate their tax obligations in accordance with the law, shall be liable under the regulations of the State. However, the detection rate is considered by many experts to be very small compared to the actual number because the annual tax inspection rate only covered about 5% of total taxpayers.

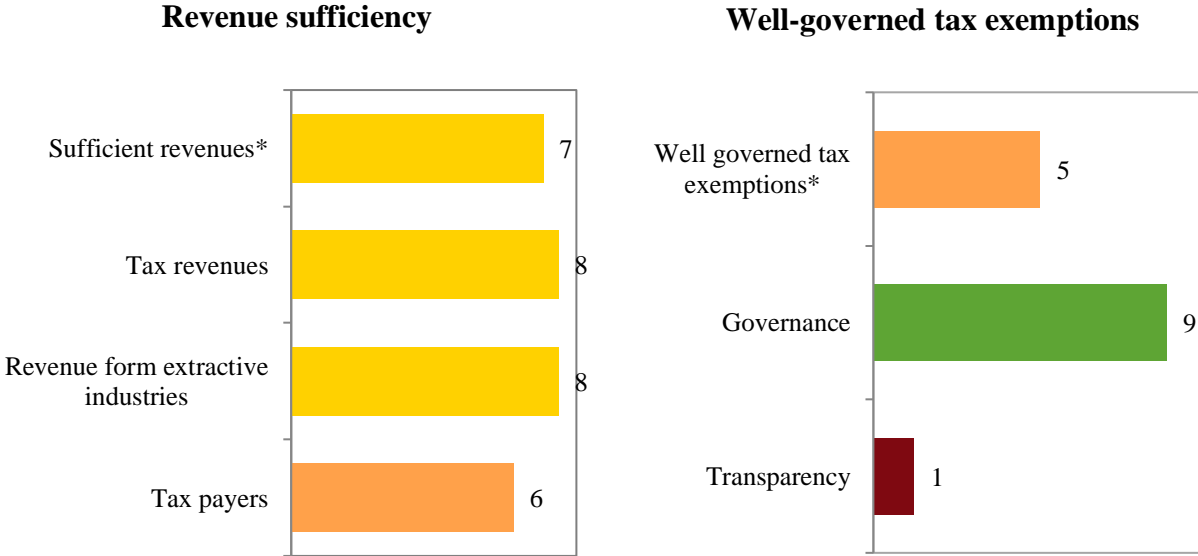
According to the Ministry of Finance (2018), the quick report of the General Department of Taxation states that the tax revenue forgone in 2016 due to tax exemptions (including fees/charges, land and water surface rent) was 64 thousand billion dong. This figure is equal to 5.8% of total state budget revenues, 33% total current expenditure on education and training, and 84% for health care. Corporate income tax experienced the largest revenue foregone due to tax exemption. These ratios should be taken into consideration by policymakers. However, many experts put forth that

budget deficiency due to tax exemption would be much larger given a more meticulous calculation. In developed countries, this figure known as tax expenditure is identified and reported annually (USDT, 2018).

**The result of grading Fair Tax Monitor Index**

The result of grading Fair Tax Monitor Index in terms of revenue sufficiency and policies on tax incentives as follow:

**Figure 4.13. Revenue sufficiency and governance of tax exemption**



Note: \*This index was graded by averaging all the other indices in the corresponding criteria (Appendix 4)

Source: Authors' calculation from FTM questionnaire

The State budget revenues gets relatively high points in terms of revenue sufficiency. Component items of this area are graded 8-9 points out of 10 points. Nevertheless, it is notable that the decrease in tax revenue as a result of tax incentives is not officially calculated. According to unofficial information, this figure is about 1% of GDP. Due to this lack of information, item Tax revenues get a low grade. Item Revenues from extractive industries also gets 8 out of 10 points as Viet Nam does not introduce irregular tax levied on mines whose volumes are larger than the average volume. Except for crude oil, corporate income tax rates of crude oil enterprises fluctuated around 32-50%, depending on volumes of oil fields. Item Tax payers demonstrate whether the tax base of Viet Nam is widely publicized. This item is graded 6 out of 10 points, which is attributed to the fact that the high cost of formalizing erodes driving forces to formalize of business households. This reduces the tax base of corporate income tax. Moreover, statistics on the number of taxpayers are not continuously updated.

Governance of tax exemptions of Viet Nam is controversial in terms of transparency. Policies on tax incentives are decided by the National Assembly and clearly stated on legal documents. Therefore, tax incentives are rather consistent among enterprises in the same areas and provinces. Nonetheless, due to self-declaration, self-assessment, and self-responsibility, the list of companies with tax exemptions is never compiled. There is also no data on the decrease in tax revenues due to tax incentives. Cost-benefit analyses of tax incentives for enterprises or some typical enterprises have never been conducted scientifically. Due to this fact, item Transparency only gets 1 out of 10 points.

## CHAPTER 5: TAX ADMINISTRATION

The Decision No. 732/QD-TTg in 2011 has set out a strategy for the tax system reformation over the 2011-2020 period. The main goal of the reformation is to build a modern and efficient tax system and to make the administration of tax, charge and fee uniform, transparent, and easy to understand and implement. The decision also outlines three basic foundations for achieving the above-mentioned goals, two of which are quality human resources and modern information technology applications. Chapter 5 will analyze more about the organization, resources, and costs of tax collection for more insight into tax administration in the period 2010-2016.

### Organization

Taxes in Viet Nam flow into the State Budget through the agencies of the General Department of Taxation and the General Department of Customs. According to the Decision No. 115/2009/QD-TTg, the General Department of Taxation is the state management agency in charge of domestic revenues in the whole country. Below the General Department of Taxation are the taxation departments in the provinces/centrally-run cities, followed by the tax departments in the districts, and tax offices in the wards/communes as the lowest level. According to the Decision No. 65/2015/QD-TTg, the tax administration apparatus related to foreign trade consists of the General Department of Customs, the Customs Departments in the provinces/centrally-run cities, tax offices at the border gate. The customs apparatus will be responsible for the collection of export tax, import tax, special excise duty and environmental protection taxes on imported goods as well as import duties. Both agencies belong to the Ministry of Finance, and their coordination mechanism is stipulated in Decision No. 574/QD-BTC in 2015.

Fees and charges in Viet Nam are more widely collected, as specified in Article 7 of the Law on Fees and Charges No. 97/2015/QH13: "*Collectors include regulatory agencies, public service providers, and organizations tasked with providing public services for state management tasks by competent state agencies as prescribed hereof.*" In Viet Nam, according to the Ordinance on Charges and Fees No. 38/2001/PL-UBTVQH10, 73 types of charges are divided into 12 groups according to the nature of work, while 73 types of fees are divided into 5 groups corresponding to state administrative management tasks. On that basis, the Government issued Decree No. 57/2002/ND-CP detailing the list of 171 charges and 130 fees. According to Circular No. 324/2016/TT-BTC, in collection and compilation into the State revenue, charges are collected from roughly 100 sources of 13 different fields, while fees are collected from about 50 sources in the five main groups. From 2017, according to Law No. 97/2015/QH13, there are now only 89 types of charges and 64 types of fees while there are 17 types of goods - services that are converted from charge to price.

The Department of CIT department is established under the Decision No. 2506/QD-TCT of the General Department of Taxation in 2010. In 2017, after nearly seven years of establishment, the

Department has announced the list of the 1000 largest taxpaying enterprises in Viet Nam. Articles 10 to 14 of the Law on Tax Administration 2006 regulate the functions and obligations of central and local agencies in the coordination of tax collection.

## Resources

According to Dang Ngoc Minh (2013), in 2012, the total number of the tax officers was about 46 thousand. The number of tax officers in 2015 was about 45 thousand (Tuổi trẻ, 2015). By 2015, the tax officers were reduced by 1210 persons, and the 2016 figure was 1312 (New Newspaper, 2017). Thus, by 2016, the tax sector still had about 45,000 tax officers. On average, in 2016, there was a tax official for every group of 483,000 citizens. Many experts have criticized the density of tax officials in Viet Nam. In some remote areas, the amount that the state budget has paid for the tax official salaries is higher than the annual amount of tax collected by this unit. In the year 2018, the tax sector is set to reduce by 10% the staff by 2020. Small tax departments will be merged, and by 2020, it is expected to reduce by 200 tax departments. Criteria for the reductions are collecting less than 50 billion VND/year (excluding land use fees) and are less than 20 km from each other (Viet Namnet, 2018).

The state budget has invested great resources in the tax system to improve the data management system for the tax sector. There have been an internal data management system and an online tax declaration software for individuals and enterprises. Enterprises and individuals can file VAT, CIT, and PIT automatically. The applications iHTKK version 3.6.1, eTax version 1.4.1, iTaxViewer version 1.4.3 are currently in use in Viet Nam. Taxpayers can conduct online declaration or download the installation package at <http://kekhaithue.gdt.gov.vn> and <http://thuedientu.gdt.gov.vn>. Concerning custom service, enterprises can easily declare and pay tax by creating accounts at <https://epayment.customs.gov.vn/epaymentportal/login>. In internal reports, the tax system has confirmed that the degree of automation is not 100% but generally the tax administration system has been digitized. When cooperating with other sectors, the tax agencies have to wait for other sectors to upgrade their systems to be compatible with the tax system's database. (Interview with expert 04).

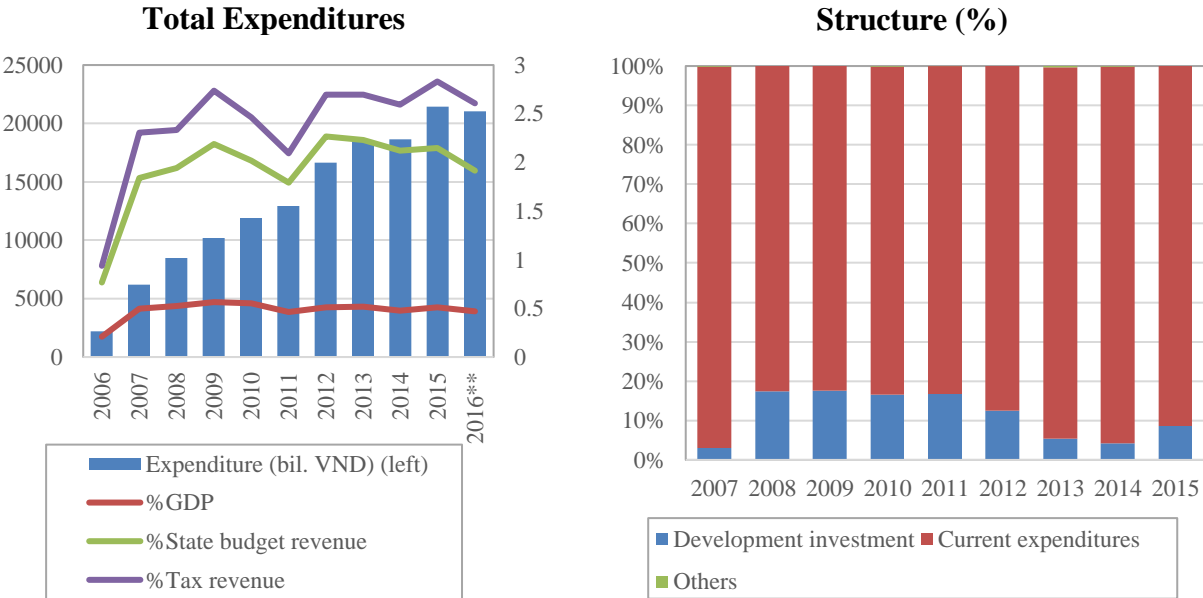
The process of digitization is undergone smoothly because all business units in Viet Nam are provided tax codes. Previously, the tax codes and business codes were separated, but in recent years the two codes have been combined. Enterprises are provided with their tax codes as soon as they register their businesses. Meanwhile, business households use either granted tax codes or the PIT codes of the household heads as the tax codes. The legal provisions on the granting tax codes to enterprises and business households are clearly stipulated in Articles 26 and 28 of the Law on Tax Administration. At the same time, there are a number of circulars guiding the providing of tax codes, such as Circular No. 95/2016/TT-BTC, Circular No. 80/2012/TT-BTC, and Circular No. 85/2007/TT-BTC.

In order to operate the information system, the taxation system has also paid much attention to the training of tax officials. Every year, there are training courses organized for enhancing knowledge and skills of tax officials. The Ministry of Finance has set up the Institute of Financial Training (<http://www.ift.edu.vn/>) to implement this task. To boost the level of people' satisfaction in tax payment, the tax sector has also promulgated clear regulations. Specifically, the articles 16 to 20 of the Civil Servants Law stipulate the principles of civil servants when they assist citizens and acts that they are not allowed to proceed. The General Department of Taxation has issued Decision No. 1036/QD-TCT on 10 disciplines of tax officials.

**Expenses on Budget Revenue Collection**

The Ministry of Finance has increased its budget expenditure for itself twice as much as the increase of budget revenues and expenditures. In the 2006 statement of the state budget, the Ministry of Finance's budget expenditure was over 2 trillion VND, which accounts for nearly 1% of total tax collection and more than 1.2% of total current budget expenditure. By 2011, the Ministry of Finance's budget expenditure was nearly 11 trillion VND, accounting for nearly 1.8% of total tax revenues and approximately 2.2% of the total state budget revenues (Figure 5.1). The total revenues and total current expenditure of the state budget in 2011 were 2.7 times higher than the respective figures in 2006. The Ministry of Finance's budget expense was mainly current expenditures which accounted for 82 to 97% (Figure 5.1)

**Figure 5.1. State budget expenditure of the Ministry of Finance, 2006-2016**



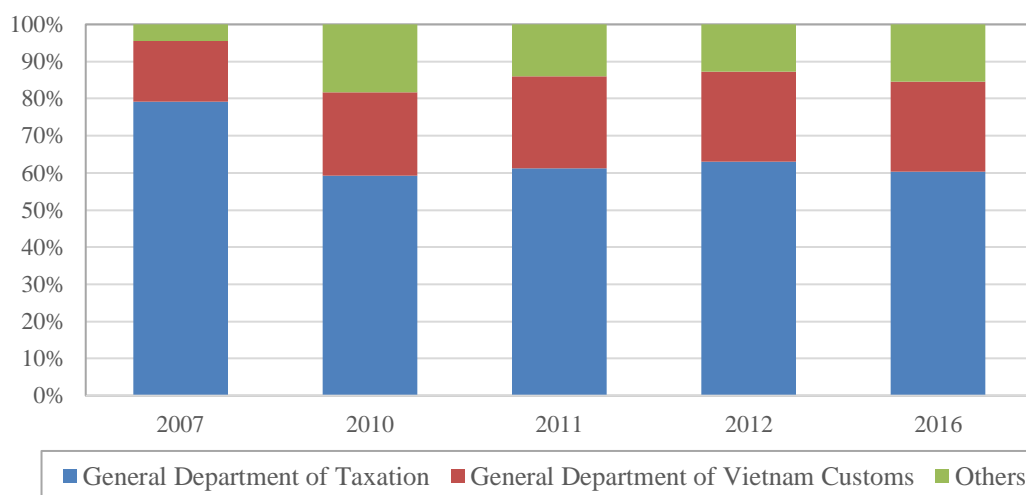
Note: \*\* the 2006 data is budget estimates.

Source: The author's calculation based on the Ministry of Finance's data (2007-2017).

Data on budget revenues and expenditures for the General Department of Taxation and the General Department of Customs remains unclear. Therefore, the research group has no basis to assess the

effectiveness of tax collection over the years. The group tried to access data from the General Department of Taxation and the General Department of Customs (GDT) for a period of time from 2006 to 2016, but data is not available on the MoF website. The Ministry of Finance's budget expenditure data is only available up to 2011. In addition, only in 2011, the figures for the spending of the state budget on the Ministry of Finance are released separately for each unit under the ministerial management. However, the Ministry of Finance's state budget expenditure increased nearly fivefold. Of the 11 trillion VND in the expenditure budget of the Ministry of Finance in 2011, the General Department of Taxation accounted for more than 61% and the General Department of Customs occupied nearly 25%. Based on estimates from the Ministry of Finance, the proportion of expenditures for the General Department of Taxation is decreasing compared to 2007.

**Figure 5.2. Budget expenditure structure of the Ministry of Finance by unit, 2007-2016 (%)**



Note: the 2006 and 2012 data are budget estimates.

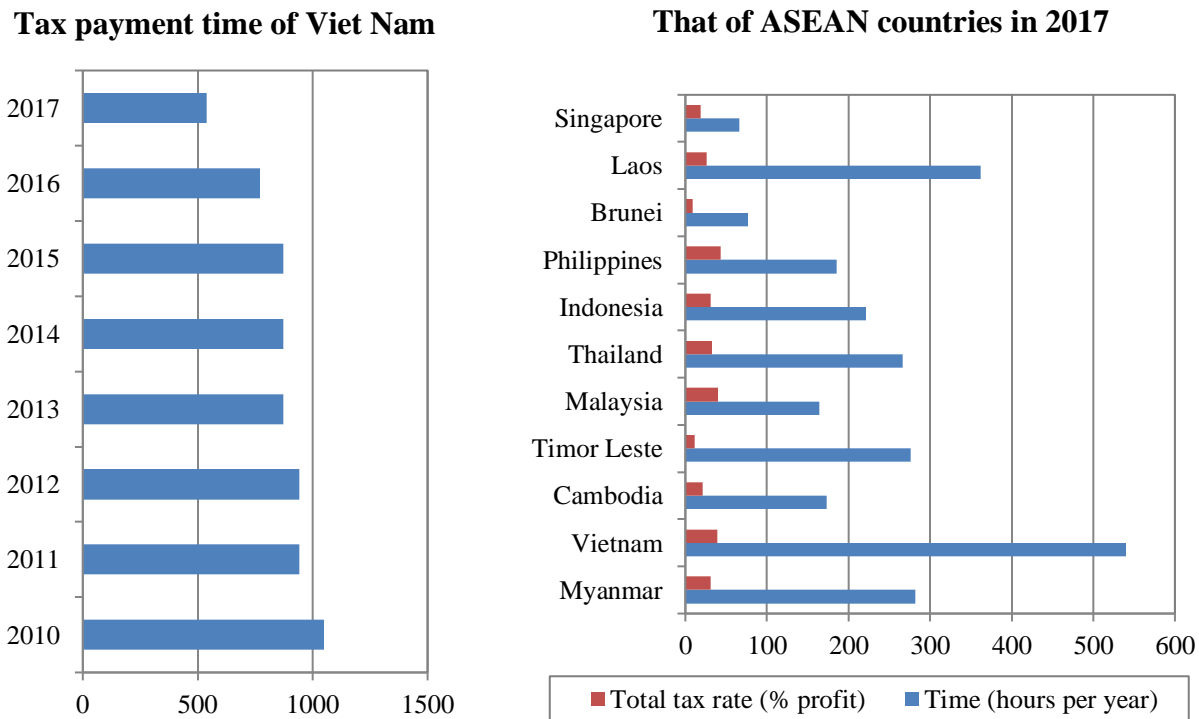
*Source:* The author's calculation based on the Ministry of Finance's data (2007-2017).

Total state budget expenditure of the Ministry of Finance has increased gradually with the average growth rate of 31% per year over the period 2006-2016. According to the State Budget estimates for 2016, Ministry of Finance budget expenditure will be mildly reduced as the real figure is still over 21 trillion VND. On average over the period, the Ministry of Finance budget accounted for 0.5% of GDP, 1.9% of total government revenue and 2.4% of total tax revenue. Thus, to collect 100 tax dollars, the state budget must spend 2.4 VND to collect taxes. This figure is equal to the figure for Uganda in 2014 (SEATINI, 2016) and nearly double the figure for Bangladesh in 2013 (SUPRO, 2015). In Bangladesh, the cost of collecting taxes is 1.35% (2013), which is quite close to the OECD average level (about 1%).

Investment in the modernization of tax administration has been a reason for high spending on the tax sector in the recent period. Therefore, after the investment projects are completed, the budget

expenditure for the tax branch may be reduced. This will also facilitate better tax administration, and reduce tax-related corruption. According to the WB (2018), the time for tax declaration dropped from over 1050 hours in 2010 to 540 hours in 2017. However, Viet Nam's 2017 tax paying hours still comes out on top when compared to that of ASEAN countries (Figure 5.3). The tax rate on corporate profits of Viet Nam is also among the highest in the region.

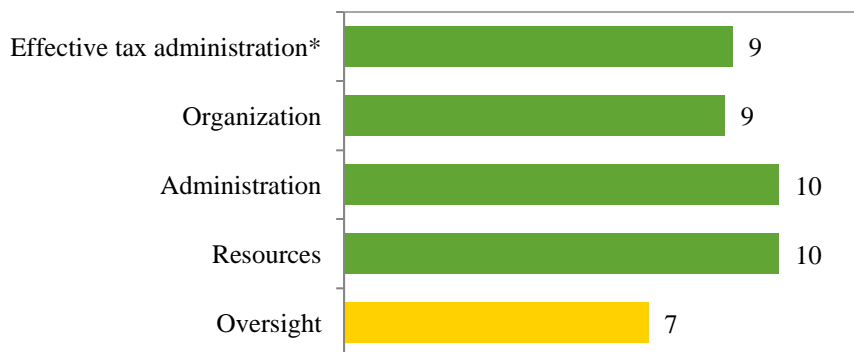
**Figure 5.3. Cost of paying taxes**



*Nguồn:* WB (2018).

**The result of grading Fair Tax Monitor Index**

**Figure 5.4. Tax administration**



Note: \*This index was graded by averaging all the other indices in Criteria 4 (Appendix 4)

*Source:* Authors' calculation from FTM questionnaire



Tax administration is rated high via FTM questionnaire. The tax system is vertically organized with collaboration and division of tasks among higher and lower level of state agencies. There is also a department in charge of managing large enterprises and multinational enterprises. Moreover, Viet Nam has signed international cooperation in tax administration support. All taxpayers are provided tax code, especially enterprises which receive tax codes while registering for business. In addition, taxpayers may declare tax automatically with the rate of taxpayers applying this service at 90%. Human resources in the tax sector are redundant and will be reduced in the coming time. Tax officials are annually trained in the procedures to serve citizens. Tax agencies are supervised by the National Assembly and governmental inspection teams. There are regulations on handling tax-law violations of tax officials and citizens. Nonetheless, cases of tax evasion are not absolutely detected, despite the fact that there have been regulations on protecting denunciators according to Law on Complaints as well as Law on Denunciation.

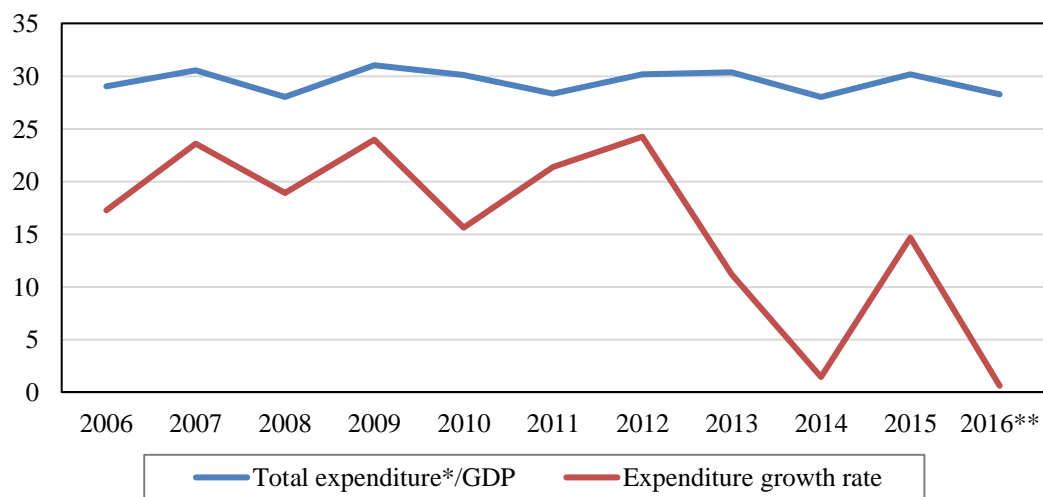
## CHAPTER 6: FAIRNESS IN GOVERNMENT EXPENDITURE

The basic function of the state is to provide public services for the people. This is the most reasonable reason for the state to collect taxes. Nonetheless, taxes also play a role in redistributing income of different groups of people. Since targets of tax reform in the future are to separate social policies from tax policies, more tax incentives for the group of vulnerable people will be abandoned. It means that tax rates for such group will increase. To compensate for the decrease in income due to this tax increase, state budget expenditures for services which are highly beneficial to this group should rise. Two public services which are the most advantageous to this group are education and healthcare. In addition, agricultural expenditure to support the vulnerable groups also needs to be taken into account, as the share of vulnerable people living on agriculture in Viet Nam remains very high. Chapter 6 provides a comprehensive overview of budget expenditures for health, education, and agriculture.

### Government Expenditures

Being similar to the budget revenue, the state budget expenditure of Viet Nam is also on the downward trend. According to calculations based on figures released by the Ministry of Finance, the proportion of state budget expenditure per the GDP of Viet Nam has been declining over the last decade (Figure 6.1).

**Figure 6.1. The State Budget Expenditure, 2006-2016 (%)**

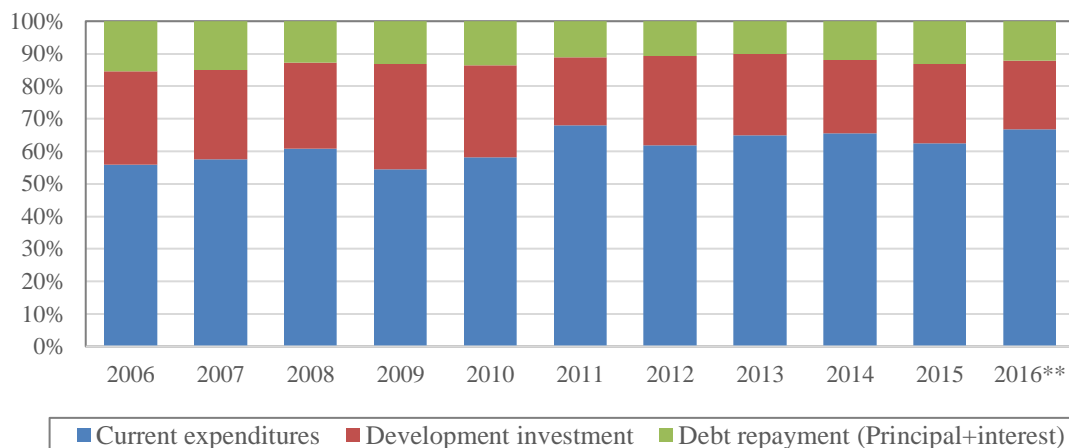


Note: \*Total budget expenditures do not include transfers for the following year, but include principal payments, \*\*The 2016 data is the second time estimation.

Source: The author's calculation based on the Ministry of Finance's data (2007-2017).

State budget expenditures usually consist of three major groups: current expenditure, development investment, debt repayment, and aid. Figure 6.2 shows that current expenditure usually accounts for between 55% and 67% of the total budget expenditure for the period 2012 - 2016.

**Figure 6.2. The structure of state budget expenditures, 2006-2016 (%)**

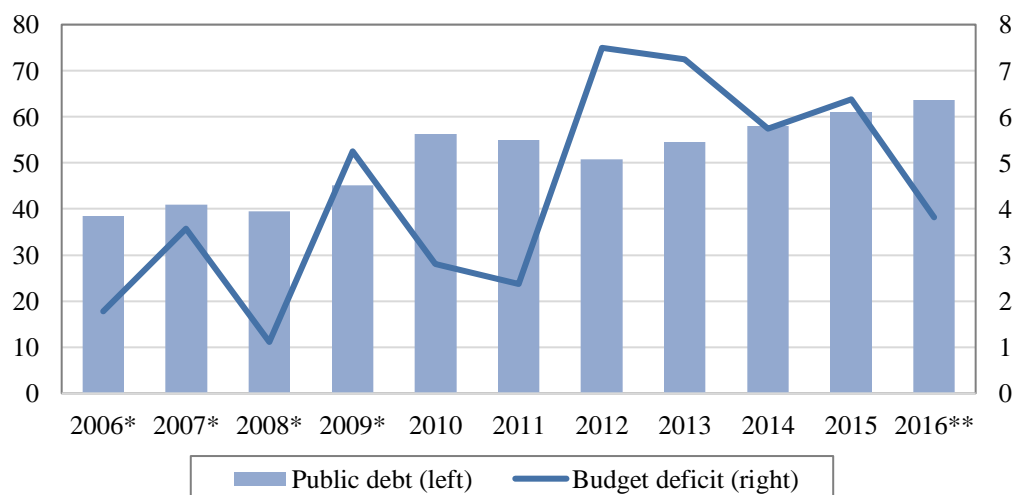


Note: \*\*The 2016 data is the second time estimation.

Source: The author's calculation based on the Ministry of Finance's data (2007-2017).

As the state budget always exceeds the total revenue, Viet Nam has witnessed a high state budget deficit for several years, followed by a continuous increase in public debts. Figure 6.3 shows that the budget deficit of Viet Nam is always above 4% of GDP in 2006-2016.

**Figure 6.3. State budget deficit and public debts, 2006-2016 (%GDP)**



Note: \* Data from the IMF (2018), \*\*The 2016 data is the second time estimation.

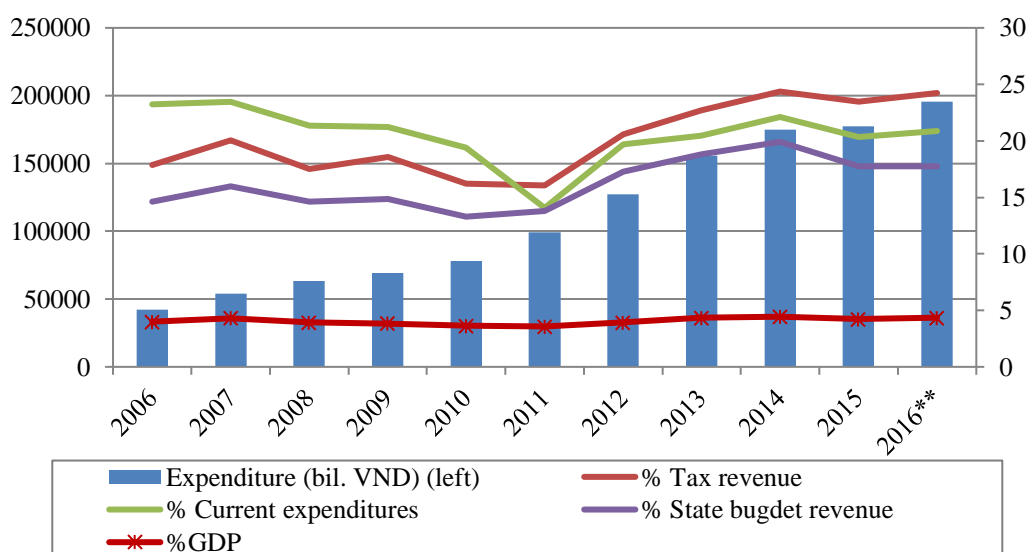
Source: The author's calculation based on the Ministry of Finance's data (2007-2017).

### Expenditure on Education

Expenditure on education is increasing in terms of spending number and stable in proportion. From 2014 to 2016, education expenditure accounted for about 24% of the total tax revenue, which

equals to 21% of the current state budget expenditures, being equivalent to 18% of total state budget revenue and about 4% of GDP.

**Figure 6.4. Expenditure on Education, 2006-2016**



Note: \*\*The 2016 data is the second time estimation.

Source: The author's calculation based on the Ministry of Finance's data (2007-2017).

Viet Nam adopts several expenditure policies for the vulnerable groups to gain access to education, such as Support policy for ethnic minority students in accordance with Decision No. 82/2006/QD-TTg dated 14 April 2006 of the Prime Minister; Support policy for semi-boarded students in accordance with Decision No. 85/2010/QD-TTg dated 21 December 2010 of the Prime Minister; policy to support high school students in regions with extremely difficult socio-economic conditions under the Prime Minister's Decision No. 12/2013/QD-TTg of January 24, 2013; policy on exemptions and reductions of tuition fee and study expenses for students of poor and near-poor households according to the Government's Decree No. 86/2015/ND-CP dated October 2, 2015; policy to support the cost of studying for ethnic minority students, based on Decision No. 66/2013/QD-TTg dated November 11, 2013 of the Prime Minister; policy of supporting students with disabilities in poor and near-poor households to study at educational institutions under Joint Circular No. 42/2013/TTLT-BGDĐT-BLDTBXH-BTC dated 31 December 2013.

According to fund allocation for education, the minimum amounts for mountainous, highland and island provinces have higher coefficients than the delta provinces. According to the Decision No. 46/2016/QD-TTg, fund allocation per person of schooling age in the mountainous area and the highland, as well as the island, is 1.4 times higher than standard fund allocation. Specifically, fund allocation for delta provinces is 2,527,000 VND per person while the figure for the mountainous

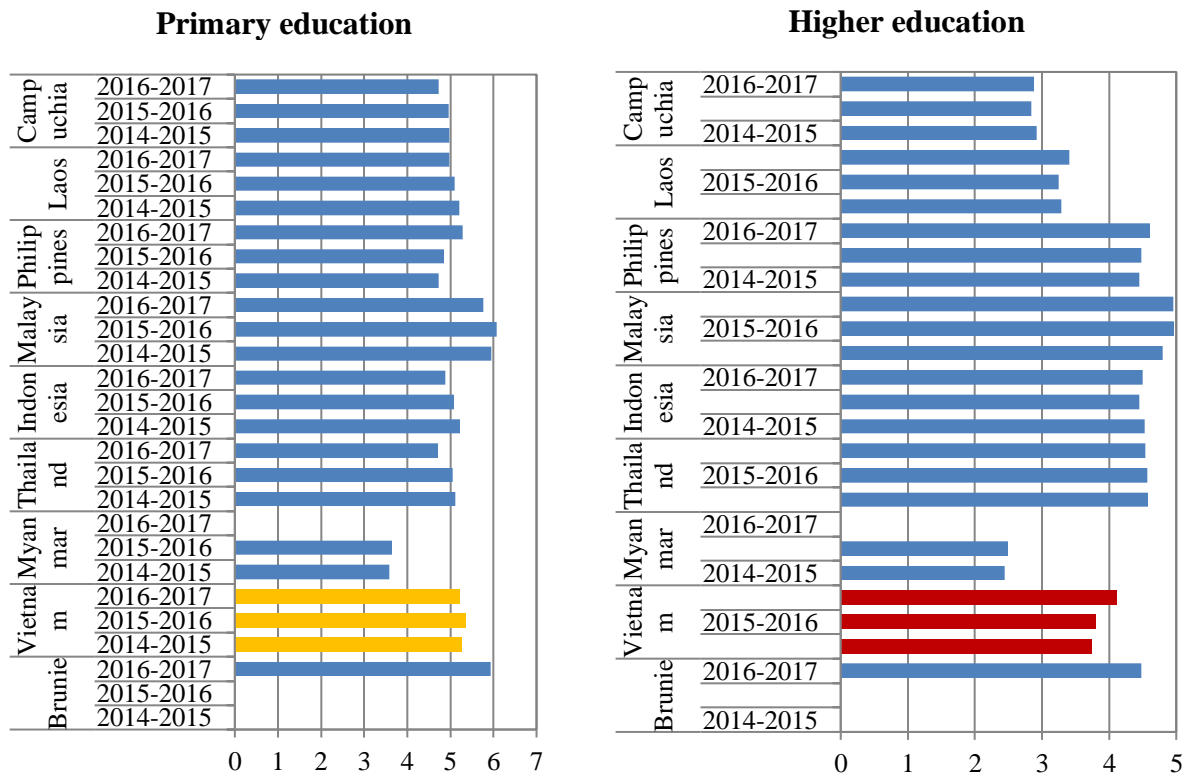
area is 3,538,000 VND per person, and the figure for the highland and the island is 5,054,000 VND.

In addition to the policy for disadvantaged groups, Viet Nam implements a tuition fee exemption policy for all primary pupils nationwide (Decree No. 86/2015/ND-CP). However, many experts are criticizing this policy because the tuition fees that the government reimburses for schools are within the minimum rate and are unsuitable for the living standards of many regions. In many schools in the cities, students who attend semi-boarding schools will have to pay teachers extra money for extra hours in the afternoon. Some schools also impose very high charges for facilities such as air-conditioners, electricity, water, projectors, computers for teachers and toilets.

In addition, many experts do not support investment in tertiary education in Viet Nam. They say that the proportion of college and university students is only around 10% of the population. However, a large amount of investment is spent on this education level. Ones who can access to higher education usually are in medium-income families and above, or come from favorable areas. Preschool education is rarely invested even though every child must attend this level of education. Moreover, the good investment in preschool will help children achieve a good basis of health and capacity for the next levels.

Although it is believed that much investment is implemented for higher education, according to the Global Competitiveness Index (2016-2017), education in Viet Nam's universities, colleges, and vocational schools are still under-represented in Southeast Asia. Higher education in Viet Nam is higher than that of Laos, Cambodia, and Myanmar. While primary education in Viet Nam was ranked third in Southeast Asia (except Singapore and East Timor) after Malaysia (Figure 6.5)

**Figure 6.5. The Global Competitiveness Index, 2014-2017**



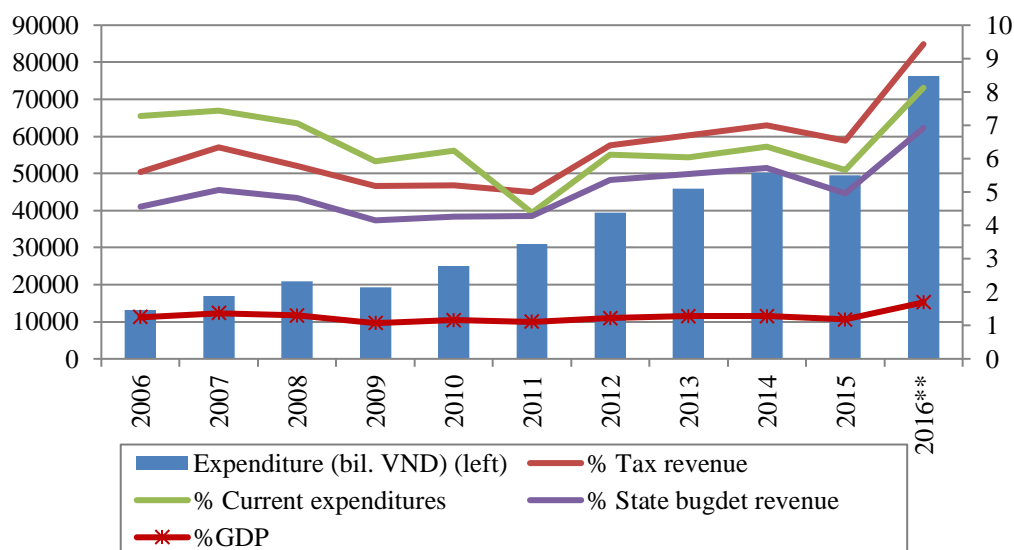
Note: The highest score is 7.

Source: World Economic Forum (2018)

### Healthcare Expenditure

Medical healthcare spending is rising in revenue and proportion, especially after 2015. However, the share of medical healthcare spending is much smaller than that of education. In 2016, medical spending accounted for more than 9% of the total tax revenue which was equivalent to more than 8% of current state budget expenditures nearly 7% of the state budget revenues and 1.7% of GDP.

**Figure 6.6. Healthcare Expenditure, 2006-2016**



Note: \*\*The 2016 data is the second time estimation.

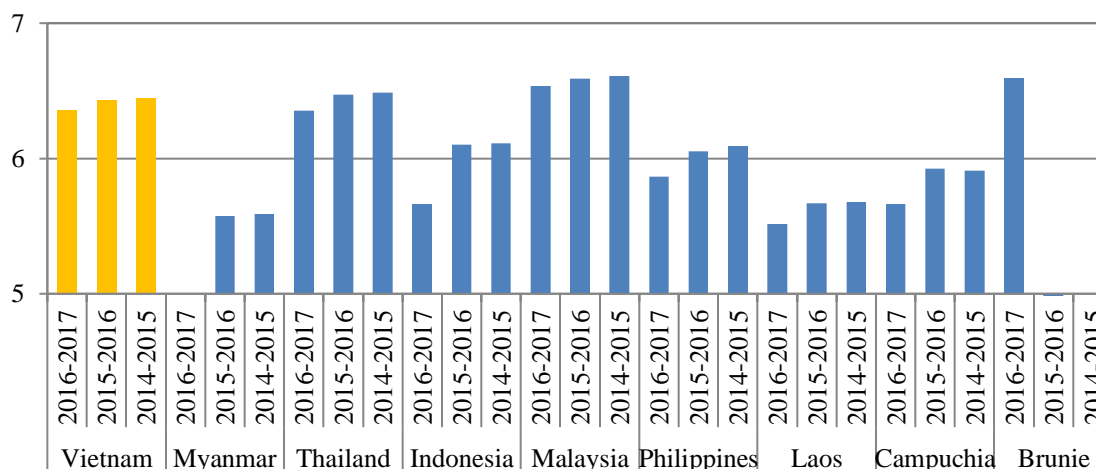
Source: The author's calculation based on the Ministry of Finance's data (2007-2017).

Viet Nam implements various policies to support access to health care (buying medical healthcare insurance card) for the vulnerable groups. These groups, including the poor, ethnic minorities, children under 6, and the elderly above 85 years old, will be provided with free health insurance cards and offered completely free medical examination and drugs on the list of health insurance cards when seeking health treatment.

Meanwhile, the near poor, pupils, students of agricultural, forestry, fishery and salt-making households with average living standards will be partially funded for the purchase of health insurance cards. According to Decision No. 46/2016/QĐ-TTg on stage budget distribution, the mean healthcare spending per capita is 246,900 VND while the figure is 333,300 VND for mountainous areas and 469,100 VND for highlands and islands.

Results in the health sector are still limited. The number of doctors per ten thousand people in Viet Nam is lower than the average for developing countries (30 doctors per ten thousand people). The number of beds per ten thousand people in Viet Nam is only equal to that of Bangladesh, India, Indonesia, and Myanmar (about 11 beds per ten thousand people). However, the Global Competitiveness Index (2016-2017) ranked Viet Nam among the top 3 countries of Southeast Asia (except Singapore and East Timor) (Figure 6.7).

**Figure 6.7. The Global Competitiveness Index, 2014-2017**



Note: The highest point is 7.

Source: World Economic Forum (2018).

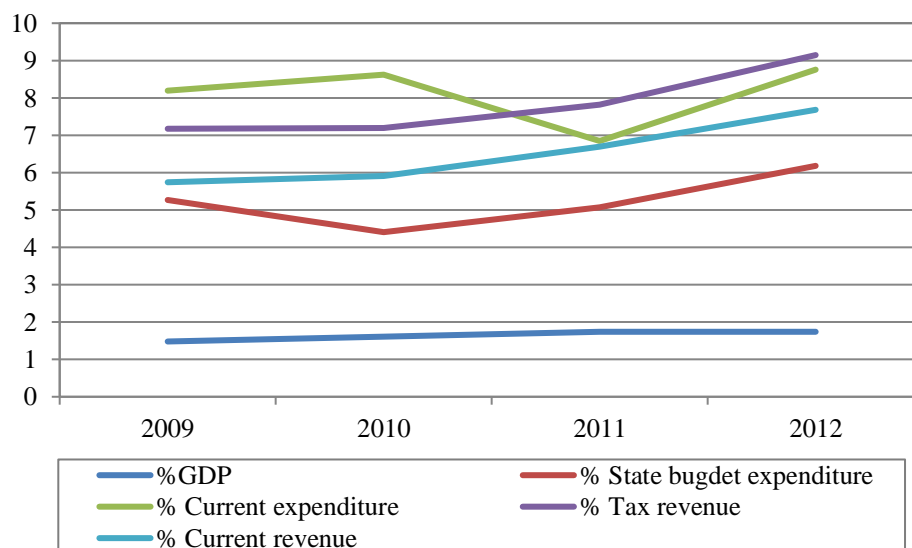
### Expenditure on Agriculture

The budget expenditure in Viet Nam are not aggregated by sectors, so the data on agricultural expenditure is not available in the state budget revenue and expenditure report. The spending on agriculture is scattered in the following expenditures: expenditures on national target programs for afforestation or rural infrastructure (roads, canals) construction, expenditure by the Ministry of Agriculture and Rural Development, expenditures of self-sources of provincial departments of agriculture and rural development. In addition, the Ministry of Agriculture and Rural Development's budget statements are only available up to 2011, on the website of the Ministry of Finance. The calculation on the figures of the expenditure on agriculture is rather complex as well.

According to WB (2017), state budget expenditure accounted for less than 2% of GDP, 10% of the total tax revenue and 8% of the total state budget revenues (Figure 6.8).



**Figure 6.8. The State Budget Expenditure on Agriculture, 2009-2012**

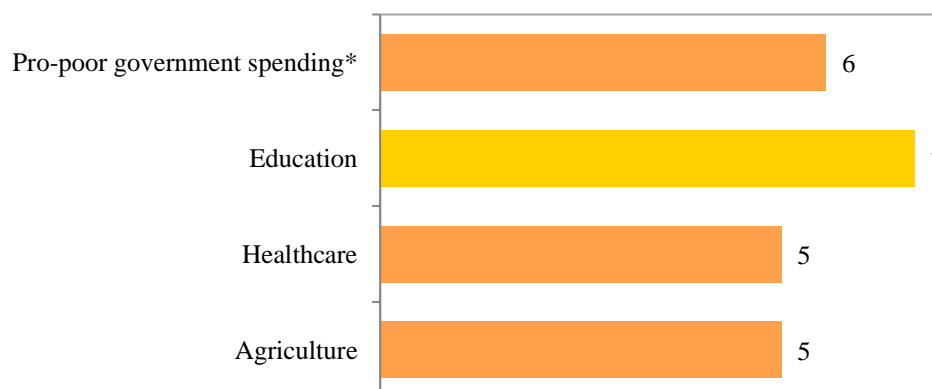


Source: WB (2017), Viet Nam Public Expenditure Review, page 59.

Some policies on agricultural expenditures include a policy to support the protection and development of paddy land under the provisions of the Government's Decree No. 35/2015/ND-CP on management and use of paddy land; policy on exemptions of irrigation charges according to the Government's Decree No. 67/2012/ND-CP. The National Target Program on forest development whose main beneficiaries are ethnic minorities is also implemented annually. In addition, concessional loans from the Viet Nam Bank for Social Police also target farmers through the Farmer's Union or the Women's Union.

### The result of grading Fair Tax Monitor Index

**Figure 6.9. State budget expenditures for the group of vulnerable people**



Note: \*This index was graded by averaging all the other indices in Criteria 5 (Appendix 4).

Source: Authors' calculation from FTM questionnaire

State budget expenditure for the group of vulnerable people in Viet Nam is rated at an average level. Education is graded 7 out of 10 points, higher than grades of healthcare and agriculture (at 5 points). Although state budget expenditure for education accounts for 20% of the total, there are no priorities for women in terms of education and healthcare service access. Moreover, expenditures for health care and agriculture are less than 10% of the total. Agricultural policies do not take account of gender factor. There is also no clear evidence that state budget expenditures for agriculture are based on the demand of the group of vulnerable people and small agricultural households. This is partly because transparency and accountability of the policy on state budget expenditure for agriculture are still very low.

## **CHAPTER 7: TRANSPARENCY AND ACCOUNTABILITY IN THE REVENUE AND EXPENDITURE OF THE STATE BUDGET**

Chapter 7 will mention the last part of FTM questionnaire, which consists of questions about transparency and accountability in terms of state budget revenues and expenditures. FTM rates transparency and accountability of the tax system via indicators about information availability, the audit of tax agencies and citizens' engagement. Information availability is not only information about state budget revenues and expenditures but also information about enterprises. Citizens' engagement takes place in both making process (contribution of opinions) and execution process (complaint and denunciation).

### **Accessibility to information on budget revenues and expenditures**

Article 15 of the 2015 Law on the State Budget clearly provides the data on the state budget and other legal documents related to state budget revenues and expenditures. Residents can access the latest central government agencies' documents at <http://vbpl.vn/pages/portal.aspx>. With legal documents which have not yet been approved, they are publicized on <http://duthaoonline.quochoi.vn>. Data on budgetary expenditures and revenues are published on <http://www.mof.gov.vn>. In addition to their own websites, the ministries and state agencies also have sections on legal documents related to their fields. For example, people and enterprises can look at tax-related documents at the General Department of Taxation's web-system (<http://tongcucthue.org/>).

In addition to online posting, the Ministry of Finance also publishes books that look into the annual budget statement. The reports on draft laws and opinions of National Assembly representatives on the draft law are compiled and printed in the book of records of the National Assembly. This publication, which is issued annually, provides deep insight into the discussions of the National Assembly.

However, in addition to the revenues included in the state budget, Viet Nam also has revenues that are outside of the state budget which is barely publicized, though they are regulated in a legal document and are of a tax or charge nature.

In some OECD countries, revenues from social insurance, health insurance, and unemployment insurance (collectively referred to as social security revenue) are also calculated and publicized in the state budget revenue data. In Viet Nam, these items are not reflected in the total revenue of the state budget. For example, the Decree No. 84/2009/ND-CP stipulates that the petrol price includes the amount of the price stabilization fund that consumers have to pay. In the guiding circulars of the Ministry of Finance (for example, Circular 56/2009/TT-BTC), the stabilization fee can be up to 500 VND/liter. In the circular, enterprises must report to the Ministry of Finance (Department of Price Management), but later information on the use of this fund has still not been disclosed

publicly by the Ministry of Finance. Some off-budget funds are also not published, such as road maintenance funds and environmental protection funds although these two funds are collected according to Decree No. 18/2012/NĐ-CP and Decree No. 132/2015/TT-BTC.

Under the Law on Tax Administration (Law No. 78/2006/QH11), individuals and organizations must provide sufficient information to the tax agencies. This information will be kept confidential by the tax agencies and will only be provided for inspection or policy-making purposes at the request of a government agency. However, information about individuals and organizations who commit tax evasion or tax law violations can be announced to the public. The public can not access financial information or other information related to shareholders of the enterprises unless it is either listed on the securities market or must be publicized on the basis of Circular No. 155/2015/TT-BTC. In that circular, listed companies are also required to disclose only the major shareholders other than any minority shareholder and the ultimate owner of the company.

### Audit

Tax agencies are usually audited every two years. The units with abnormal signs may be subject to annual audits. Auditing the tax agencies is the State Audit. The State Audit is an agency that is independent of the General Department of Taxation and the General Department of Customs. According to the Law on State Audit in 2015 (Law No 81/2015/QH13), the State Audit which is an independent body only complies with the law. The subject of the State Audit is the management and use of public finance, public assets, and related activities.

The process of auditing the State budget Statement report shall comply with Decision No. 03/2013/QĐ-KTNN. Audit results are usually reported and discussed at the meeting sessions of the National Assembly. Citizens can get this information through direct coverage of National Assembly meeting sessions or newspapers. However, the full audit report has not been publicized in any forms.

### Transparency

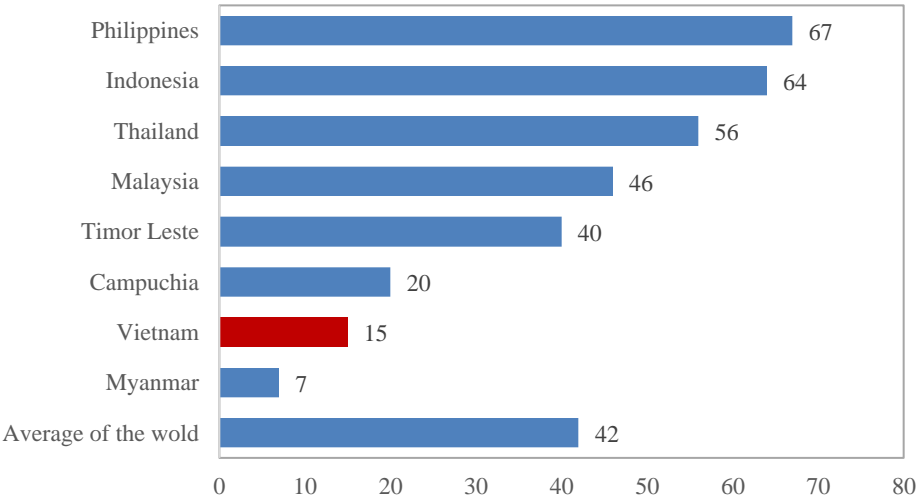
Information on the state budget revenues and expenditures published in the State Budget section on the website of the Ministry of Finance includes the state budget plans, the first time budget estimates, the second time budget estimates and final account of the State budget. In Viet Nam, regardless of being central government or local expenditures, the information is compiled into the balance sheet of state budget revenues and deficits. Unlike that of some other countries, its publicized budget table only has information about the central budget revenues and expenditures.

The state budget plans are usually announced in December of the previous year and occasionally released early in October. In 2010, this figure was posted on the website from August. In the state budget estimates, budget revenues are often divided into different sources such as revenues from crude oil, domestic revenues, and revenues from international trade. Meanwhile, expenditures are

usually divided into different types, including current expenditures, capital expenditures, debt and aid payments, salary reform and personnel reductions. In the estimate, there are also estimates of revenue sources from different taxes as well as estimates of budget revenues and expenditures of ministries, central agencies, and localities nationwide. However, the State Budget estimates do not reveal the data of non-budget funds, including the Petrol Price Stabilization Fund, the Tobacco Harmful Effect Control Fund.

In 2018, the Open Budget Survey (OBS) index has assessed the level of budget publicity in Viet Nam with 15/100 points. The OBI of 2017 is low partly because Law on State Budget 2002 does not require disclosure of the draft State Budget Estimate to the National Assembly. From 2017, according to the provisions of Law on State Budget 2015, draft state budget estimates must be made public.

**Figure 7.1. Viet Nam's Open Budget Index compared to the region in the OBI 2017**



Source: IBP and CDI (2018)

Since the budget system consists of many dependent levels of budgets, the statements of state budget reconciliation data will be interpreted only after 18 months and will be published once being approved by the National Assembly. However, in the publicized statement report, budgeting data of provinces, ministries, and ministerial-level agencies are often incomplete, especially in the years before 2016.

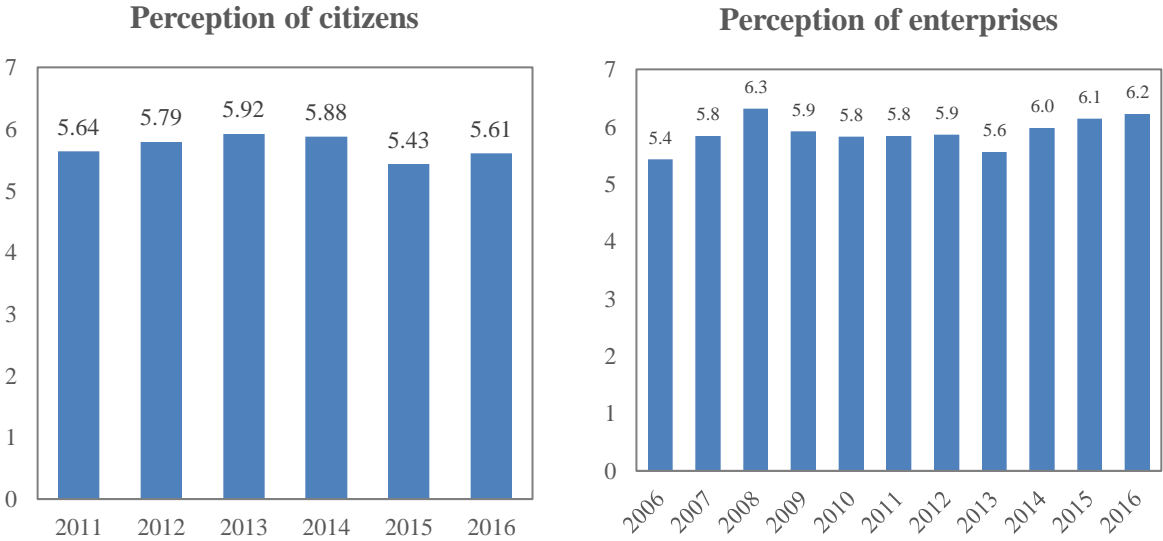
Data on the budget deficits due to tax exemptions in Viet Nam are not statisticized. Since the tax rate in Viet Nam is determined by the self-declaration, self-assessment, and self-responsibility, it is very difficult to calculate the budget deficit due to tax exemptions and reductions. However, this data is of great importance to show policymakers how much revenue that Viet Nam has lost due to tax exemptions and reductions. While in order to attract investment enterprises, the provinces/cities and the state budget have to spend large expenditures on building infrastructure.

Due to the same mechanism, the list of companies with tax exemptions is never compiled, even at the local level. The information about the tax exemptions of some large companies can be publicized after being inspected by the tax agencies at the request. And this information is disclosed to the public if it is raised in National Assembly meeting session or internal tax department meetings. These inspection meetings are conducted periodically and the statistics will be re-analyzed based on the timeline and periodic report.

Explicit cost-benefit analysis of tax exemptions has never been conducted, even with the tax exemptions of a typical company. The current benefit-cost analysis is the one conducted each time a law or legal adjustment is made. If the content of the law contains the issues of tax exemption and reduction, it will be analyzed along with other articles. Many experts say these cost-benefit analyses are too sketchy and are not considered a true cost-benefit analysis. It does not indicate which group of people will benefit and which group of people will suffer, how much benefit is earned and how much is lost if ones are affected.

Although the transparency theme is frequently mentioned in the government and localities' meetings, the satisfaction of the enterprises and the people about the transparency and accountability of the authorities is still not very likely to be met (Figure 7.2).

**Figure 7.2. Transparency**



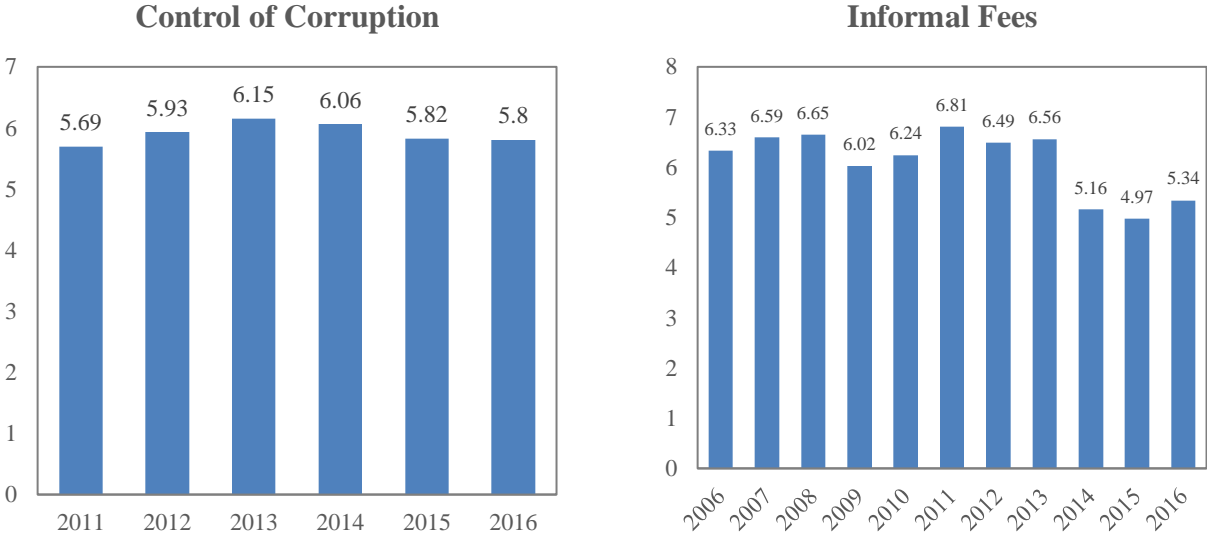
Source: CECODES, VFF-CRT & UNDP (2017), VCCI (2017).

**Corruption**

Although the government has endeavored to publicize information relating to the budget and the legal documents, the behaviors of local governments when enforcing government regulations are also very important. According to VCCI (2017), there have been up to 65% (2015) and 58% (2016)

of enterprises which say that the state of harassment when handling business procedures is still frequent. The number of enterprises admitting that this expense accounted for 10% of their turnovers is 9% -11% of the interviewed enterprises (2014-2016). However, this is only true for 6-8% of interviewed enterprises in 2008-2013. The Provincial Governance and Public Administration Performance Index (PAPI) also shows that the public perceptions and experiences of the people in corruption control, publicity and transparency have not changed much from 2011-2016. The corruption control index remains in the range of 5.69 to 6.15 points.

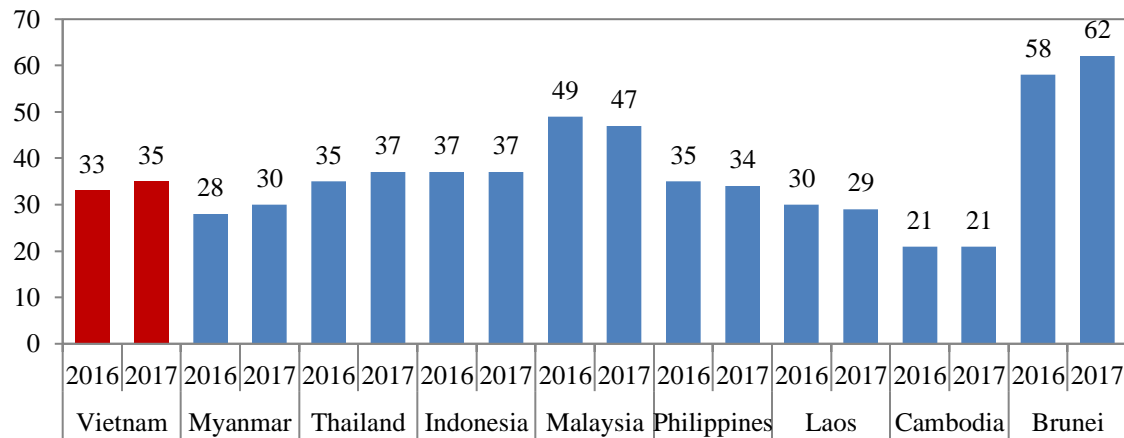
**Figure 7.3. Corruption and Informal Fees**



Source: CECODES, VFF-CRT & UNDP (2017), VCCI (2017).

According to Transparency International (2016, 2017), Corruption Perceptions Index of Viet Nam is only higher than that of Cambodia, Laos, and Myanmar and on par with that of Philippines.

**Figure 7.4. Corruption Perceptions Index, 2016-2017 (điểm)**



Note: The highest score is 100. The lower the score corresponds to higher levels of corruption.

Source: Transparency International (2016, 2017)

### Complaints and Denunciations

Chapter 13 of the 2006 Law on Tax Administration (amended in 2012) contains the provisions on complaints, denunciations, and institutions of legal actions in the tax domain. The complaint and denunciation mechanism related to tax issues is commonly prescribed in the 2011 Law on Complaints and Law on Denunciations. According to the Law on Complaints, citizens have the right to complain by themselves, to complain about lawyer support, or to participate in dialogue with the authorities. Upon receipt of the complaint, the authorities must take actions and respond to the complainants. In the Law on Denunciations, the denunciators' personal information shall be safeguarded and they themselves are also protected by the authorities when being threatened, retaliated or offended.

In the General Department of Taxation, there is The Department of Internal Inspection. Meanwhile, the taxation departments of the provinces have the chamber of the internal inspection to address the people's complaints. In cases of criminal features, the public security agency will be invited to participate. In Viet Nam, there is no court of taxation but tax-related lawsuits will be handled by the administrative court.

The Ministry of Finance also promulgates decisions to deal with tax officers who violate regulations on tax administration (Decision No. 1849/QĐ-BTC of 2007). Violations of tax officials are often discussed at National Assembly meeting sessions. The Minister of Finance affirms that over 300 tax and customs officers are subject to disciplinary action or punishment for violations of the law and corruption (Tien Phong, 2017). In the first 6 months of 2017, the Ministry of Finance carried out 829 internal inspections, which publicly criticized 326 officers, reprimanded four officers, warned three officers, lowered the salary of one case and transfer to the criminal investigation of one incident (Viet Namnet, 2017).



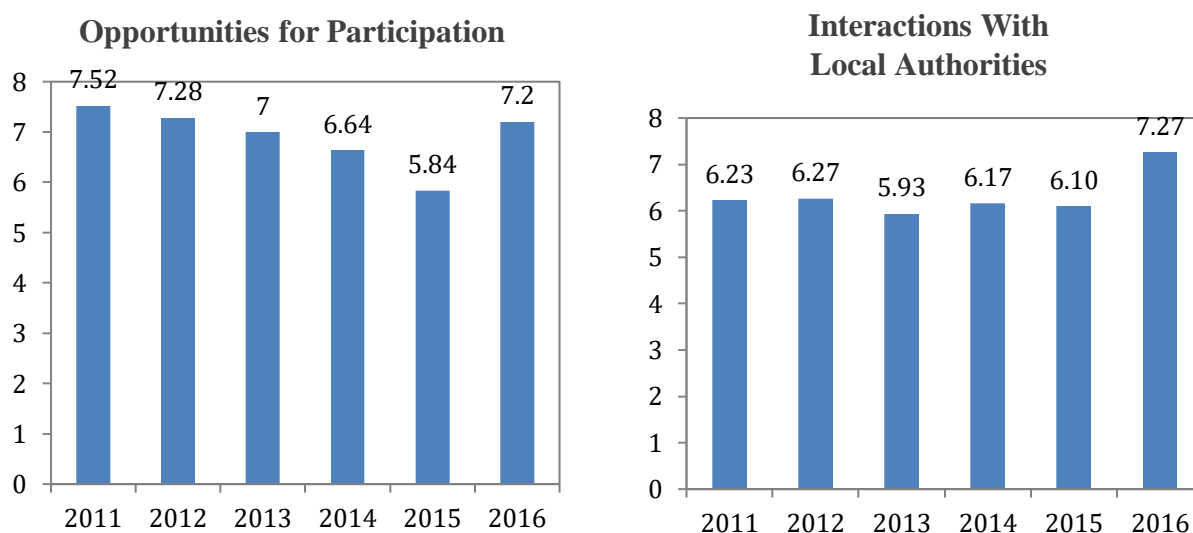
## Participation of citizens

Before enacting a new law or making amendments and adjustments to the old law, the government makes all the drafts of the law publicly available on <http://duthaonline.quochoi.vn>. In addition, the drafting committee or drafting team also organize seminars or workshops to introduce the draft. Through the seminars or workshops, groups of stakeholders can contribute ideas to the draft. At the same time, people who have comments on a legal document may also express their opinions in the meetings with National Assembly representative at the local level.

Many experts indicate that the meetings to gather people's comments are of a formal nature. Two of the four experts we have interviewed strongly agree with this view. Law's drafts are proposed quite close to the approved date, so people and social organizations do not have enough time to research and make quality judgments. By-law documents' process is even faster and more exclusive, so people are barely allowed to participate in the process of policy development.

However, the other two experts argue the opposite. One of the two experts has cited the participation of Enterprises Association and social organizations in revising of Decree 109/2010/ND-CP in 2016, while the other affirms that all comments on the draft will be compiled for consideration by the drafting committee. If an idea is highly representative and reasonable, it will be considered. If the comments are not accepted, they will have to be explained to the National Assembly. It is possible that from 2016 onwards, the participation of people in the legal process has been much different from previous years. The two indicators in PAPI in Figure 7.3 also reflect this.

**Figure 7.5. Participation at Local Levels in PAPI, 2011-2016**



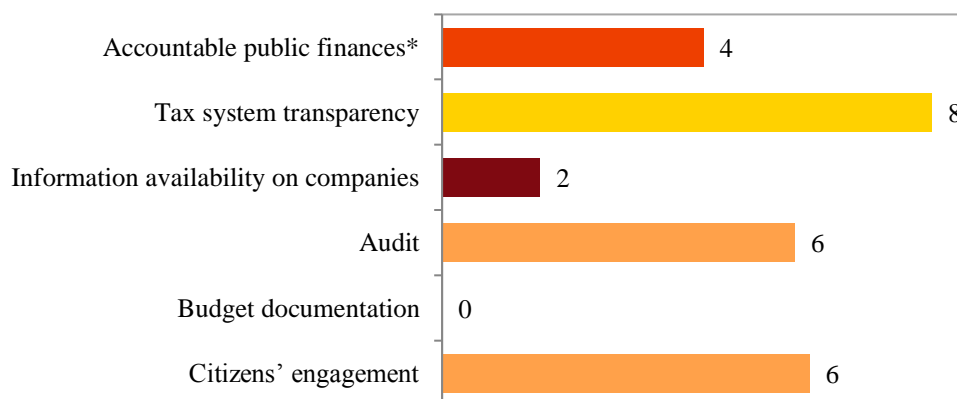
Note: The highest score is 10.

Source: CECODES, VFF-CRT & UNDP (2017).

The people are just encouraged to participate in the drafting of legal documents but do not have much opportunity to participate in the allocation of the state budget, especially for the allocation of the expenditure source and the implementation of the expenditures. Encouraging the people to be involved in these processes is of great importance because they are the direct beneficiaries of the expenditures who are also the most aware of the needs of their community. When people are more involved in the process of allocating and monitoring state budget expenditures, the negative phenomena will be reduced and the quality of expenditures will be improved.

### The result of grading Fair Tax Monitor Index

**Figure 7.6. Transparency and accountability**



Note: \*This index was graded by averaging all the other indices in Criteria 6 (Appendix 4).

*Source:* Authors' calculation from FTM questionnaire

In terms of Transparency and Accountability, item tax system transparency is rated at a high score. Viet Nam's tax system is also publicly available on websites of relevant ministries and the government. Enterprises and individuals can search for information of interesting legal documents easily. Based on that, they can make self-declaration and self-payment for taxes.

Two items receiving the lowest points are Budget documentation and Information availability on enterprises. Questions to assess Budget documentation are mainly about budget estimates proposed to the National Assembly for approval. Because the draft for State budget estimate for 2017 is not publicized, this item receives a significant low grade. Moreover, in state budget statement, differences between estimated and implemented data are not. Although the increase of expenditures are also questioned in the National Assembly when the National Assembly considered and approved the state budget settlement, the availability of information about enterprises paying taxes in Viet Nam is also restricted. Only listed companies on the securities market are obliged by law to publicize names of shareholders, most of which are major shareholders. The information on the ultimate owner of the business is not published in Viet Nam.

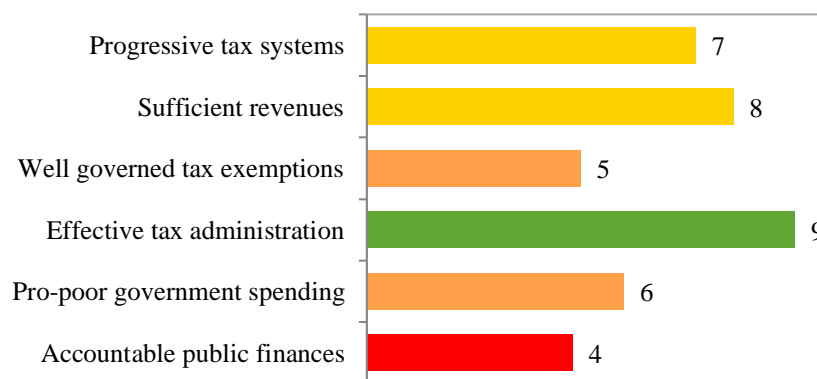
## CHAPTER 8: CONCLUSION AND RECOMMENDATION

Regardless of the country or its political system, the system of budget revenue and expenditures are always of great importance. To be able to provide its people with quality public goods and public services, the state needs its own apparatus and personnel. Therefore, money is needed to operate the apparatus. Economists have proposed the theory of Laffer curve concerning the size of the state budget revenue that is most ideal for the economy. A small amount of revenue corresponding to a small state size which is not sufficient to meet the basic needs of public goods and services for the economy will have an adverse impact on economic development. Meanwhile, a large amount of revenue equivalent to a large state size will cause people to incur tax burdens, this will also affect the dynamics of economic development in the private sector. The question of how much revenue is effective for the economy is always a question to many economists.

The developers and social activists are more concerned with the issues of equity rather than efficiency. The developers will often pay more attention to the tax burden that one has to suffer and to the fact that when spending, who deserves a greater share of the budget. The answer to the developers and social activists is often vulnerable who should be incurred the least taxes and should get more of what they have been enjoying now. In reality, given their low contributions to the budget, their voices in some countries are not so influential, thus their needs are often not reflected in government spending plans.

### The results of the grading Fair Tax Monitor index

**Figure 8.1. Viet Nam's Fair Tax Monitor Index in 2017**



*Source:* Author's calculation from FTM's questionnaire

Fair Tax Monitor index (FTM) with a 10-point scale with six indicators: progressive tax systems, sufficient revenues, well-governed tax exemptions for enterprises, tax administration, state budget expenditures for the poor and accountability public finances. Based on the question of this indicator, tax administration in Viet Nam is highly rated with a score of 9/10. The second indicator has a score of 8/10. Indicators of progressive tax system rank third with a score of 7/10. Management of tax incentives for Viet Nameese enterprises ranks the lowest with more than 4 points. The state budget expenditure for the poor in this questionnaire is evaluated in only three fields, namely expenditure on education, expenditure on healthcare and expenditure on agriculture. According to the questions of the data, the state budget expenditure for the poor of Viet Nam is rated only 6/10.

Through the questionnaire of the Tax Equity Index, it is clear that the advantages and disadvantages of the Viet Nameese tax system are as follows:

On the plus side, Viet Nam's tax system was established with a variety of taxes in line with international practices. The legal basis for these taxes is the tax laws enacted by the National Assembly. The roadmap for taxation is generally consistent with the pace and level of economic development. In addition, tax policies also take into account the issues of redistribution, preferential treatment, and low-income exemptions, or for start-ups and high-tech investment projects, having good impacts on the environment or located in the remote from mountainous areas, or islands. Viet Nam's tax system eliminates tax discrimination between different economic sectors as well as various domestic and foreign entities.

Regarding tax administration, Viet Nam has increasingly made use of information technology in tax collection. Electronic databases, electronic declaration systems, and electronic tax records, etc. have been developed and put into use, contributing to the increasing efficiency of administrative procedures and the considerable saving of time and expense for both taxpayers and tax collectors. The principle of tax collection is that individuals and organizations conduct self-declaration, self-submission, and self-responsibility. In addition, tax collection organizations are consistent from the central to the local level (including sectors and economic sectors).

On the downside, the tax system of Viet Nam still has some limitations, mainly regarding the issue of tax evasion and tax debt. The objective reason for this is because the transactions in the economy are mainly through cash rather than invoicing and contracts. Therefore, some tax reduction and reimbursement policies are easily taken advantage of for tax evasion. On the other hand, the

prevention of transfer pricing has not been effective, causing difficulties for the tax collection of foreign investors and multinational companies.

Moreover, there is no official statistics on the tax losses caused by tax exemptions. There are also no conclusions about the benefits and costs of tax incentives for enterprises, especially for multinational corporations. Viet Nam is carrying out tax reforms in the direction of removing social policies from the tax system. Additionally, tax on the poor still needs to be revised, especially in health care.

The results also show that transparency and accountability in revenue and expenditure are relatively low. This may be one of the reasons why every draft of tax reform receives a strong response from public opinion as many people are doubtful about whether the tax revenues they hand in are used effectively or not.

## Conclusion

From the perspective of developers and social activists, the report of the Fair Tax Monitor Index provides an adequate insight into the Viet Nameese state budget revenue system. The report primarily focuses on assessing the fairness of the tax system. In addition, it also includes a certain section which evaluates the budget expenditures, tax administration issues and the involvement of citizens in the formulation and implementation of tax policies. From the analysis of the report, different aspects of the budget revenue and expenditure system have been revealed.

The report agrees with some experts that Viet Nam's state budget revenue is accounting for a large proportion of GDP and the structure of revenue is changing in an unfair manner. Despite the reduction, state budget revenues still account for nearly 25% of GDP (2016). If adding social insurance, unemployment insurance, health insurance, and off-budget revenues (such as OECD countries), the figure is likely to double. But budget expenditure always exceeds budget revenues. Budget expenditure remains close to 29% of GDP (2016) after falling from a peak of 40% of GDP (2009).

Viet Nam is struggling with the problem of budget balance. While the spending tasks of the budget are increasing. Many localities have relied on a one-time revenue source such as land selling (Da Nang). The central government also has to rely on revenue from crude oil to offset the decline in import and export taxes for a number of years. Given the context that Viet Nam must comply with the terms of the FTA free trade agreements on removing the tariff barriers, the revenue from import and export will be reduced. However, in recent years, the cheap crude oil price has increased the pressure on the budget. In some provinces such as Danang, one-time source of revenue like the land sale is utilized so as to comply with the expected state budget goal. In 2017, the Ministry of Finance has considered increasing the VAT rate to compensate for the state budget. Many experts say that this move will increase the proportion of indirect taxes and will go against the trend of the developed countries.

In addition to increasing revenues, there are two ways to reduce expenditures to reduce the state budget deficit. In order to balance the budget revenues and expenditures, the Government should take drastic measures to tighten current expenditures, such as policies to reduce staff, rearrangement of the state apparatus, restriction on expenditures for the unions and divestment of capital from state-owned enterprises. The above measures have been raised in many reports and researches but the ability to implement these measures effectively is a big question for the government of Viet Nam.

In the process of restructuring the budget revenue, the proportion of direct taxes has been decreasing sharply in total tax revenue, especially after 2011. The proportion of direct taxes fell to 35% of total tax revenue (2016), while indirect taxes increased to nearly 65% of the total tax revenue. The proportion of indirect taxes may continue to increase in the coming years if the draft of VAT Law 2017 is approved. According to experts, indirect taxes are regressive, while direct taxes are progressive. With the change in the proportion of indirect taxes, many experts are concerned that low-income people are paying higher income tax rates than high-income earners.

Since 2014, VAT has accounted for the largest proportion of the revenues, with about 24% of the total revenue. CIT has ranked the second with less than 20%. The PIT accounts for 4% in the period 2006-2016. Wealth tax has even more pessimistic figures than the revenue from the PIT. Import and export taxes and special excise duty are higher than the PIT. The new environmental protection tax has just been newly introduced but has grown sharply in influence since 2014. Non-tax revenue has been on the rise in recent years.

The tax system of Viet Nam is developing towards the strong application of information technology in tax administration and the reduction of staff. As tax collection mechanism is the process of self-declaration, self-payment, and self-responsibility, the tax department has published all tax-related documents on the website, and also provided software and forms to people so that they can declare tax automatically. The General Department of Customs has gradually turned to the online self-declaration and self-payment of international trade tax for enterprises. Due to more investment in information infrastructure, in the 2010s, the expenditure of the tax sector doubled compared to the increase in state budget expenditure in general.

The Ministry of Finance has publicized many items and sections in the state budget revenues and expenditures, yet, the revenues from non-budget funds have not yet been updated on the websites. State Budget Law 2015, which has been introduced since 2017, has made significant progress in budget transparency, but there exists a certain gap between the legal and regulatory frameworks.

Citizens have been encouraged to participate in the policy-making process. There are many channels via which the people can comment on draft legislation. If not taking the opinions of the people, legal drafter will have to confront the National Assembly to put forth their reasons. However, the people are not encouraged to participate in the supervision of policy implementation.

Complaints and denunciations have been specified in different laws, but it would be better if there is a separate court for taxation issues.

## Recommendations

### General recommendations on revenue collection:

- ❖ Direct tax revenue accounts for a declining share, revealing that Viet Nam's revenue sources are largely relying on consumption tax (high regressive taxes). Therefore, any proposal on increasing consumption tax should be considered with caution. Although consumption tax is considered neutral and effective in terms of revenues, it has a negative impact on the fairness in spending.
- ❖ The analysis also shows the limited role of tax related to property such as non-agriculture and agriculture land use taxes. In the coming time, Viet Nam needs to put more effort into issuing an appropriate wealth tax instead of increasing consumption taxes. For example, wealth tax can be used in place of non-agriculture land use tax (with a suitable tax design).
- ❖ Checking available tax exemption and tax incentive policies for enterprises, especially FDI enterprises, and openly publicizing to citizens. Based on which, calculating the tax loss due to tax exemptions and tax incentives like other developed countries.
- ❖ Periodically reviewing and adjusting the list of goods subject to excise tax. For example, air conditioners under 90,000 BTU, gasoline, and electric vehicles should be excluded from the commodity basket for the excise tax. In recent years, due to the severe weather condition, the air conditioner is a commonly consumed commodity. Gasoline has been levied with environment protection tax since 2011. Electric vehicles should be encouraged since they are environmentally friendly means of transportation. Nonetheless, it should be noted about the safety factor in transport circulation relatively with other current existing vehicles as well as applying environmental safety procedures for expired accumulators/battery.
- ❖ Reducing the number of business households paying the presumptive tax instead of current expanding tendency (Viet Nam Financial Times, 2016) since many experts say that presumptive taxes create budget loss and let corruption happen easily.
- ❖ Being stable with reform orientation in separating social policies from tax policies. To compensate for this, the government needs to do better budget allocating for the group of vulnerable persons.
- ❖ The non-tax budget revenue is increasing. The largest sources of this revenue stem from current and capital revenues. Many experts indicate that this revenue source is from the sale of assets (land), which is a very unsustainable revenue. In the near future, this revenue will quickly deplete and the state budget will suffer from a deeper deficit if there is no effective plan to reduce spending and to find a more sustainable source.

- ❖ The Ministry of Finance and the General Department of Taxation have developed the electronic tax declaration tools quite completely. Therefore, it is easy to grasp the number of individuals and organizations paying taxes. In the coming time, apart from revenue figure, tax indicators related to tax bases should also be included in the state budget public report.
- ❖ Further promoting the use of electronic invoices and non-cash transactions in the economy. This will help better control the tax database and tax revenue. Tax authorities also need to improve the efficiency of tax administration to reduce tax evasion.
- ❖ Continuing the reforms that the tax system has been trying to implement over the time such as cutting staff, and reducing current expenditures. This is also an indispensable trend when the tax system has basically conducted an online tax declaration and tax payment. This trend will also resonate with the promotion of cashless transactions, electronic invoices, and digital signatures. Hopefully, after having completed the huge investments in information infrastructure, the Ministry of Finance should closely control the cost of the tax system to reduce the sector's expenditure in the coming period.
- ❖ The General Department of Taxation continues to support tax declaration software for people and enterprises. Upon completion of online tax declaration and payment, the tax administration should proceed to the level that tax refund can also be conducted online so as to reduce the waiting time and travel costs.

**Recommendations on budget expenditures:**

- ❖ Viet Nam should try to restructure the budget expenditures to reduce public debt and budget deficit. The current situation of decreasing the spending instead of raising current budget revenues will go against the government's goal of reducing the tax burden on the economy.
- ❖ Medical healthcare expenditure is currently much lower than education expenditure. Expenditures for medical healthcare need to be increased, with close compliance with the health insurance policies.
- ❖ Agricultural spending is also very low. In the future, the government also needs to continue implementing road construction projects and irrigation works in the rural areas.
- ❖ Policymakers should continue to promote efforts that they have exerted over the last two years so as to encourage people to participate in the legislative process.
- ❖ If people request changes in the legal documents for their benefits, they need to join the social organizations to be able to contact and cooperate with the people who have the same idea. It is important to understand that the representative ideas are likely to be considered, while individual opinions are often difficult to be acknowledged.



- ❖ Viet Nam should clearly inform people of the revenues from non-budgetary funds. Since these funds' amounts and subjects are stipulated on the legal documents, they are, in nature, not different from the fees or charges on the economy.
- ❖ The government should also continue to improve transparency and accountability in state budget revenue and expenditure at all levels of government.
- ❖ Paving the way for the participation of both social organizations and the citizens in the state budget cycle, especially in spending, so that the expenditures reach the goal of equality and target the vulnerable groups rather than mere participation in drafting legal documents.

## APPENDIX

### Appendix 1. Budget Revenues Following by The Law on State Budget 2015

#### ***Article 35. Sources of revenue of central government budget***

1. The following revenues are wholly retained by central government budget:

- a) VAT on imported goods;
- b) Export and import duties;
- c) Special excise tax on imported goods;
- d) Environmental protection tax on imported goods;
- đ) Severance tax, corporate income tax, profits distributed to the home country and other revenues from petroleum exploration and extraction;
- e) Grant aid provided by the government of other countries, international organizations, other overseas organizations and individuals for Viet Nam's government;
- g) Collected charges for services provided by central regulatory agencies. Collected charges for services provided by central public service agencies and state-owned enterprises under the management of central regulatory agencies may be partly or wholly retained; the remaining amount shall be transferred to the state budget as prescribed by regulations of law on fees, charges, and relevant regulations of the law.
- h) Fees collected by regulatory agencies, except for registration fee prescribed in Point h Clause 1 Article 37 of this Law;
- i) Fines for administrative violations and other fines, confiscations collected by central regulatory agencies;
- k) Revenues from selling the state-owned property, including collected levies on land associated with property under the management of central organizations and units;
- l) Revenues from property under the State ownership under the management of central organizations and units;
- m) Recovery of investment by central government budget in business organizations; revenues from distributed dividends and profits of joint-stock companies, multi-member limited liability companies that have state capital and ownership of which is represented by a Ministry, ministerial agency, Governmental agency, or another central regulatory agency; revenues from post-tax profit that remains after making contributions to various funds of state-owned enterprises whose ownership is represented by a Ministry, ministerial agency, Governmental agency, or another central regulatory agency; positive difference between revenue and expenditure of the State bank of Viet Nam;
- n) revenues from the central financial reserve fund;
- o) Revenues from a surplus of central government budget;
- p) Revenues carried over from last year's budget of central government budget;
- q) Other revenues prescribed by law.

2. Revenues distributed between central government budget and local government budgets:

- a) VAT, except for that mentioned in Point a Clause 1 of this Article;
- b) Corporate income tax, except for that mentioned in Point đđ Clause 1 of this Article;
- c) Personal income tax;
- d) The special excise tax, except for that mentioned in Point c Clause 1 of this Article;
- đ) Environmental protection tax, except for that mentioned in Point d Clause 1 of this Article.

3. The government shall elaborate this regulation.

#### ***Article 37. Sources of revenue of local government budgets***

1. The following revenues are wholly retained by local government budgets:

- a) Severance tax, except for that on petroleum exploration and extraction;
  - b) License tax;
  - c) Levies on agricultural land;
  - d) Levies on non-agricultural land;
  - đ) Land levies, except for land levies mentioned in Point k Clause 1 Article 35 of this Law;
  - e) Rent for the lease of land, water surface;
  - g) Revenue from lease and sale of the state-owned housing;
  - h) Registration fee;
  - i) Revenues from the lottery;
  - k) Recovery of investment by local government budgets in business organizations; revenues from distributed dividends and profits of joint-stock companies, multi-member limited liability companies that have state capital and ownership of which is represented by the People's Committee of the province; revenues from post-tax profit that remains after making contributions to various funds of state-owned enterprises whose ownership is represented by the People's Committee of the province;
  - l) Revenues from local financial reserve funds;
  - m) Revenues from selling the state-owned property, including collected levies on land associated with property under the management of local organizations and units;
  - n) Grant aid provided by international organizations, other organizations, overseas individuals to local governments;
  - o) Collected charges for services provided by local regulatory agencies. Collected charges for services provided by central public service agencies and state-owned enterprises whose ownership is represented by the People's Committee of the province may be partly or wholly retained; the remaining amount shall be transferred to the state budget as prescribed by regulations of law on fees, charges, and relevant regulations of law;
  - p) Fees collected by local regulatory agencies;
  - q) Fines for administrative violations and other fines, confiscations collected by local regulatory agencies;
  - r) Revenues from property under the State ownership under the management of local regulatory agencies;
  - s) Revenue from public land and other public benefits;
  - t) Contributions by other organizations and individuals as prescribed by law;
  - u) The surplus of local government budgets;
  - v) Other revenues prescribed by law.
2. Revenues distributed between central government budget and local government budgets are specified in Clause 2 Article 35 of this Law.
3. Provision of additional funding for budget balancing, provision of dedicated additional funding by central government budget.
4. Revenues carried over from last year's budgets local governments.

## **Appendix 2: Budget Expenditures Following by The Law on State Budget 2015**

### ***Article 36. Obligatory expenditures of central government budget***

- 1. Expenditure on development investment:
  - a) Investment in various projects, including inter-regional projects of other Ministries, ministerial agencies, Governmental agencies, and other central regulatory agencies of the fields prescribed in Clause 3 of this Article;

- b) Investment in and support of capital for enterprises providing public services and products ordered by the State; business organizations and financial institutions under the management of central regulatory agencies; investment of state capital in enterprises prescribed by law;
  - c) Other expenditures on development investment prescribed by law.
2. Expenditure on national reserve.
  3. Current expenditures of Ministries, ministerial agencies, Governmental agencies, and other central regulatory agencies are classified into the following fields:
    - a) Defense;
    - b) Social safety, security, and order;
    - c) Education and vocational training;
    - d) Science and technology;
    - đ) Healthcare, population, and families;
    - e) Culture and information;
    - g) Radio, television, and the press;
    - h) Sports;
    - i) Environmental protection;
    - k) Economic activities;
    - l) Operation of regulatory agencies, political organizations, and socio-political organizations; support for the operation of socio-political-professional organizations, social organizations, socio-professional organizations as prescribed by law;
    - m) Expenditures on social security, including expenditures on support for the implementation of social policies as prescribed by law;
    - n) Other expenditures prescribed by law.
  4. Payment of interests on the loans taken by the government.
  5. Provision of aid.
  6. Grant of loans prescribed by law.
  7. Provision of additional funding for a central financial reserve fund.
  8. Expenditures of central government budget carried over to next year's budget.
  9. Provision of additional funding for budget balancing, provision of dedicated additional funding for local government budgets.

***Article 38. Obligatory expenditures of local government budget***

1. Expenditure on development investment:
  - a) Investment in projects under the management of local governments in the fields mentioned in Clause 2 of this Article;
  - b) Investment in and support of capital for enterprises providing public services and products ordered by the State; local business organizations and financial institutions prescribed by law;
  - c) Other expenditures prescribed by law.
2. Current expenditures of local organizations and units are classified into the following fields:
  - a) Education and vocational training;
  - b) Science and technology;
  - c) Social safety, security, and order under the management of local governments;
  - d) Healthcare, population, and families;
  - đ) Culture and information;

- e) Radio, television, and the press;
  - g) Sports;
  - h) Environmental protection;
  - i) Economic activities;
  - k) Operation of regulatory agencies, political organizations, and socio-political organizations; support for the operation of socio-political-professional organizations, social organizations, socio-professional organizations as prescribed by law;
  - l) Expenditures on social security, including expenditures on support for the implementation of social policies as prescribed by law;
  - m) Other expenditures prescribed by law.
3. Payment of interests on the loans taken by local governments.
  4. Provision of additional funding for local financial reserve funds.
  5. Amounts carried over to next year's budget of the local government.
  6. Provision of additional funding for budget balancing, provision of dedicated additional funding for inferior budgets.
  7. Provision of support for the performance of some tasks prescribed in Points a, b, c Clause 9 Article 9 of this Law.

***Article 39. Rules for classifying sources of revenues and obligatory expenditures between various levels of local government budgets***

1. In consideration of the sources of revenue and obligatory expenditures of local government budget prescribed in Article 37 and Article 38 of this Law, the People's Council of the province shall decide the specific distribution of sources of revenue and obligatory expenditures between various levels of local government budgets as follows:
  - a) The distribution must suit the socio-economic and national defense of objectives with regard to each field, economic, geographical characteristics, population, and managerial capacity of each area;
  - b) Budgets of communes are funded from levies on non-agricultural land; license tax paid by business households and individuals; levies on agriculture land paid by households; registration fees on land and housing;
  - c) Expenditures on science research and technology are not obligations of budgets of districts and communes;
  - d) Obligatory expenditures of budgets of towns and cities of the province must include investment in public schools, lighting electricity, water supply and drainage, urban transport, urban hygiene, and other public facilities.
2. Depending on the ratio of revenues distributed by the government and revenues wholly retained by local government budgets, the People's Council of the province shall decide the ratio of revenues distributed between various levels of local government budgets.

### Appendix 3: The CIT Tax Table, 2007

#### The partial progressive tax rates

<b>Tax grade</b>	<b>Taxed income per year (VND million)</b>	<b>Taxed income per month (VND million)</b>	<b>Tax rate (%)</b>
1	Up to 60	Up to 5	5
2	Between over 60 and 120	Between over 5 and 10	10
3	Between over 120 and 216	Between over 10 and 18	15
4	Between over 216 and 384	Between over 18 and 32	20
5	Between over 384 and 624	Between over 32 and 52	25
6	Between over 624 and 960	Between over 52 and 80	30
7	Over 960	Over 80	35

#### The non-recurring income tax rates

<b>Taxed incomes</b>	<b>Tax rate (%)</b>
Incomes from capital investment	5
Incomes from copyright, commercial franchising	5
Incomes from prizes	10
Incomes from inheritances, gifts	10
Incomes from capital transfer	20
Incomes from securities	0.1
Incomes from real estate transfer (net income)	25
Incomes from real estate transfer (total income)	2

*Source:* The 2007 Personal Income Tax

## Appendix 4: FTM Questionnaire

<b>Category 1: Progressive tax system</b>	
<b>I</b>	<b>Overall progressivity</b>
1	Are revenues from direct taxes (e.g. PIT, CIT, wealth tax, presumptive tax) higher than revenues from indirect taxes (e.g. VAT, trade tax)?
2	Are there <b>NO</b> tax policies or tax laws, including tax rates, that have a disproportionate negative effect on gender equality?
<b>II</b>	<b>PIT (Personal Income Tax)</b>
1	Is there a threshold for paying personal income tax?
2	Are there differentiated rates for different income brackets?
3	Is the tax rate for the average income in the highest (5 <sup>th</sup> ) income quintile higher than for the average income in 3 <sup>rd</sup> income quintile?
4	Have the tax tables been updated in the last 5 years to reflect current price levels?
5	Are all types of professions/ offices/ mandates subject to the same tax rates/ exemptions?
<b>III</b>	<b>Wealth Taxes</b>
1a	Is the property taxed?
1b	Is ownership of land taxed?
1c	Is income derived from ownership of land tax?
1d	Are financial assets taxed?
1e	Is income derived from financial assets taxed?
2	Does wealth tax sufficiently take into account the position of poor people, eg. via thresholds and/ or brackets?
3	Is the share of wealth taxes in total tax revenue higher than the average of the previous 5 years?
<b>IV</b>	<b>CIT (Corporate Income Tax)</b>
1a	Is the CIT rate of at least 25%?
1b	If not, is the current CIT rate higher than the average of the previous 5 years?
2	Are there sufficient rules to curb aggressive transfer pricing?
3	Are there penalties applied for failure to pay tax on the due date?
<b>V</b>	<b>VAT/sales tax</b>
1	Is there a lower/zero rate for essential food products?
2	Is there a lower/zero rate for essential non-food products?
3	Is there a lower/zero rate for essential female products?
4	Are products/ services/ industries that benefit mostly the rich taxed at least with average VAT rate?
<b>VI</b>	<b>Trade taxes</b>
1	Is there a lower/zero import duty on essential goods that are not produced locally?
2	Is there a trade tax for goods predominantly consumed by women or vulnerable groups of the society?
<b>VII</b>	<b>Presumptive/turnover tax</b>
1	Is the presumptive tax system based on a feasibility assessment?
2	Are there clear rules for calculating the tax base?
3	Do the rates of presumptive tax differ by sector in a way which results in a higher burden of the tax being extended to women and/ other vulnerable groups of society?

4	Is the presumptive tax adapted to different types of businesses (so that it benefits the small, low-income businesses)?
5	Are there thresholds (e.g. for small businesses and start-ups)?
6	Is there a legal objection procedure available to challenge the presumptions?
<b>Category 2: Sufficient revenues</b>	
<b>I</b>	<b>Tax revenues</b>
1	Is the tax revenue to GDP ratio higher than the average of the previous 5 years?
2a	Is the tax to GDP ratio at least the same as the average tax to GDP ratio of the countries of the same income level (LIC 13%, LMIC 18%, UMIC 21%)?
2b	If not, has the government formulated the intention to reach that level?
3	Does the government set a long-term goal for the tax/GDP ratio?
4	Is the government on track to reach the long-term goal?
5	Is the government actively trying to combat IFFs?
6	Is the tax expenditure/ GDP ratio lower than the average ratio of the previous 5 years?
<b>II</b>	<b>Revenue form extractive industries</b>
1	Does the country collect royalties based on volume (e.g. not on profits)?
2	Is the corporate income tax rate for extractive companies at least the same as for companies in other sectors?
3	Are there windfall taxes, variable royalty rates or variable profit taxes in place for extractive industries?
4	Are there ring-fencing rules in place for extractive companies?
<b>III</b>	<b>Tax payers</b>
1	Is the ratio of personal income tax payers to total population higher than the average of the previous 5 years?
2	Has the percentage of registered businesses that file tax returns progressively increased during the previous 5 years?
3	Is it easy and affordable for an informal business to formalize?
4	Are informal businesses <b>NOT</b> taxed retroactively when formalizing?
<b>Category 3: Well governed tax exemptions</b>	
<b>I</b>	<b>Governance</b>
1	Are there clear and transparent rules for granting corporate tax exemptions?
2	Are the exemptions subject to parliamentary or other democratic oversight?
3	Are there <b>NO</b> discretionary exemptions granted?
4	Are the exemptions granted subject to cost-benefit analysis?
5	Are there reports of cases of secret corporate tax exemptions in the past year?
<b>II</b>	<b>Transparency</b>
1	Is the total revenue forgone due to tax exemptions published?
2	Is the revenue forgone due to corporate tax exemptions published by type of tax or exemption?
3	Are companies that benefit from tax exemptions disclosed?
4	Is the cost-benefit analysis of exemptions publicly available?
<b>Category 4: Effective tax administration</b>	
<b>I</b>	<b>Organization</b>
1	Is there a centralized revenue authority?
2	Is there a section dedicated to large taxpayers and/or rich individuals?
3	Does the centralized revenue body work with local governments in revenue collection?



4	Is the country signatory to the Multilateral Convention on Mutual Administrative Assistance in Tax Matters?
<b>II</b>	<b>Administration</b>
1a	Is the tax administration digitalized and automatically processed?
1b	If not, have there been steps in the past year to digitize the tax system?
2	Is it possible to file taxes online?
3	Are tax identification numbers (TINs) in place?
4	Is TIN required for getting certification or licenses for businesses?
<b>III</b>	<b>Resources</b>
1	Are there <b>NO</b> serious reports on understaffing?
2	Are there regular training and capacity building programmes for tax officials?
<b>IV</b>	<b>Oversight</b>
1	Is there an oversight mechanism for the revenue authority?
2	Is there a code of conduct for tax collectors and is it enforced?
3	Are cases of criminal offenses prosecuted?
4	Is there protection for whistleblowers?
5	Is the government willing to investigate tax evasion and, if needed, are those cases investigated and prosecuted?
<b>Category 5: Pro-poor government spending</b>	
<b>I</b>	<b>Education</b>
1	Has the government spent at least 4% of GDP /or at least 15% of total public expenditure on education in the previous year? (Incheon declaration goal)1
1b	If not, has the spending been progressively increasing over the past 5 years?
2	Is government expenditure on education gender responsive?
3	Does the government expenditure on education take into account the needs of vulnerable groups in society?
<b>II</b>	<b>Healthcare</b>
1	Has the government spent at least 15% of total public expenditures in the previous year? (Abuja declaration)
1b	If not, has the spending been progressively increasing over the past 5 years?
2	Is government expenditure on health gender responsive?
3	Does the government expenditure on health take into account the needs of vulnerable groups in society?
<b>III</b>	<b>Agriculture</b>
1a	Has the government spent at least 10% of its total expenditure of the previous year on Agriculture (Maputo Declaration)?
1b	If not, has the government spending on agriculture to total spending been progressively increasing over the past 5 years?
2	Does government agriculture spend cover access to water, land, and credit?
3	Does the government spending on agriculture address the needs of small holder farmers?
4	Overall, is government expenditure on agriculture gender responsive?
5	Does the government expenditure on agriculture take into account the needs of vulnerable groups in society?
<b>Category 6: Accountable public finances</b>	
<b>I</b>	<b>Tax system transparency</b>

1	Is there a law in place ensuring publishing information about tax system (tax rates, collection system)?
2	Is the information about the tax system (tax rates and tax collection system) published in practice?
3a	Are the nontax revenues managed separately from the budget?
3b	If yes, are the nontax revenues managed in a transparent way?
<b>II</b>	<b>Information availability on companies</b>
1	Are companies' financial statements available at national business registries or other publicly accessible places?
2	Is the information about companies' direct shareholders public?
3	Is the information about the company's ultimate owner public?
<b>III</b>	<b>Audit</b>
1	Does the tax authority undergo an audit at least once a year?
2	Is the audit carried out by an external body? (external = from outside the tax administration itself)
3	Are the audit results publicly available?
4	Are the audit results debated by parliament within a reasonable period?
5	Are recommendations from the audit appropriately addressed within the planning cycle?
<b>IV</b>	<b>Budget documentation</b>
1	Does the Executive's Budget Proposal (or any supporting budget documentation) identify the different sources of tax revenue (such as income tax or VAT) for the budget year?
2	Does the Executive's Budget Proposal (or any supporting budget documentation) identify the different sources of non-tax revenue (such as grants, property income, and sales of government-produced goods and services) for the budget year?
3	Does the Executive's Budget Proposal (or any supporting budget documentation) present information on extra-budgetary funds for at least the budget year?
4	Does the Year-End Report explain the differences between the enacted levels and the actual outcome for revenues?
<b>V</b>	<b>Citizens' engagement</b>
1	Has the government established processes to facilitate civil society participation in shaping revenue policies at the national and local levels?
2	Is civil society given the opportunity to participate in shaping revenue policies at the national and local levels in practice?
3	Is there a grievance mechanism in place for citizens to complain about errors and misconducts of tax authorities?
4	Does the grievance mechanism work in practice?

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