TO:  Members of the Taxation Policy Committee  
FROM: Milton C. Taylor  

SUBJECT: Summary of Report Entitled "The Taxation of Income in Viet Nam"

Analysis of the Vietnamese system of taxing income shows that it has four serious structural faults:

1. There is an undue burden of taxation placed on corporations rather than on individuals, which detracts from investment and equity.

2. The use of the schedular type of income tax (taxing on the basis of the type of income received rather than on the aggregate amount) causes unneutralities among individuals.

3. The system of taxing income using five separate taxes is unduly complex, causing problems in both compliance and enforcement.

4. The revenue productivity of the income tax suffers from the fact that excessive deductions narrows the taxable base.

These four faults may be removed by the adoption of the following tax policy recommendations:

1. The schedular type of income tax should be abandoned, and in its place there should only be one income tax applicable to all income received by individuals and one tax applicable to all corporations. This reform would involve the elimination of the tax on wages and salaries, the tax on profits received by individuals, and the tax levied on the dividends and interest paid by corporations. Retained would be the general income tax, applicable to all individuals and with rates from 1 to 50 per cent, and the corporate profits tax with a flat rate of 24 per cent applicable to all types of corporations.

2. The taxable base of the general income tax should be broadened by the elimination of the following deductions: (a) family indemnities, (b) cost of living allowances, (c) supplements of function, and (d) allowances for servants and entertainment. Abatements should be
reduced from 30,000 VN for single taxpayers and 45,000 VN for married couples to 15,000 VN for single and 30,000 VN for married, while professional deductions should be permitted only to the degree that they can be supported with evidence.

3. Resident recipients of corporate dividends should be given credit under the individual income tax for taxes paid on corporate profits, while capital gains arising from the sale of tangible assets and securities, as well as lottery winnings, should be taxed like other income.

4. New laws and regulations should be written for the whole of the system of income taxation.

Income tax administration suffers from an extreme general paucity of personnel resources, inadequate auditing, and a weak collection effort. These faults may be substantially alleviated with the adoption of four recommendations:

1. The present income tax staff for all of Viet Nam totals about 30 persons, of which 15 are field auditors. Emphasis in expanding the staff should be given to field auditors, and the number of these persons should be expanded by at least ten times. A rough goal for the expansion of the total staff would be from the present 48 to 200 persons.

2. All taxpayers, both corporate and individual, should be required to calculate their own tax.

3. Income taxes should be collected by the General Directorate of Taxation instead of by the General Treasury.

4. Withholding for the tax on wages and salaries and current payment of the tax on all other types of income should be adopted.

The adoption of the above recommendations would give Viet Nam a system of taxing income which would be equitable, conducive to investment, and productive of governmental revenue. At the same time, the effective tax rates would still remain very moderate. The recommendations should make it possible to reach the short-run objective of obtaining 20 per cent of total Central Government tax revenues from the income tax (as is accomplished in the Philippines) instead of the present proportion of 10 per cent.

MCT:mrw