

been other taxes such as land rent charges, land and housing tax, land use transferring tax... coming into force that helped to increase State revenue.

Since 1995, the Government has implemented some measures including tax policies to treat equally between domestic and foreign invested enterprises and encourage enterprises and investors to accumulate capital for investment. Therefore, investment priorities, especially tax priorities, have been offered more widely that make tax revenue compared to GDP reduced. Besides, this is also the stage when Viet Nam became an ASEAN member and started carrying out CEPT/AFTA agreement so that tax policies has been adjusted to be appropriate with this commitment. These are the reasons that make tax revenue has been reducing relatively although the total amount has been increasing annually.

In short, the state budget was unbalanced and there was annual deficit but the budget situation during period 1991-2000 was relatively positive. It has been more and more stable and improved.

## Part 2 Review on capital budget changes and trends: expenditure and financial sources

In period 1991-2000, the State has implemented many major social and economic reforms. They have brought about important changes in economic development, international economic integration and many other fields. State expenditure has played an important part in obtaining these results.

Table 3, 4 and 5 show clearly Viet Nam state budget expenditure policy.

From total state expenditure in period 1991-2000, we can have some conclusions as follows:

- Annual expenditure has been increasing rapidly.
- Capital expenditure has been increasing more rapidly than regular/administrative one.
- Current expenditure has been accounted for a big proportion in total state expenditure.

Table 1 shows that total state expenditure accounted for about 23%-24% of GDP and was always bigger than total revenue during period 1991-1999. Besides, Table 3 shows that annual state expenditure increased considerably. It was more than 6 times bigger (more than 600%) in 1998 than in 1991. It increased rapidly in the early 1990s (about 100% in 1992 compared to that in 1991 and about 65% in 1993 compared to that in 1992) and steadily reduced in the late 1990s, especially in 1998 when the expenditure was only 96% compared to that in 1997. Capital and current expenditures account for a large part in total expenditure.

*Capital expenditure.* Table 3 and 4 show direct capital expenditure from state budget; Table 7, 8 and 9 show state capital investment, of which there is also state credit besides state capital expenditure. Annual state capital expenditure has accounted for about 6% of GDP. Its characteristics include:

- Annual expenditure increasing rate has been high.
- The increasing rate of capital expenditure has increased more rapidly than that of current expenditure.
- State capital expenditure has been mainly used for big infrastructure projects.

The annual increasing rate is relatively high (it was 202% in 1992 compared to that in 1992). It reduced in

1993, 1994 and 1995 and tended to increase in the late 1990s. This is because at the beginning of the decade, capital expenditure policy was under the State's control. Later, realizing that this didn't bring about expected results, the Government decided to change the investment management policy. It didn't finance projects directly but financed through credit channels. In 1998, the economy was affected by the monetary and financial crisis in the region and the world, foreign direct investment decreased seriously and affected economic growth. Thus, the State implemented investment-promoting policy, especially concentrated on constructing important and strategic big projects and infrastructure projects such as roads, ports, and bridges. Therefore, the increasing rate of state capital expenditure went up rapidly in 1998 (nearly 10 times bigger compared to that in 1991, while that of current expenditure was only about 6 times).

Table 9 shows clearly structure of state capital expenditure, of which expenditure for infrastructure in 1992 and 1993 accounted for only less than 50% of total capital expenditure but in 1997 and 1998, it increased to 96%-97%.

*Current expenditure.* Assessments on current expenditure in period 1991-2000 can be as follows:

- Current expenditure has accounted for a large part in total annual state expenditure.
- The increasing rate of current expenditure has always been smaller than that of state revenue.
- The increasing rate of current expenditure has always been smaller than that of state capital expenditure.
- The State didn't issue money to meet current expenditure demand.

Statistics on current expenditure show that social expenditure has always accounted for nearly a half of total expenditure. Moreover, it is the expenditure that has the highest increasing rate of all current expenditure items (it accounted for 41% total current expenditure in 1991 and 44% in 1998).

Expenditures for education and social securities represented for a large part in total social expenditure. These are really the items that have the highest increasing rate because many offices haven't got support from the state budget any more. For example, education and training activities at state-owned corporations used to be financed by the state budget but have now been financed by the corporations themselves. Thus, the number of state budget beneficiaries has been less but expenditure from the state budget has been still increasing, this means that the increasing rate of social expenditure has been going up considerably.

Although current expenditure for human (expenditure for wages and salaries, social securities and social services...) has always been improved, it is still low compared to social needs and to other countries in the region. Therefore, this expenditure will be increased in the future.

## **Part 3 Evaluation on state budget deficit possibility and appropriate financial measures for budget deficit financing**

### **1. Evaluation on state budget deficit possibility**

State budget deficit is a common condition not only for countries with transition economy as Viet Nam but also for developed and capitalist countries in the world. Budget deficit is closely related to policies and actual situation of socio-economic growth and development of the country. Normally it is considered as a negative sign of the economy, but in some cases it is used as a measure to encourage and promote economic development.

It is forecasted that there will be still state budget deficit in Viet Nam, but it will be less than 5% of GDP and completely under control. This is due to some reasons:

- Viet Nam is trying to have in place the market-oriented economy, Government expenditure for investment, administration, social services and others will constantly increase while annual state revenue increases at a lower rate and can't meet that demand. Therefore, state budget deficit will be a certain.
- At the beginning stage of the economic reform, the State had to invest a lot in construction and infrastructure but profitability and capital retrieval were low that couldn't make state revenue increased and lead to budget deficit.
- Viet Nam has started the international economic integration process since 1996. Financial policies for economic integration will be more loosened when Viet Nam become a member of WTO and other organizations and start implementing commitments on investment and trade liberalization, firstly on reducing import tax. This will make state revenue decreased and lead to budget deficit.
- Although the Government can still mobilize more from enterprises and people, it still offers a lot of priorities, deductions and duty frees in order to encourage non-state enterprises and households to accumulate capital for investment.
- Besides economic development policies, Vietnamese Government has to carry out a lot of social development policies on education, culture, health and other social policies that need money from state budget. The socialization process in these fields is very slow because people's income is still too low and a major part of people is still very poor...

Viet Nam will continue pushing up economic development and administrative reform process, socializing social services and reforming policies relating to revenue collection... in order to reduce state budget deficit but can still obtain the socio-economic development targets.

### **2. Appropriate financial measures for budget deficit financing**

The followings are some financial measures that can be done to finance state budget deficit:

## *2.1 Pushing up investment capital mobilizing and effectively using policies, promoting economic growth and development and increasing state revenue*

The most basic and safest measure for limiting state budget deficit is to promote investment capital mobilizing for production that helps making more products and increasing state revenue.

At present, capital sources mobilized for investment include: capital investment from state budget, enterprises' investment, households' investment, foreign direct investment and external debt and aid. In the future, though the proportion and the importance of each source may be changed, they will be the main sources of investment capital.

Capital from state budget is mainly used in building economic, cultural, social and military infrastructure projects, helping SOEs, state credit and national investment fund. It will be the important capital source that is necessary for economic development. Though total amount of this capital will increase but its percentage in total investment capital tends to go down when there are diversified investment capital sources and stock market opens and develops.

In the short-term, state investment credit will considerably help enterprises carry out investment plans. It is of high necessity to amend and complete investment policy in order to centrally control investment credit activities.

- The State should give credit priority to important state economic programs, projects in some key fields and to urban and remote areas that need investment from all economic sectors.
- Reforming credit-planning mechanism. The Government should only outline credit plan and allocate it for ministries and provinces to reallocate for specific projects appropriately with field and local development strategies. Transferring from administratively annual investment capital scheduling to direct project lending regarding its efficiency and implementing process.
- It is of necessity to supplement and adjust specific regulations on priority credit such as: subjects, principals, conditions, credit level, terms, interest rate, procedures in some types as investment credit, credit guarantee and investment priority in order to make them clear and stable for transparently and simply implementing. Removing administrative management mechanism from investment credit management.
- Improving Credit Guarantee Fund and Risk Limitation Fund activities and carrying out state credit insurance in order to make state credit activities stable and develop.

### *Investment mobilization from capital market*

Capital market is a very important one in the market economy. It will be one of the major investment mobilization channels for enterprises and investors. In Viet Nam, stock market has opened and operated but with quite small scale. Therefore, it is necessary to implement following measures:

- Making more goods such as stocks, bonds and other securities for stock market by completing policies that promote (i) enterprises to mobilize capital through issuing stocks and (ii) SOEs

equitization process...

- Completing legal frame for capital market operation in order to enable high capital mobilization from the people for investment and steadily expand its activities in domestic market towards integrating with international financial and monetary market.

#### *Foreign direct investment mobilization*

- Continuing administration reform, especially in such fields as customs procedure, taxation, investment license and employment recruitment. It is considered to be one of the most important factors in improving investment environment. Allowing business registration instead of investment license. The State should only declare Investment Forbidden and Investment Conditioned List (which consist of sensitive items with security or cultural or environmental requirements or only for Vietnamese investors). Foreign investors are allowed to apply to invest in any other fields.
- Diversifying investment activities of foreign investors in Viet Nam. Allowing them to set up joint-stock companies in Viet Nam. Steadily transferring all FDI enterprises to operate under Enterprise Law in order to create a level playing field between domestic and FDI enterprises.
- Gradually phasing out discrimination regarding tax and land rent priorities... between domestic and FDI enterprises and issuing a law on investment encouraging applied for both domestic and FDI enterprises.
- Implementing policies that allow foreign investors to easily and freely access foreign currency source while doing business in Viet Nam.

#### *2.2 Reform of policy relating to revenue collection*

Increasing state revenue, which means increasing revenue from taxes and fees and other revenues, is a direct method to finance state budget deficit. Therefore, the most important thing is to reform tax policies. The objectives of tax policy reform include:

- Expanding taxpays, reducing tax rates.
- Transferring from indirect collecting method to direct one.
- Reforming tax declaration and payment regulations in order to improve taxpayers' independence.
- Limiting tax priorities.
- Issuing new tax laws in order to timely mobilize revenue into state budget.
- Continuing preventing tax evasion, state revenue loss and anti-smuggling.

The followings are some specific points of tax reform:

##### *Value Added Tax:*

- Applying an only method of tax calculation.
- Applying an only tax rate of 5% or 10% (except from 0%) instead of three present ones (5%, 10% and 20%) to make it easier and simpler for implementing.

- Imposing VAT on special consumption taxable items.
- Phasing out the regulation of deducting 50% of VAT for taxpayers who get lost because their VAT is bigger than their former turnover tax...

*Corporate Income Tax:*

- Applying an only tax rate for all enterprises regardless they are domestic or FDI.
- Reforming corporate income tax in order to apply only one tax rate or progressive taxation according to corporate income regardless of their types and fields of business.
- Applying tax priority for all types of enterprises.
- Phasing out extra corporate income tax in order to create an equal competitive environment between various business fields.

*Issuing Personal Income Tax Law:*

- **Taxpayers:** To make it equal and consistent, this law imposes income tax on some Corporate Income taxpayers including households, individuals doing business or doing in agricultural business, individuals having assets for lease and foreign individuals doing business and having income in Viet Nam.
- **Taxable items:** Taxable items include total income of individuals from doing business and any other activities. The State will regulate taxable level, tax rate and deduction appropriate with people's income and the state policies in each specific period.
- **Tax rate:** In long term, it is necessary to issue a tax rate list applied for both Vietnamese and foreigners. However, there will be different taxable levels and tax deductions appropriate with differences in living standard, living style... between them.

**2.3 Improving state expenditure management measures for economic and effective spending**

It is an important principal in state expenditure management to tightly manage state expenditure for economic and effective spending. This must be tightly obeyed as long as spending demand rapidly increases while state revenue is quite small. Some State expenditure management measures to be implemented in the coming period include:

- Checking and adjusting administrative expenditure norms, standards and regulations appropriately with reality in order to implement administrative expenditure written promise.
- Socializing several services and non-product activities that the Government doesn't need to hold. According to this, such activities including health, education, sport, culture, science and art mainly financed by the state budget will be steadily transferred to individuals and organizations' management. The Government will issue appropriate financial policies to encourage these activities, firstly they can be given certain finance support.
- Issuing financial policies applied for state offices that have revenue so that they can finance themselves but still meet State's service requirements.

- Checking state administrative offices' responsibilities and functions, reducing employment, economizing state expenditure.
- Continuing implementing expenditure control measures for economic and effective spending.

#### 2.4 Monetary policy

Implementing appropriate exchange and interest rate in order to relatively stabilize purchasing power of the currency as well as to limit monetary market changes that affect state budget revenue, expenditure and balance. Reforming and strengthening banking and monetary system that help stabilize and sustain national finance system.

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## Appendix 1: The State Budget revenue per GDP according to economic sectors 1991 - 2000

Unit: % per GDP

List		1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimate 2000	96-2000
	<b>Total revenue to the State Budget</b>	<b>13.50</b>	<b>19.00</b>	<b>21.70</b>	<b>23.60</b>	<b>23.30</b>	<b>22.90</b>	<b>20.80</b>	<b>20.20</b>	<b>18.60</b>	<b>16.90</b>	<b>19.80</b>
	<i>Taxes and Fees</i>	<i>13.10</i>	<i>18.30</i>	<i>21.00</i>	<i>22.50</i>	<i>22.10</i>	<i>21.80</i>	<i>19.40</i>	<i>18.50</i>	<i>17.60</i>	<i>16.30</i>	<i>18.60</i>
1.-	Revenue from the state-run economy	5.20	6.60	7.40	8.10	6.40	6.30	5.40	5.20	4.20	3.60	4.90
2.-	Revenue from foreign investment sector	2.50	3.80	3.90	3.60	3.60	3.80	4.00	3.60	3.90	4.30	3.90
	Crude oil	2.50	3.80	3.60	2.90	2.70	2.70	2.80	2.40	2.90	3.40	2.80
3.-	Revenue from industrial and commercial sector and non state-run service	1.20	1.60	2.10	2.20	2.30	2.30	2.10	1.80	1.40	1.50	1.80
4.-	The agricultural land using tax	0.90	1.20	1.00	0.60	0.70	0.70	0.50	0.50	0.50	0.40	0.50
5.-	The export-import duty	1.40	2.00	4.20	5.60	5.80	5.60	4.30	4.10	3.60	3.40	4.10
6.-	Fees and charges	0.20	2.00	1.60	1.40	1.70	1.60	1.50	1.40	1.20	1.10	1.40

Source: Ministry of Finance



# Appendix 2: The State Budget revenue structure according to economic sectors 1991 - 2000

Unit: % total revenue to the State Budget

List		1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimate 2000	96-2000
	<b>Total revenue to the State Budget</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
	<b><i>Taxes and Fees</i></b>	<b><i>97.40</i></b>	<b><i>95.60</i></b>	<b><i>96.70</i></b>	<b><i>95.50</i></b>	<b><i>95.00</i></b>	<b><i>95.10</i></b>	<b><i>93.30</i></b>	<b><i>91.60</i></b>	<b><i>95.10</i></b>	<b><i>96.00</i></b>	
1.-	Revenue from the state-run economy	38.40	34.50	34.10	34.40	27.60	27.70	25.90	25.80	22.90	21.40	24.60
2.-	Revenue from foreign investment sector	18.80	20.20	18.00	15.20	15.40	16.50	19.40	17.60	21.00	25.30	19.70
	Crude oil	18.80	20.20	16.70	12.40	11.40	11.70	13.50	11.80	15.80	19.80	14.20
3.-	Revenue from industrial and commercial sector and non state-run service	9.10	8.70	9.90	9.40	9.90	10.20	10.10	9.00	7.50	8.70	9.10
4.-	The agricultural land using tax	6.80	6.20	4.40	2.60	2.90	3.00	2.60	2.70	2.70	2.30	2.60
5.-	The export-import duty	10.60	10.40	19.30	23.80	24.90	24.20	20.70	20.40	19.50	20.10	20.90
6.-	Fees and charges	1.50	10.40	7.50	5.70	7.30	7.00	7.40	7.00	6.70	6.30	6.90

Source: Ministry of Finance



## **Value Added Tax Difficulties, Obstacles and Solutions**

**Quach Duc Phap**

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### **1. The main contents of Law on Value Added Tax**

The Law on Value Added Tax was approved by National Assembly of the Socialist Republic of Viet Nam in 1997 and came in to force in 1999. It is part of the second stage of tax reform. It is a new law and the first time applied in Viet Nam.

From features and specific conditions of Viet Nam that was a developed and agriculture country with small and distributed production, low infrastructure (include: knowledge, entrustment, condition and management capacities of social and economy, VAT was applied to replace turnover tax (to eliminate the overlapped tax).

Major contents of Law on VAT include:

#### **(1) Regulated scopes**

Article 4 of Law on VAT stipulated non-taxable items in 26 groups (Items of tax exemption). They are divided into 6 groups as follows:

- 1) Goods and services that were not be subjected to the turnover tax also shall not be subjected to the VAT because of difficulties in management and low efficiency, including: cultivation, aquaculture, seafood, salt; non profit cultural, sport activities and exhibition, art performance, film production; distribution and show of documentary films; printing of newspaper, political literature, text books, pictures, paintings, posters for the purposes of providing public information and campaign...
- 2) Public services such as cleaning, sanitary service, parks, public gardens, public lighting, funeral services, maintenance, repair and construction of cultural, artistic works, bus passenger transportation, establishing maps...
- 3) Some services shall not collected of indirect tax to encourage such as: medical services, education and professional training, irrigation for agricultural production, supply clean water to use in country side, mountainous; technology transfer, credit services, investment funds, life insurance, pupil insurance, livestock and crop plant insurance...
- 4) Goods and services should not be collected tax, such as excisable goods and services in stages when excise tax applies; Imported equipment, machinery and special means of transportation of the kind of not able to be produced by domestic producers, transfer of land, state owned residential houses sold by

the State to current tenants; weapons and ammunition for national defense and security purpose; imported goods of humanitarian aids, grants, gifts, carry-on goods within the duty free limits; unprocessed gold form of bar or pieces not yet processed; certain exported unprocessed natural resources such: rude oil, coal, rare earth, sand, precious-stone, iron, tin and manganese-ore and goods and services supplied to international transportation.

- 5) Goods and services that have VAT exemption accordingly to international standard such as: transit, temporary import/export, temporary export/import goods.
- 6) Goods and services are provided by individuals with low income (low income means: equal or less than the minimum wage, currently VND 180,000.00 per month).

All goods and services used in production, business activities and consumption in Viet Nam shall be subject to the VAT except 6 groups of goods and services above.

## **(2) Method of tax calculation**

There are two kinds of businesses currently existing in Viet Nam. Ones uses invoices, receipts and other document in transaction of goods and services (include state-owned enterprises, limited company, joint-stock Company). Other ones didn't use (including individual businesses).

Therefore, if the State wants to collect VAT from all businesses, it shall be applied one of the two methods of tax calculation.

Credit method shall be applied to the businesses, which used accounting book and invoices.

Direct subtraction method shall be applied to the businesses, which have not accounting book and invoices.

### ***Credit method***

VAT payable is equivalent to output tax minus input tax.

If the output tax is bigger than input tax, businesses shall have to pay the difference.

If the output tax is smaller than input tax, businesses shall be refunded the difference between output tax input tax.

If the output tax is equal to input tax, businesses shall not have to pay tax.

Output tax is equivalent to VAT output price multiply by the applicable VAT rate.

Input tax is equivalent to VAT input price multiply by the applicable VAT rate.

### ***Direct subtraction method***

VAT payable is equivalent to added value (it means the difference between selling price and buying price of good and services).

Added value is equivalent to payment price of sold goods and services minus payment price of purchase

of goods and services.

VAT payable is equivalent to added value multiplied by the applicable VAT rate.

E.g.: Payment price of selling of business is 100,000VND, payment price of buying is 80,000VND (cost price)

Added value is:  $100,000\text{VND} - 80,000\text{VND} = 20,000\text{VND}$

Assuming that the VAT rate is 5%.

VAT payable is  $20,000 \times 5\% = 1,000\text{VND}$ .

In case job tax shall be applied, they have noncompliance or miss-compliance with the regulations on invoice issuance (selling and buying invoice).

Tax authority in charge shall assess the amount of VAT due of taxpayers per month.

### **(3) Basic of tax computation.**

#### **1) In case of credit tax**

The basic of tax computation shall be total quantity of selling good and services multiplied by taxable price and tax rate.

Taxable price shall be tax exclusive price;

Tax rate of VAT shall be provided according to at the same of good and service groups in Article 7 of Law on VAT. There are three tax rates: 5%, 10%, and 20% applied to each group of good and service. In case of exported good, the tax rate shall be 0%.

Because of changing from turnover tax with 11 tax rates (from 0.5% to 40%) into VAT, in order to avoid suddenly increase in tax, there are 3 rates applied 5%, 10% and 20%.

#### **2) In case of direct subtraction method.**

The basic of tax computation shall be equivalent total sale figures minus total buying figures, and after that multiplied by a tax rate.

Total sale figures shall be payment price, which the buyers have to pay the sellers including VAT.

Total buying figures shall be payment price when buying including VAT in cost price.

Tax rate is the same case of the credit method.

#### **3) In case of imported goods**

The basic of tax computation shall be total of imported goods multiplied by taxable price of imported goods and multiplied by tax rate.

Taxable price of imported goods is equivalent to CIF price (import price at the port of importation) plus import tax.

E.g.: CIF price of the imported good is 100VND tax rate of imported tax: 20%.

Taxable price is:  $100\text{VND} + (100\text{VND} \times 20\%)$ ;

Assuming that: rate of VAT is 10%

VAT payable import stages shall be  $120\text{VND} \times 10\% = 12\text{ VND}$ .

#### **(4) Invoices**

In Viet Nam, Law on VAT is implemented base on invoices. Because of exiting two kind of businesses, businesses used invoices and account book in transaction goods and services and businesses have not met the requirement of bookkeeping and invoices issuance.

Therefore, Law on VAT was provided two kinds of invoices in order to applying two kinds of businesses. It is regulated follow:

Business with creditable tax shall be using VAT invoices. It includes three factors: selling price, payable tax, total paying price. The payable VAT shall be credited when calculating VAT.

Businesses with direct subtraction method shall use normal invoice. Normal invoice only come with one factor is total paying price (with VAT included). Normal input invoice shall not be credit for input tax.

The Law states one exceptional case where a rate of 1% to 5% of buying price is credited for input tax when buying goods and services without invoice. It is the case when buying agriculture goods to process into foods-stuff for domestic consuming in order to avoid the sudden increasing on tax apply to those activities.

#### **(5) Credit tax**

From the above, input tax is creditable only when using credit method to calculate VAT.

Input tax is credited monthly base on the amount of input tax each month

According to the Law, input tax is credited only in the following cases:

Using VAT invoice with detail amount of VAT payable to seller.

Buying agriculture materials to produce goods for domestic consuming, that must include sheet with detail quality and price from farmers.

Having VAT paid document when importing goods.

#### **(6) Tax refund**

The VAT refund is applied only for enterprises that calculating VAT using credit method.

Enterprises that calculate tax using direct method will not have tax refund as tax is collected monthly, no input tax credit.

Article 16 of VAT Law stipulated that for enterprises that calculate tax using credit method, every month, use the total output tax (selling price time tax rate) to minus the total input tax (as stated in the invoice), if the result is negative (mean that the input tax has not been completely credited), it will be used for next month for being credited from the VAT amount; if it's still not fully credited within 3 months, the amount will be refunded to the enterprises.

Beside that, the following cases are refunded the input tax: enterprises that has input tax is bigger than output tax, in case of merging, splits, bankruptcy. Or in case the input tax is too big, enterprises will be refunded to solve the difficulties of capital.

Above is the six main point of VAT Law.

## **2. Reactions from taxpayers when the VAT Law is implemented**

VAT is a new tax; it's applied in Viet Nam for the first time. The tax collection of each stages is closely related to the amount of VAT collected from previous steps and the buyer always request for invoice to prove the amount they paid. Therefore, obviously the reactions from people (especially from the taxpayer) are obviously there.

Reactions from tax payers come in many way: complain directly to tax collect management officer, sending documentation to tax authorities or state company; complaining on newspaper, radio, television; complaining at discussion forums between enterprises and tax people; complaining at seminar, conferences... The content of reactions is variants. In some cases, enterprises that do not know well about the law so sometime they give the right reaction, but some time wrong.

Complain when benefits are effected.

Complains when seeing the procedures for making invoice, declaration, credit are confusing and troublesome.

Reactions from enterprises can be put in-groups as follows:

### **(1) About regulated scopes**

There are two opposite reactions:

Some enterprises that belong to printing industry (e.g.: Tien Bo printing company) that are in the groups that don't have to pay VAT, now they request to pay VAT because then they can be put to that groups that can be credited for input tax, because they have to pay VAT when import in printing materials.

Some enterprises that are in the VAT taxable group now requesting for VAT exemption (eg: airplane, offshore oil exploiting, ship from foreigners, leasing service, investment fund, fund transfer, stock trading, goods sell to foreign organization for humanitarian aid to Viet Nam.

Many enterprises request to put exercisable tax goods to the VAT taxable group in order not to cause obstacles in other procedures.

### **(2) About taxable prices**

Item 2, Article 7 of VAT Law stipulated that: the taxable price is the import pricing at the port plus the import tax. Most of the enterprises say that is tax accumulation.

### **(3) About the tariff**

The law stipulated that there are 4 rates: 5%, 10%, 20% and 0% for export goods. Most of the enterprises said that the rates of 10% and 20% are too high, only one rate 5% should be applied. Some enterprises requested to remove the rate 20% only keep 5% and 10%. Some enterprises suggested that 0% should be applied for export service. Viet Nam shipping and receiving of transit-shed association that the VAT implementation guide for the service of forwarding agents is not complied with international standard and the rate applied are not consistent (some places use 5%, some places use 10%).

Hecny Transportation Joint Venture critically reacted:

- Collect VAT at the port contradicted with the concept of VAT. Doing like that is called "Use religion instead of science".
- The stipulation of 2 methods to calculate VAT: subtraction and credit methods as wells as the use of 2 types of invoice: normal and VAT invoice have changed the unity of the VAT.
- The changes from 11 turnover tax rates to only 4 VAT rates have made a lot of enterprises to pay higher tax than before.
- Enterprises are fined for late tax payment, but the tax authorities take no responsibility for late refund to enterprises.
- In the current "cash economy", the difficulties in monitoring enterprises' revenue and expenses has led to many cases of violation in using invoice such as: anonymous invoice, inaccurate declaration, buy and sell invoices, selling goods without invoice... all that have hindered the tax collection activities.

### **(4) About tax credit**

Many enterprises have petitioned to have tax credit for buying goods with normal invoices.

Some enterprises request: buying material from farmer for processing into product will have only one fix rate 5% instead of 2 rates 3% and 5% at present.

Some enterprises said that credit without invoices should not be allowed, as it will cause chattering service in collecting and refunding tax.

### **(5) About Tax refund**

Most of the enterprises complain about the late in tax refund. The law stipulates that tax refund has to be done within 15 days, but in fact, it takes month to finish, so the money of enterprises is stuck.



### 3. Difficulties arising during the implementation of VAT

They can be summarized as follows:

- (1) Due to the long lasting budget subsidy policy, tax exemption request becomes popular inside industries. That caused a large number of VAT free groups (26 groups of goods and services). Two big difficulties arise:

Many steps in the implementation of VAT are interrupted, so in many cases, the payable tax is suddenly increase sharply, that cause many difficulties for enterprises.

The big quantity of VAT free groups is an obstacle to the reduction to a more reasonable of rates. The taxable groups are narrowed so the rate is high.

- (2) Due the change from turnover tax (with 11 different rates: from 0.5% to 40%), it's impossible to applied one unique taxable rate. The use of VAT with 4 different rates has showed the perplexed in the implementation, mainly as follows:

- It's difficult to differentiate groups of goods and services for different rates.
- As there are 4 different rates, enterprises always request to pay it the lowest rate.
- Due to the closed relation between input and output tax, the stipulation of low and high rates in different steps are sometime meaningless, even cause messy in the implementation of VAT.

- (3) There are confusions between enterprises that use invoice and enterprises that don't use invoice for buying goods, services... hindering the process of input tax and tax refund.

- (4) The mainly use of cash is a big obstacle in the management procedure of VAT tax. The main issue is the tax authorities can not supervise the sale revenue of enterprises.

- (5) The arranging of budget in various levels still related to the geography locations, so it's not effective in the management and collection of tax.

- (6) Tax collection is still carried-out by manual methods, it take time and not easy to find chattering service.

- (7) The shift from turnover tax to VAT need basic changes in the habit of thinking and action, so at the beginning, it may cause re-action from taxpayers and even from industries.

Some habits of thinking should be changed such as manufacturing will have to pay lower taxes than trading, services; manual labor should pay lower than labor with machine assistance; production of consuming goods should pay lower tax then production of luxury goods. In some cases, paying tax is actually more benefits than having tax-free.

Some habits of actions should be changed such as: the way and the base to calculate VAT is completely different from calculating turnover tax. Buying goods and services require VAT invoice with detail selling prices, VAT amount, payable prices; importing goods have to pay VAT immediately at the ports.

#### 4. Reasons to have VAT amended and recent amendments

**(1) As in the chronological order, the following amendment and supplementation have been made:**

**1) Decree number 102**

VAT Law is stipulated in 10 May 1997. After that in July 1997, the financial crises happened in Thailand then spread to other countries in the region including Viet Nam. Therefore, although VAT had not been implemented, based on the resolution number 18 dated 25 Nov 1998, the Government has issued Decree number 102 dated 21st Dec 1998, amended and supplemented some items in the VAT law as follows:

**(a) Supplemented the objects that don't have to bear VAT:**

- Airplanes, oil drilling rig, ships rented from foreigner that can not be made domestic.
- Financial leasing, funds transfer.

**(b) Supplemented cases with input tax credit:**

- 5% rate for manufacturer that buy waste steel to produce steel, manufacturer that buy seafood from fisherman, compensation from insurance business.
- 3% rate for excisable goods bought from manufacturers by organizations or enterprises.

**(c) Made some amendment in part of the tax refund:**

Payer pay tax using credit method will be refunded if the input credit tax of three continuous months is bigger than the total output tax. Enterprises will be credited for input tax when exporting goods in season or period with large quantity, if the input VAT of export goods is bigger than output VAT.

**(d) Supplemented some regulations in the reduction of VAT as follows:**

- Trading, tourism, services, catering services are supplemented to the current manufacture, construction, transportation. In the beginning years, if the VAT is bigger than the amount calculated as normal turnover tax like before, enterprises will be considered for VAT reduction. The level of reduction will depend on the losses caused by the above reason, but the maximum amount can not exceed the VAT paid during the year.
- Reduced 50% of the rate base on the selling price of goods and services for Coal, tractor, pump, tools; some of the chemical substances, hotels, and tourism, catering services.

**(e) Supplemented another regulation on the extra turnover tax with the lowest of 70% on lottery, electricity, cement, post and telecommunication enterprises and some of the goods and services that have high income because VAT is lower then the turnover tax before.**

**2) Decree number 78**

The stipulation of Decree 102 has reduced some of the difficulties for some enterprises, but also causing envies from other enterprises that don't have tax reduction, that are requesting for tax reduction.

Beside that, due to the effect of the financial crisis in the region, Viet Nam economy has fall into a long deflation, in 1999, goods' prices continuously felt sharply through months, it's difficult to add VAT to selling prices. On 20 Aug 1999, the Government had promulgated Decree number 78, amended and supplemented some of the points in the VAT Laws as follows:

*(a) Supplemented to the list of the non-taxable items:*

Importing newspaper, magazines, news bulletin, pupil books, law documents.

*(b) Supplemented to the list of activities that have input tax credit:*

- Manufacturers that buy raw agriculture, forest and sea materials without invoice and paying VAT using credit method will be credited for input tax with a rate base on the total amount of buying price as follows:

- 5% for materials from cultivation products such as:
- 3% for agriculture and forest material that are not listed in the 5% group above.
- Manufacturers that buy scrap directly from collectors without invoice and paying VAT using credit method will be credited for input tax with a rate base on the total amount of buying price as follows:
- 5% for steel scraps.
- 3% for other scraps.

For other cases, enterprises paying tax using credit method will be credited for input tax as follows:

- 5% for compensation of the insurance business.
- 4% for excisable goods of trader that buy from manufacturers.
- 3% for soil, stone, sand that enterprises buy direct from exploiters without invoices but having detail sheet.
- 3% for all other goods that buy from trader that have sales invoice.

*(c) Supplemented other 18 groups of goods or services to the list of 50% off VAT such as: mechanical products (except consuming mechanical products), refined and laminated steel, computer, explosive, medicine material, plastic limbs, installation, transportation and loading.*

**3) Resolution number 90**

On 8/8/1999, National Assembly's Standing Committee promulgated Decree number 90, amended and supplemented to the VAT Law as follows:

*(a) Supplemented to the list of the VAT free:*

- Importing of construction material that can not be produced domestically.
- Importing movie and documentation's.
- Goods sold to international organizations, foreigner for humanitarian aid, non-return aid to Viet Nam.

(b) *Reduced the VAT rate for the following:*

- From 10% to 5% for coal, mechanical products (except consuming mechanical products), basic chemical substances.
- From 20% to 10% for hotels, tourism and catering service services.
- Actually, the reduction in the b item above has been stipulated in the Decree number 102 about 50% reduction on VAT rate, now regularized in this decree.

**(2) After three time amendments, the major points that has been amended and supplemented of VAT Law are as follows:**

*1) Regulated scopes (Article 4)*

Still keep 26 groups of VAT free, but the each group have changes as follows:

*Supplemented to the list of VAT free object, including:*

- Supplemented to Item 4, no VAT applied VAT for importing of construction material that can not be produced domestically, airplane, ships rented from foreigners.
- Supplemented to Item 7, no VAT applied for financial leasing activities, fund transfer.
- Supplemented to Item 10, no VAT applied for importing movies, documentation's.
- Supplemented to Item 13, no VAT applies for importing of newspaper, magazines, pupil book, law documents.
- Supplemented to Item 20, no VAT applies for goods sold to international organizations, foreigner for humanitarian aid, non-return aid to Viet Nam.

*2) Reduced VAT rate for groups of goods and services as follows*

*(a) Reduced VAT rate from 10% to 5% for*

Coal, mechanical products (except consuming mechanical products), basic chemical substances, computer, explosive, try and inner tube, medicine material, plastic limbs, tools for disable people, excisable trading goods, net, shoe lace, fibre to make fishing net, construction, installation, books, transportation, loading, publishing and showing video movies.

*(b) Reduced the rate from 20% to 10% for hotels, tourism and catering service*

For sugar manufacturers, Government had issue Decision numbers 65 dated 7/6/2000 to reduce VAT to the equivalent losses and temporary reduce 50% of monthly VAT.

*3) About input tax credit*

Extended the list of creditable tax with most of the goods and services:

*(a) Manufacturers that buy raw agriculture, forest and sea materials without invoice but having detail sheet and paying VAT using credit method will be credited for input tax with a rate base on the total amount of buying price as follows:*

- 5% for materials from cultivation products such as trees that have latex, oil, cotton, sugar

cane, tea bud, rice, corn, potato and sweet potato, cassava and raising products such as cattle, domestic fowls, fish, shrimp and other kind of aquaculture and seafood.

- 3% for agriculture and forest material that are not listed in the 5% group above.

*(b) Manufacturers that buy scrap directly from collectors without invoice but having detail sheet and paying VAT using credit method will be credited for input tax with a rate base on the total amount of buying price as follows:*

- 5% for steel scraps.
- 3% for other scraps.

*(c) For other cases, enterprises paying tax using credit method will be credited for input tax as follows:*

- 5% for compensation of the insurance business.
- 4% for excisable goods of trader that buy from manufacturers.
- 3% for soil, stone, sand that enterprises buy direct from exploiters without invoices but having detail sheet.
- 3% for all other goods that buy from trader that have sales invoice.

The above input tax credit cases are not applied for buying materials to produce export goods or buying goods for export

## 5. The next planing amendments and reasons

Government has supplemented avegust of a Decree by National Assembly's Committee to amend and supplement some of the items of VAT Law:

*The Decree is issued for two goals:*

Consolidating amended and supplemented contents the three previous times. Base on that, Government shall issue a Decree and MOF shall issue some Circulars to provide guide line for the implement action of VAT Law to avoid the situation of many documents and helping businesses to be easier in studying and implementing law:

Continue to amend, supplement some rules on regulated scopes, reduced the tariff on some of the groups of goods, services. Re-arrange rules on input tax credit. Following is detail content:

### **(1) Continue to amend, supplement rules on VAT as follows:**

#### *1) Regulated scopes (Article 4)*

*Supplemented to Item 3:* goods and services belong to the excised tax group do not have to be applied VAT at the stage of excisable for the exported goods, VAT shall be credited (0% tariff).

*Supplemented to Item 20:* No VAT applied for imported goods as present, gift for individuals in Viet Nam with the value under the set value buy Government.

*Supplemented to Item 7: No VAT applied for stock trading businesses.*

*Amended Item 22: goods, services supplied to international transportation and consumers out side of Viet Nam are not under VAT groups. Activities such as machine, equipment and transportation means' repair for foreigners, labour export service are applied 0% rate for VAT in order to credit the VAT that already in the previous stage.*

*Amended and supplemented Item 23: technology transfer, computers soft-wave producing is not under VAT taxable. Computer software export is applied 0% to credit the paid VAT at the previous stage.*

**2) Continue to request for reduction of VAT for some of goods and services groups as follows**

**(a) Supplemented goods and services to the 0% rate list:**

- Excised taxable goods for export;
- Machines, equipment and transportation means repair for foreigners;
- Computer software exports;
- Labour force export.

**(b) Reduced the VAT tariff from 10% to 5% for:**

- Copper cable, for voltage of 600V and above;
- Grindstone;
- Paper for newspaper and magazine printing;
- Insecticide pump;
- Rubber with simple processing;
- Soil, stone, sand...;
- Neutral glass;
- Maintain, repair and recover of culture historic places, museums.
- Rescue services and activities

**3) Input tax credit:**

Supplemented to Item 12 Article 9 of Decree 28: enterprises that buy agriculture materials, sea materials, forestry product from the grower and exploiter without invoice to export or to produce exporting goods shall be credited for input tax base on the paid amount.

Rearranged the rate of credit on the paid amount as follows:

- 2% for cases such as: buying without invoice of unprocessed cultivation, aquaculture, forestry materials, soil, sand, stone and scraps.
- 3% for cases with invoices when buying with invoice of unprocessed cultivation, aquaculture, forestry materials; excisable goods from traders; compensation from insurance businesses.
- For other cases, VAT invoice of special document must be presented in order to have input tax credited.

**(2) In general, until the Decree by National Assembly's Standing Committee issued, VAT Law shall be amended and supplemented the following main points:**

**1) Regulated scopes: (Article 4)**

Amended, supplemented content of 8 items as follows:

- (a) *Item 3:* Supplemented to Item 3: goods and services belong to the excised tax group do not have to be applied VAT at the stage of excisable for the exported goods, VAT shall be credited (0% tariff).
- (b) *Item 4:* No VAT for construction material that can not be produced locally, airplanes, oil drilling rig, and ship rented from foreigner, the one can not be made locally.
- (c) *Item 7:* No VAT applied on activities of fund transfer, stock trading.
- (d) *Item 10:* No VAT applied on importing, publishing and showing 35mm film, documentation video.
- (e) *Item 13:* No VAT applied on importing, publishing of newspapers, magazines, student books, and law documentation.
- (g) *Item 20:* No VAT applied for imported goods as present, gift for individuals in Viet Nam with the value under the set value buy Government; goods sold to international organizations, for charity....
- (h) *Item 22:* goods, services supplied to international transportation and consumers out side of Viet Nam are not under VAT groups. Activities such as machine, equipment and transportation means' repair for foreigners, labour export service are applied 0% rate for VAT in order to credit the VAT that already in the previous stage.
- (i) *Item 23:* technology transfer computers soft-wave producing is not under VAT taxable. Computer software export is applied 0% to credit the paid VAT at the previous stage.

**2) VAT tariff (Article 8)**

**(a) Supplemented to the list of 0% tax:**

- Excisable tax goods for export.
- Repair of machine, equipment, and transportation means for foreigners.
- Compute software export.
- Labour force export.

**(b) Reduced the VAT rate from 10% to 5% for the following 22 goods and services:**

- Coal;
- Machines products (not including consuming products)
- Cable with 600V and above;
- Raw chemistries;
- Computer and accessories;
- Explosive material, soldering stick
- Grind stone;
- Paper for newspaper printing

- Insecticide pump.
- Raw rubber with simple processing;
- Tyre and tube;
- Medical chemistries for making medicine;
- Plastic limbs, tools for disable people;
- Neutral glass;
- Net, shoe lace and fibre to make net.
- Construct, build, installations, maintain, repair, recover of culture historic places;
- Dredge service, rescue service;
- Books;
- Transpiration, goods loading;
- Publishing and showing video.

(c) *Reduced from 20% to 10 for:*

- Hotel;
- Tourism;
- Catering service.

3) *Input Tax credit*

- (a) The VAT amount stated on the invoice shall be credited when buying goods with VAT invoice.
- (b) The VAT amount stated on the document shall be credited for input goods.
- (c) Goods buying with special invoice (with payable price only) shall be credited VAT amount of using the payable amount divided by tax rate plus another 1%.
- (d) Input VAT will be credited base on the payable price as follows:
  - 2% for cases without invoice, when buying cultivation, forestry materials, seafood, soil, sand, stones from exploiters, scraps from collectors. A detail sheet with quantity and amount is required.
  - 3% for buying goods and services of cultivation, aquaculture, seafood, forestry materials with normal invoice, goods of excisable groups, compensation from insurance business.
- (e) Incase Vietnamese sign contract with foreigner to help them paying VAT, the paid amount will be credited.



## Comments and Proposals

### 1. Comments on the VAT Law content that has been amended and supplemented

#### (1) *Regulated scopes (Article 4)*

VAT uses a different from turnover tax in term of method of calculating, it has the following notable points:

- 1) In many cases, paying tax has more advantages than having tax exemption, especially when many type of taxes are applied and input tax has higher rate than output tax.
- 2) VAT is continuously applied through stages until it reaches the end users. If one of the stage is broken (eg: tax exemption applied) or made different, it will cause obstacle in the next stages and limit the positive effects of VAT; will may the payable tax increase suddenly, causing difficulties to production, business activities and paying tax.
- 3) The larger the tax exemption group, the narrower the taxable group that cause higher tariff applied, create unfair, unreasonable and smuggling.

From the above comments, in comparison with the amended and supplemented content of the Article 4 of VAT Law, apparently, the extension of VAT exemption goods is not a good way to perfect the VAT Law. The extension of VAT exemption goods will create more difficulties and obstacles to the implementation of VAT Law. Difficulties and obstacles have been arising from:

*Firstly*, putting goods in to the tax exemption group will cause other goods to be requested to put in the VAT exemption group. Especially, it's difficult to determine the criteria of tax exemption and taxable groups in the market-oriented environment.

*Secondly*, extending the VAT exemption group will cause interrupt in the tax collecting steps; more difficulties arose in the tax collecting steps.

#### (2) *VAT tariff*

Beside the rate of 0%, existing 3 other rates: 5%, 10% and 20%, with the goods and services in the 20% groups account for a small portion. Recently, the rate on 3 big area (hotels, tourism, catering service) is reduced to 10%. So, the business in the 20% group is unremarkable (only jewellery, gems, lottery, sea transportation agent, broker service).

For the 5% and 10% rate, the general opinions is most of the goods and services will lie in the 10% group and finally come to apply 10% rate for all groups.

But when implementing VAT Law (from 1st Jan 1999), due to the monetary and financial crisis in the region, Viet Nam's economy is deflation continuously from the beginning of 1999 up to now. The market's pricing increased in only 4 months, and decreased in the rest 8 months, for the whole 1999,

market's pricing is up only 0.1%). Out of the first 8 months of 2000, market's price increased only in 3 months and decreased on 5 months for the whole 8 months, market's price decreased 1.5%). Due to deflation and large quantity of goods in stock, effected the productions, in the whole year 1999 and 2000, the Government has implemented many methods in order to increase the demands, push up the consumption. Due to deflation, it's not easy for enterprises to add the VAT to the selling prices, causing slow in the clearance of stock, and difficulties in break-even with the cost. In order to lift up the difficulties, contributing to Government's policy on increasing demands, after 3 times of amendment and supplementation, Government has been decreasing the VAT from 10% to 5% for 22 groups of goods and services. Thus, today, most of the goods and services are applied 5% rate, tally with the requirement of the fact.

However, the decrease of rate for 18 groups of goods and services recently has not solve the major difficulties for enterprises and remove obstacles in the implementation of VAT Law, showing in the follows:

*Firstly*, decreasing in the rate for some groups will cause comparison and request for decrease rate for other groups of goods and services. (Such as enterprises that produce: sugar, foods, and instant noodles, garment...)

*Secondly*, it's not easy to differentiate goods belong to 10% groups or 5% groups, causing difficulties in the implementation. For example, between mechanism for production and mechanism for consumption; between interior decoration and installation, between services and sales...

*Thirdly*, In the market-oriented environment, goods and industries has their links, output of this goods is the input of other goods. Decrease of tax in one step will cause the increase tax in other steps. Therefore, the decrease of tax for groups of goods and services is not a good way to remove difficulties for enterprises, overcome the obstacles in the implementation of VAT Law.

*Finally*, the main issue here is the deflation, enterprises can not add in the VAT to the selling price, therefore, in order to increase demands, indirect tax should be decrease, not only decrease for some groups of goods and services.

### (3) *About input tax credit*

This should be stress: VAT has the characteristic of credit, fundamentally, VAT is only credited if applied, if no apply no credit. Input tax credit is base on the purchase of goods and services with invoices, encouraging the use of invoice as a way to do accounting and do financial control.

Item 1d of Article 10 of VAT Law stipulated that manufacturers that buy without VAT invoice will be credited for input tax the amount from 1% to 5% of the buying price, helping manufacturers of agriculture, forest, water products not to pay unexpectedly increase taxes. Because they will pay 5% VAT instead of 1% turnover tax like before. It's correct that buying agriculture goods for exporting will not be credited

because they don't have to pay VAT, when exporting agriculture goods, they also don't have to pay VAT so no input tax to credit.

Recently, too many input tax credits are applied; most of the purchases without invoice were credited for input tax with the amount from 3% to 5%. Although that help enterprises to solve some of the difficulties but also cause other new one:

- People take advantage to avoid paying tax.
- Not encouraging people to use invoice.
- Input tax credit without collect is wrongly from the principle of VAT.

In the coming solutions, it's planned to re-arrange the rate of input tax credit as follow:

- 2% for purchase without invoice.
- 3% for the purchase with normal invoice.

Re-arrange the above rate may be sensible because it encourage people to use invoice, but surely it will also cause reaction and obstacles as follows:

- Because of high output tax, people have to request for input tax credit, the decrease of rate from 5% to 2%, 3% will cause wondering.
- For goods with excisable tax that already has 50% decrease for output tax, 4% credit for input tax, if now input tax credit reduce to 2%, 3% will create obstacles in the balancing between input and output tax.

## **2. Some proposals**

From the above comments, below is some of the proposal to perfect the VAT Law:

As analyzed detail previously, the below will go direct to the detail proposals. The below 3 proposals are closely related and premises to each other:

### *(1) About regulated scopes*

- 1) *The main way is to narrow the groups of tax exemption (not expanding)*
- 2) *Detail proposal:*

Temporary, only keep the below 10 non-taxable items:

- Item 1: cultivation, forestry, and aquaculture materials.
- Item 2: Salt
- Item 8: life insurance, pupil insurance, cattle insurance, tree insurance.
- Item 10: cultural activities, exhibition, and film
- Item 14: cleaning services, street drainage, zoo, park, tree maintenance, funeral service.
- Item 15: maintain, repair of public places...
- Item 17: geography exploring, map drawing

- Item 18: watering for agriculture
- Item 21: transit goods, temporary import/export goods.
- Item 26: individuals with income lower than specified level.

## (2) *VAT rate*

This is the best time to apply only one rate (exclude rate of 0%), because the 20% rate is narrowed to the minimum quantity of groups. The 10% rate is also narrowed the applied groups step by step. Beside that, maintaining the rate of 10% while enlarging the groups of input tax credit is not good as decrease the output tax and decrease and eliminate the input tax credit.

The country is in the state of deflation, to increase the demands; indirect tax should be decreased.

Applying one rate tax will bring three good things:

- As this is the lowest rate, no one will request for decrease.
- Applying one rate tax will remove obstacles in the implementation (especially in importing goods) because there will be no mistake in applying tax code.
- Although there's only one low rate, but:
  - + Enlarger the taxable groups.
  - + Don't have to have input tax credit
  - + Avoid smuggling
  - + No pressure of high output tax, pushing up the consumption of goods, services, encouraging the development of production; state budget still can be increased.

From the above analysis, a rate of 5% or 6% is proposed, when the economy pick up, the rate can be increased to 7% or 10%.

## (3) *Input tax credit*

Temporary, there are 3 cases that should be applied input tax credit

- Purchasing of goods with VAT invoice stated the VAT amount.
- Purchasing of goods or services with normal invoice will be credited for input tax with a rate base on the purchasing price (may be 3 %).
- Manufacturers that buy agriculture, sea and forest goods to produce domestic products will be credited 2% for input tax.

**The Law on the State Budget**  
**—Current Issues after 4 Years of Implementation and Recommendations**

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**1. Overall of Law on the State Budget**

The Law on the State Budget is an important law in the system of financial law, which was approved by IXth National Assembly session 9 on March 20, 1996 and then was amended and supplemented on May 20, 1995 by Law No 06/1998/QH10. The enactment of this law has marked an important turning point in management of the state budget in Viet Nam providing the highest legal framework for the management of the state budget. This law has also strengthened the role of state budget in the social-economic development and in the management of the national macro-economy.

The Article 4 of the law on the state budget stipulated that the state budget system includes the central budget and the budgets of local administration of various levels (local budgets). The central budget provides necessary resources to ensure the operation of the government, ministries and other central agencies, which carry out the national tasks. The local budgets ensure the provision of resources to fund for the activities of people's committee and people's councils and other local agencies, which have the responsibilities to carry out socio-economic development tasks at local levels. Sources of revenue and expenditure responsibilities are defined in the law in accordance with the decentralization of social-economic management and capability of various administrative levels.

The Law on the State Budget includes 81 Articles which are group in 8 Chapters. Following are the main provision stipulated in the law on the state budget.

- (1) *The basic principles of the state budget:* the state budget must be made balanced on the basic that total revenues from taxes, fees and charges must be larger than total current expenditure, and help to accumulate capital for investment; the level of budget deficit must be lower than the level of investment expenditure, the speed of increase in investment expenditure must be higher than that of the increase in current expenditure; do not issue money to fund for the budget deficit; the local budgets must be balanced in accordance with the principle that expenditures must not be exceed total revenues and the speed of the increase in expenditure for investment must be greater than that of current expenditure.

These basic principles have contributed to restructure the state budget, increased the health of the national

financial situation, and created a condition to save internal revenue sources for development investment.

(2) *Determining clearly the responsibilities and powers of various agencies in the political system from the central to local (the National Assembly, Standing Committee of the National assembly, the government, ministries, People's Committees and other agencies) in the estimation, allocation, implementation and settlement of the state budget in accordance with current regulations:* the National Assembly decides the draft state budget and approves state budget; People' Council decides draft local budget and approves the statement of local budgets; the Government exercise unified management the state budget; the people's Committee at local levels manage local budgets.

(3) *Assigning clearly revenue sources and expenditure responsibilities of budget of different level:* The central budget plays the main role in the state budget system providing the resources for the implementation of strategic and the important tasks in the whole country or for specific regions; the budgets of the local administrations ensure the provision of resources for the socio-economic development at the local level. The Law on State Budget has clearly defined revenue sources for various government levels; has paid attention to the creation and expansion of revenue sources and revenue management. The law has also decentralized the expenditure responsibilities on the basic of social-economic development tasks.

The decentralization of responsibilities in management the state budget is known as the assignment of tasks, rights, responsibilities and benefits among the administration offices of various levels in the budget system. This is the most important element in the Law on the State Budget, which has great impacts on the financial relations between the central and the local agencies and among the various levels of budget in the budgetary system. According to the Law, there are 2 principles regulating the assignment of responsibilities in the process of budget management

*Principle 1:* The central budget plays the main role in the state Budget system. The major revenue sources are concentrated in the central budget to fund for the important expenditure responsibilities for the whole country.

*Principle 2:* Several revenue sources are allocated to the local budget. The allocation of budget to each budgetary level is clearly stipulated in the law and is kept stable for a period of time. These revenue sources are used to fund for the assigned tasks at the local level.

As with the principle 1, in the recent years, the central budget is accounted for 70% in the total of state budget. The revenues of the central budget comprise of large revenue items such as: import, export duties, revenues from oil; corporate income tax paid by large state corporations (such as Electricity Corporation, Aviation Corporation, Post and Tele-communication Corporation, insurance corporations). These revenue items are accounted for a significant proportion in the total revenue collection.

With the revenue sources assigned above, the central budget is responsible to fund for large, important

expenditure responsibilities which affect the overall economy and to fund for national defense and security; The local budgets take on the small expenditure responsibilities which the central budget has no conditions to carry out.

(See the appendix 1)

With the Principle 2, the allocation of revenue sources (and keeping stable expenditure responsibilities in a period of time) for each level of budget are aimed at creating more autonomies to local agencies in planning and implementing their budgets and creating a condition to exploit and raise the available potential resources at the local levels. This regulation has overcome the problems of unsuitability of the previous system, which was one of the main reasons that lead to distracted management in state budget.

The mechanism of assignment of revenue sources, expenditure responsibilities between the central budget and provincial budgets, and between the provincial budget and other levels of local budgets has been changed basically in comparison with the period before the Law came into force. The overall direction of these changes is to increase the level of autonomy for the local agencies regarding revenue collection and expenditure responsibilities.

The Law on the State Budget has dealt with many difficult problems in managing the state budget arising in the period before the law came into force (the assignment of responsibilities for managing the state budget prior to the enactment of the Law on the State Budget was evaluated as unstable and unequal) through 2 basic solutions: (1) revenue sources and expenditure responsibilities for each state agencies at various levels is kept stable in accordance with provision of law; (2) percentages of revenue adjusted and supplemented to local budgets is kept stable for 3 to 5 years.

Keeping stable revenue sources for a specified period of time is a very important initiative of the Law on the State Budget, which creates some opportunities for local authorities at different levels to plan and manage their local budgets independently. However, the structure of the revenue sources and expenditure responsibilities do not only depend on the economic growth but also depend on the impacts of by other factors (such as the management capacity).

- (4) Renewing basically methods in examining the revenue sources of the state budget and expenditures from the state budget in the following direction: The tax offices inform the taxpayer of the amount of taxes or revenues to be paid directly into budget. The head of the state budget using units based on the approved draft budget and other regulation of the law to issue spending approval order; the treasury offices examine the legality of the necessary documents before making the payment.

## 2. Achievements in the process of implementing the law on the state budget

(1) Determining clearly responsibilities, powers of the state agencies at different levels, organizations, and individuals in the budgetary system. This is a great significant and sensible element because it is the assignment of power to various agencies on the most important resource of a nation, of which:

- National Assembly, the People's Councils decide budget, supervise the process of budget implementation and approve the final statement of state budget.
- The Government, the People's Committees take the responsibility to manage the state budget in accordance with the approved draft budget.
- Ministries, offices belong to the People's Committee are the advisory offices (by determining clearly tasks, rights, coordination...).
- The head of state budget using unit has the right to approve spending order in accordance with the draft budget and current regulations.

**Results:** By determining clearly 3 rights: the right to decide, the right to manage, the right to use the law on the state budget has made state agencies, units, individuals become more actively in budget management, reduce the administrative procedures, increase the level of law compliance.

(2) The State Budget Law has given detail regulation on the principles of budget balancing. According to the law, the revenues from the taxes, fees and charges must be greater than current expenditures.

The achievements after 4 years implementation:

- The overall balance of central and local's budget is maintained.
- The level of budget deficit is kept within the acceptable range.
- The level of financial reserve has increased significantly.

(3) Reorganizing the budget system, which includes 4 levels corresponding with 4 levels of administration?

The process of reorganization is made in accordance with the principle that for expenditure responsibilities that could be implemented efficiently by the local agencies shall be assigned to the local and together with the assignment of expenditure responsibilities, revenue sources are also assigned through 3 channels: permanent, adjusted and supplementary revenue sources

The results of the decentralization in management to locals have shown that:

- In general, the whole budgetary system has been more efficient. It does not only ensure concentration of resources to the central budget in order to settle the national tasks but also encourage the local agencies on their own independence to handle quickly the problems arising at the local levels.
- Local agencies have paid more attention to exploit revenue collection. This has led to an increase



in the revenue sources.

- Local expenditure responsibilities are fulfilled and the level of the autonomy of the local agencies has also increased.
- The commune budget has also developed (revenues increased by 1.4 times within 3 years). The numbers of communes which are able to cover their the major expenditure responsibilities by their revenues account for 60% in the total communes (previous level was 40%); management capacity of the commune budget has increased significantly.

(4) The State Budget Law has created new methods in budgetary management that are simple and clear.

**Revenue:**

- Defining powers, eliminating all revenue items that are illegal or not consistent with current practices.
- Permitting to use the coercive methods in collection revenue.

**Expenditure**

- Examining and controlling strictly.
- Reducing administrative procedures.
- Making payment directly.

**Results:** Revenue collection has increased, 60 illegal revenue items are eliminated, thousands of illegal spending items is refused; management capacity of the budgetary draft units is strengthened.

(5) The budget using units have to keep business account and maintain balance sheet. The balance sheet is audited by professional offices before submitting to the authorized agencies.

(6) Besides the concentrated principle in setting up, and in deciding the budget, the State Budget Law also requires to public the budget statement. This is an important condition to increase the level of public awareness in the process of mobilizing and using financial resources in the whole country as well as in the each local agency. Since 1998, the state budget, the local budgets have announced in public (except some items must be kept secret as prescribed by law). This is one of the most important changes because prior to the enactment of the Law on the State Budget had considered as a secret field.

### 3. Current issues need to overcome.

Besides the above achievements, in process of implementation, The State Budget Law has also revealed several issues that need to be settled. These issues are focused on the following two categories:

### **(1) Problems in the regulatory framework**

- The overlapping in responsibilities and powers of the National Assembly and People's Council in deciding the local budgets has not been eliminated. The overlapping within the budget structure has led to either the decisions of higher budgetary levels or the decisions of the lower budgetary levels are not really effective.
- The state budget system consist of 4 budgetary levels which define clearly source revenues, expenditure responsibilities of different levels gives more rights to the local authorities in planning and managing their own budgets. However, there are still some issues arising from the implementation of this law that need to be solved. These issues are: The lower-level budgets depend on the higher-level budget in the all process from drafting, approving and distributing the budget; the higher-levels still intervene in the lower-levels affairs; the central government intervenes in the local affairs. These issues not only limit on lower-level autonomy but also make the process of negotiating the drafting budget very time consuming. There are 10378 commune-level budgets, 604 district-level budgets and 61 province-level budgets in the whole country. This fact has made it is difficult to set up and compile the draft budget which consist of many complex procedures.
- The revenue, expenditure responsibilities of each budgetary level have not been in line with the practical demand. The process of economic development and the implementation of the new tax law have required a higher level of decentralization in budget management, and have also create the need to increase the level of autonomy for the local agencies.
- The power in the budget management for the rural and the urban administration of various levels have not been assigned clearly. Because of urbanization process, the state agencies urban areas have more duties to do such as maintaining and developing infrastructure, labor, environment, market management and maintaining social order... the management in revenue - expenditure and other financial sources in urban areas are different from that in the rural areas and the financial autonomy of urban administration is need to be higher than that of urban administration in order to meet their management functions.
- Economic developments at the local level, especially targeted economic zones require a particular financial mechanism.
- The budget of spending system which is unified from the estimation, implementation and making the final statement of accounts is unconformity with international practices.
- The regulations on communal budget management are promulgated slowly and unclearly. These regulations do not show the concentrated principle of the state budget and are irrelevant with practice, especially in the mountainous and ethnic regions with weak capacity of management.
- The regulations on the budget auditing are not effective and strong enough to examine the budget. The structures of the audit office are not suitable with the demand.

## **(2) Difficulties in the process of implementation.**

Although revenues, expenditure responsibilities are determined clearly, the management capability in several administration levels does not match with the assigned tasks so the autonomy in budget management is limited. For example, most of the revenues in the district budgets are still allocated from the provincial to cover for their specific expenditure responsibilities.

The relationships between the central and the local agencies; between the administration of various levels have met with a number of obstacles and hitch. Although the law has been implemented, the management of the state budget expenditure is still weak and complicated. The main reasons are: expenditure criteria are not suitable, unclear, and inconsistency; regulations on responsibility of individuals are not strict enough to force the individuals to use efficiently and effectively the public fund.

The financial networks such as the state treasury have to reorganize when the commune becomes a budgetary level. However, in several regions, the process of reorganizing of the financial network have not been implemented, and therefore it is difficult to make payment directly to the state treasury. Furthermore, administrative capacity of the commune cadres are weak, especially the team of accountants. These facts have affected the effectiveness of the implementation of the state budget law at the local levels.

Due to the increase in the level of more autonomy in revenue collection, after the law on the state budget is introduced, local authorities in many regions have tried to exploit actively their revenue sources, and therefore, their actual revenues exceeded the plans. However, there were still a number of regions and provinces which did not exploit actively the revenue sources at the local levels, and as a result, the level of revenue collected fall below the plans.

Regarding the expenditure of the local budget, besides the efforts to increase the level of expenditures for development investment; job creation, improving intellectual standards of the people, and for solving social problems and for strengthening state administrative capability in the local agencies, in several regions, many expenditures items was made, but not complied with the current regulations.

For drafting and approving the local budget plan, the Law on the State Budget stipulated that the local budget is drafted in accordance with the details in the List of the State Budget expenditure items. This budget draft must be approved by the People Council. However, the meeting of the People Council to approve the draft budget in practice is ineffective, and is not relevant with the reality of the locals.

As for the commune budget, the Law on the State Budget stipulated that the commune is a budgetary level in the budget system, which has its own revenue sources and expenditure responsibilities. Commune budget is the lowest budgetary level. During the process of implementing the Law on the State Budget, it is the one facing many difficulties.

Regarding to the issue of consistency between the state budget law and the regulations on a number of revenue items, although the law defined all revenue items in the state budget revenues, there are still some revenue item which could have included in the state budget, especially fees and charges.

*The problems of comprehensiveness in policy framework, for example:*

- In order for a payment to be made in accordance with the current regulation, it is very important that all regulations on expenditure criteria must be issued by the government and it is also important that these expenditure criteria need to be relevant with the current practice. However, some expenditure responsibilities do not catch up with those standards because the lack of detail expenditure criteria or the irrelevant of the existing expenditure criteria.
- In order for the commune to be a budgetary level, the capacity of commune cadres has to strengthen further to meet the new requirements.

#### **4. The amendments and supplement of the Law on the State Budget in 1998**

##### **(1) The reason to amend and supplement the Law on the State Budget:**

The Law on State Budget was amended and supplemented in 1998. The reasons to amend and to supplement the Law on the State budget is to make the law compatible with the 2 new tax laws which came into effect in 1999: the Law on Enterprise Income Tax and the Law on Value Added Tax. The replacement of the Law on Profit Tax by the Law on Enterprise Income Tax does not change the allocation of revenue sources between different levels of government, it is only a change of name. However, when the Law on Value Added Tax come into force, percentages (%) of division of revenues within the various budgetary levels will change significantly in comparison with the previous Law on Turnover Tax, and therefore, amending the Law on State Budget is necessary.

On the other hands, the allocation of revenue sources and expenditure responsibilities are not suitable with the current process of urbanization and spending demands in several cities. Although this is not an emergent and critical issues, this fact has been taken into account when assessing the needs to amend the law.

##### **(2) Contents of the Law on amendment and supplement of the Law on the State Budget**

With reasons mentioned above, the Law on State Budget was amended in 1998. The amendment is focused on the assignment of revenue sources and expenditure responsibilities in accordance with the two new tax laws. The amendment of the law has also taken into account the specific characteristics of the local agencies in urban areas and has made a distinction between rural and urban administrative agencies in budget management. The major changes in the Law on the State Budget are as the following:

The amended Law on the State Budget reduces the number of revenue sources, which paid 100% to the central budget. The amended law changes the turnover tax to VAT, and profit tax to enterprise income tax. The law has also adjusted revenue sources and expenditure responsibilities of various budgetary levels. Of which, revenue from agriculture land use tax and natural resource tax (except tax on natural gas) are

retained 100% at the local budgets (prior the enactment of this law, these sources of revenue are divided between the local and central budget)

The amended Law on the State Budget has added more revenue sources and expenditure responsibilities for locally budgetary levels, particularly for district level and equivalent agencies (including revenue sources that are kept 100 percent at the locals and revenue sources sharing with other budgetary levels). This measure has created favorable conditions for the local agencies to mobilize internal resources, and allocate the collected revenues in accordance with their responsibilities and tasks. In particular, local budget was not only supplemented by two sources of revenue that have been mentioned above but also benefited from the special consumption tax, which previously belonged to the central budget, on several domestic made products and services such as sauna, golf, casino, racing...

Therefore, in comparison with previous regulations, the amended State Budget Law has increased the sources of revenue for the local budgetary levels; encouraging local agencies mobilize resources at the local level. In particular, revenue source from land and house registration, enterprises, cooperatives and non-government enterprises were allocated to the district budget, together with the allocation of revenue sources, expenditure responsibilities of the district budget has also increased, especially in the expenditures for education and training, which previously did not belong the responsibilities of the district level.

## **5. Direction of reform in the State Budget Law**

### **(1) Direction of fiscal strategy for the period of 2001 to 2010.**

Financial and budgetary management needs to be reformed and changed in the following directions:

- Strengthening the roles financial and monetary tools (particular taxation, budget and the monetary policy tools in) the process of macro-management of the economy.
- Mobilizing, utilizing efficiently all internal resources to expand production and enhance the effectiveness and competitiveness of the economy.
- Paying attention to the principle of efficiency and effectiveness in allocating and utilizing resources, especially in current expenditures and in a number of government projects and in supporting enterprises. The financial policy and monetary policy have to guide all agencies and parties in the economy to make the best use of the available financial sources, making efficient investment in order to achieve the overall economic development goal of the society.
- Actively participating in the international economic integration to take the advantages of all external resources and bring into play of all internal resources.

*With the directions mentioned above, in the coming period Viet Nam should focus on the following tasks:*

1. To speed up the process of financial and state budget reform, especially to improve the methods

of using fiscal and monetary policies to manage the economy. The financial and state budget system must be changed radically in order to well support a rapid and sustainable economic development in the process of building market-oriented economy.

2. To complete the second phase of tax reform and establish a suitable tax system with appropriate tax structure, ensuring equal treatment between different economic sectors as well as to sufficiently finance the state expenditure demand.
3. To review the Law on State Budget and make appropriate amendments to this law to meet the requirement of economic development. Maintaining the total revenues of 20-22% GDP, controlling the scale of state budget expenditure in the range of 26-28% GDP, maintaining budget deficit in controllable and safe level.

State budget must be used efficiently. Priority must be given to infrastructure, human development, sciences and technologies. Some kinds of state budget expenditure must be socialized. A policy on self-financing should be applied to certain state agencies (such as tax and treasury office, custom office, some universities and hospitals...)

*Some major measures should be implemented in order to enhance the efficiency of state budget spending:*

- Applying a policy on self-financing of current expenditure, wages and allowances to state agencies that provide public services.
- Conducting an experiment policy on the provision of public services, by which the State should buy the finished products and services at price reflecting the quality of goods and services instead of granting capital to organizations that provide public services.
- Focusing on providing capital to individual project/site on a clear-cut basis. Project examination and finance approving process must be conducted carefully to improve the efficiency of using capital.
- Reforming and improving the mechanism on state budget management at various levels on the principle of assuring sufficient revenue of central budget to well support the purpose of economic development and equality in the society; simultaneously assuring the independence and creativeness of local budget levels. Reducing unnecessary intermediate agencies to avoid overlapping in managing and controlling state budget.
- Radically reforming financial mechanism applied to state-owned enterprises, gradually assigning the rights of using capital and conducting business to SOEs. Accelerating the equitization process, only maintaining state capital invested in some major SOEs in key sectors. Enhancing the role and effect of monetary policies by strengthening financial market and using relevant tools of monetary policies. Indirect managing methods should be used instead of direct methods.
- Modernizing banking and financial technologies, especially in the process of granting state budget

and making payment in the economy. Encouraging a habit of non-cash payment. Applying modern financial - banking technologies to step by step expand the using of non-cash payment methods.

4. Consolidating and perfecting the accounting system that must reflect accurately and timely all economic activities to apply to all entities. This will be the basis of making out appropriate policies to develop transparent economy.

## **(2) Direction for the amendment of the Law on State Budget**

In general, the Law on State Budget promulgated in 1996 and the amended law enacted in 1998 still have proved suitable to the current state budget management activities as well as financial strategies for the period 2001- 2005 and 2001-2010. Therefore, in the near future, it is unnecessary to replace the Law but some adjustments are needed to make the Law appropriate to the new requirement of economic development. The direction of the amendment will be as follows:

- 1) The overlap in local budget management should be settled by:
  - Assigning to the National Assembly the rights to approve the draft of state budget and decide the draft of central budget. However, article 84 of the Vietnamese Constitution has to be amended; or
  - Assigning the People's Councils to decide the draft of budget of their own after the National Assembly (or higher - level People's Council) has decided the overall budget.
- 2) The principle of state budget balancing should be as follows:
  - To separate the state borrowing from the revenue of state budget. To restrict the borrowing used to finance budget deficit (set up a borrowing limit basing on GDP and the total of budget spending).
  - To extent the right of provinces and cities to borrow capital for the purpose of capital development. The borrowing capital must be used efficiently and repaid on time.
- 3) Other regulations including:
  - Regulations on managing state financial funds (including state reserve in VND, foreign currencies and goods).
  - Regulations on foreign debts management.
  - Regulations on managing state borrowings for re-lending.
  - Regulations on enterprises supporting (targets, conditions, methods...).
- 4) The function and responsibility in the field of state budget of Ministry of Finance, Ministry of Planning and Investment, other ministries; People's Council and People's Committee at all levels must be adjusted to make them appropriate to the amendment of the Law on Government Organization and Law on People's Council and People's Committee organization.
- 5) Regulations on drafting and approving the budget in medium term and on the transferring of expenditure from the current fiscal year to the next fiscal year.
- 6) The sources of revenue and budget expenditure at local level should be stipulated in the following

direction:

Firstly, if this issues is stipulated in Law on State Budget, then:

- Increase the sources of revenue and expenditure responsibilities to local budgets.
- Reform the policy on reward applied to local budgets, having specific reward for difficult areas and special economy zones.
- Stipulate in details the method of calculating the supplementary budget from the higher level to the lower level budget.
- Extend the right to make decision on collection of fees, charges and surcharges to the People's Committee of Provinces and Cities.

Secondly, the regulations on sources of revenue and expenditure responsibilities should be stipulated in the by-law (Government regulations) so that they can be amended when necessary. Therefore, the stability of the Law on State Budget will be assured.

- 7) Collection on price difference should be permitted in some specific conditions.
- 8) Implementing a policy on assigning budget at the stable level for a certain period of time to some ministries and the budget draft units at the first level.
- 9) Renewing the process of drafting, implementing and settling the State.
  - Step by step implementing budget granting on the approved draft, that means after the draft was approved, the unit can draw money directly from the Treasury without the permission of financial offices.
  - Implementing the method of non-cash payment in the process of budget spending management.
  - Budget settling must be done for each expending task and for annual budget.
- 10) Transforming the system of budget norms to make it suitable to international standards (GFS, Government Financial System, stipulated by IMF), assuring the consistence between drafting, granting and settling norms. State budget expenditure index should be amended.
- 11) Requiring compulsory auditing for state budget using units in conformity with changing the state auditing office operating under management of the National Assembly.
- 12) Perfecting the legal framework on managing non-state budget financial funds.
- 13) Perfecting the legal framework on managing non-state budget funds
- 14) Improving and perfecting mechanism on financial management applied to budgets of town, precinct and commune.

The Law on State Budget has marked the turning point in state budget management in Viet Nam. Four years of implementing has brought about many positive results. The state budget activities attract attentions not only from the managing offices, using budget units but also from the enterprises and citizens. However, there have been inappropriate issues, which need to be changed and adjusted to make this law suitable to the continuous changes of social-economic conditions.



## Appendix 1 Expenditure responsibilities of the central budget and the local budgets

Areas	Central budget	Local budgets
<b>A. Capital expenditure</b>		
1. Infrastructure development + Important social - economic projects. + Infrastructure projects.	The central budget is responsible to cover for investment cost of the centrally-managed infrastructure projects which are unable to recover the invested capital.	The local budget is responsible to cover for investment cost of infrastructure projects managed by the locals.
2. Supporting working capital to the state-owned enterprises	For state-owned enterprises which are under the management of the central agencies	For the state-owned enterprises managed by the local authorities
3. Debt repayment	The central budget is mainly responsible to make repayment for foreign debts	Local budget is responsible to repay for the borrowings from domestic sources.
4. Allocation to the state reserve	The responsibility of the central budget (mainly)	
<b>B. Current expenditures</b>		
1. Expenditures for administrative management	Central administrative agencies	Local administrative agencies
2. Expenditure on non - economic activities: - Agriculture, hydraulics. - Forestry. - Transportation. - Urban development	Maintenance of dykes, roads and other infrastructure projects managed by central agencies	Maintenance and repair of dykes, irrigation system, roads managed by local agencies
3. Expenditure on education: - Expenditure on the regular educational activities. - Expenditure on the national programs	Educational activities managed by the Central or important national education programs such as providing education in the mountainous regions.	Educational activities managed by local agencies
4. Expenditure on training - The universities. - Colleges.	Universities and a number of vocational schools	Vocational schools managed by local agencies
5. Expenditure on health care	Centrally managed hospitals and clinics	Locally managed hospitals and clinics.
6. Expenditure on science and research	Science and research at the central level	Science and research activities managed by local agencies
7. Expenditure on culture and information	Cultural activities managed by central agencies	Cultural activities managed by local agencies
8. Expenditure on sport activities		
9. Expenditure on defense and security	Purchasing weapons and military equipment	
10. Supporting the activities of party, mass, associations	Organizations managed by the central agencies	Organizations belong to local agencies
11. Supporting the commune budget		
12. Other expenditures	Accordance with the ability of state budget	Accordance with the allocations from the central budget.

Table 1 Balance sheet of state budget in 1997

Bill. Dongs

Content	Balance sheet in 1997
<b>State revenue</b>	<b>65352</b>
<b>State expenditure</b>	<b>78057</b>
Of which:	
- Capital expenditure	19482
- Current expenditure	49270
Of which:	
- Education and training	8719
- Health	3033
- Culture and information	625
- Sport	256
<b>Expenditure on implementation of targeted programs</b>	<b>2365</b>
Of which:	
1. Afforestation in bare land and bald hills, mountains (327).	350
2. Afforestation in riverside and coastal bear land (773).	150
3. Labor arrangement and job creation	104
4. Education and training	630
5. Health	423
6. Culture	45
7. Broadcasting wave	20
8. Target program on TV	45
9. Family planning	315
10. Development of information technology	100
11. Drug control	40
12. HIV/AIDS control	55
13. Prostitute control	30
<b>Deficit</b>	<b>12705</b>
<b>Financing state budget</b>	<b>12705</b>
Of which:	
- Domestic loans	8304
- Foreign loans	4401

Table 2 Projection of state budget in 1999

Bill. dongs

Content	Projection for 1999
<b>State revenue</b>	<b>69500</b>
<b>State expenditure</b>	<b>82500</b>
Of which:	
- Capital expenditure	21000
- Current expenditure	47400
Of which:	
- Education and training	10230
- Health	2910
- Culture and information	620
- Sport	280
<b>Expenditure on implementation of targeted programs</b>	<b>3057</b>
Of which:	
1. Afforestation of 5 million ha of forest	316
2. Afforestation in riverside and coastal bare land (773).	120
3. National program on employment to the year 2000	50
4. Education	567
5. Health	430
6. Culture	45
7. Broadcasting wave	18
8. Target program on TV	45
9. Economy and technology	44
10. Family planning	400
11. Drug control	36
12. HIV/AIDS control	50
13. Prostitute control	18
14. Clean waste and environmental hygiene in rural area	60
15. Starvation abolishment and poverty reduction	714
<b>Deficit</b>	<b>13000</b>
<b>Financing state budget deficit</b>	<b>13000</b>
Of which:	
- Domestic loan	5790
- Foreign loan	7210

Table 3 Expenditure of state budget in 1997 and projection for 1999 by central office

Million dong

	Name	Implementa- tion 1997	Projection for 1999
1	Presidential Secretariat	10657	10530
2	National Assembly's Secretariat	79314	61875
3	Governmental Office	146464	79800
4	Supreme People's Court	16568	12404
5	Ministry of Justice	271238	232305
6	Supreme People's Court of Investigation	170035	157380
7	Ministry of Construction	148668	114450
8	Ministry of Agriculture and Rural Development	1934557	2884745
9	Ministry of Fishery	84497	197940
10	Ministry of Transport	3720791	5274064
11	Ministry of Trade	62267	49250
12	Ministry of Industry	362355	261854
13	Ministry of Foreign affairs	431255	311910
14	Ministry of Culture and Information	397012	339486
15	Ministry of Education and Training	862281	927179
16	Hanoi National University	125171	144160
17	Ho Chi Minh City National University	0	139310
18	Ministry of Health	975865	1001756
19	Ministry of Labor, Invalid and Social Affairs	292293	102890
20	Ministry of Finance	87238	52020
21	State Auditing Office	13737	13920
22	State Inspection Office	9380	10640
23	Ministry of Science, Technology and Environment	117060	108360
24	State Bank of Viet Nam	112121	10080
25	Ministry of Planing and Investment	36355	19230
26	Committee for Ethnic Minorities and Mountainous Areas	12260	21475
27	National Securities Commission	455	189250
28	Governmental Personnel Board	40269	47504
29	National Population and Family Planing Committee	112937	120059
30	Committee of Protection and Health Care Children	12386	3983
31	National Committee of Prevention AIDS	28372	10810
32	Viet Nam News Agency	89314	89419
33	Viet Nam Television Station	405075	138343
34	Viet Nam Broadcasting Station	313873	163028
35	Committee of Sport and Physical Culture	108407	151257
36	Viet Nam Women's Association	12278	9719
37	Ho Chi Minh Communistic Youth Union	50154	55291
38	Viet Nam Fatherland Front	7031	7047
39	General Land Office	214724	138458
40	General Department of Meteorology and Hydrometeorology	128486	156880
41	Natural Science and National Technology Center	103811	112725
42	National Social Science and Humanity Center	65049	68050

	Name	Implementa- tion 1997	Projection for 1999
43	General Tourism Office	21483	11160
44	General Statistics Office	145092	90910
45	General Tax Office	925574	610000
46	General Customs Office	202356	140685
47	Governmental Price Committee	11587	10940
48	Viet Nam Confederation of Labor	78753	35778
49	Aviation Corporation	10219	12510
50	Steel Corporation	17073	14748
51	Chemicals Corporation	95855	7790
52	Textile and Garment Corporation	16990	9900
53	Paper Corporation	2822	1370
54	Tobacco Corporation	1730	2480
55	Electricity Power Corporation	72151	3050
56	Coal Corporation	67583	21980
57	Post and Tele- communication Corporation	17367	20640
58	Petroleum Corporation	1768	300
59	Rubber Corporation	5369	7926
60	Coffee Corporation	11581	20100
61	Ship Industry Corporation	0	15750
62	Navigation Corporation	39270	142500
63	North Food Corporation	130856	900
64	Aviation Office	178868	49550
65	Navigation Office	49646	273760
66	State Treasury	180638	130760
67	General Planing and Investment Office	55941	30400
68	Department for Mana of State Capital and Assets at Enterprises	54294	20680
69	General Post Office	23582	18620
70	Steering Board of Clean Water and Environmental Hygiene	4357	1260
71	Mekong River Committee	2932	3290
72	Directorate for Standard and Quality	18627	15320
73	Ally of Viet Nam Cooperatives	7472	8310
74	National Administration Institute	16125	16720
75	Institute of National Remuneration and Competition	15789	9290
76	Governmental Border Office	4897	2570
77	Governmental Gelirous Office	5511	3840
78	Management Board of Hai Phong Processing Zone	821	500
79	Management Board of Da Nang Processing Zone	750	580
80	Management Board of Can Tho Processing Zone	765	520
81	Management Board of Dong Nai Industrial Zone	906	750
82	Management Board of Binh Duong Industrial Zone	1300	670
83	Management Board of Ba Ria - Vung Tau Industrial Zone	601	580
84	Management Board of Ha Noi Industrial Zone	1508	700

	Name	Implementa- tion 1997	Projection for 1999
85	Management Board of Dung Quat Industrial Zone	1630	4640
86	Management Board of Viet Nam - Singapore Industrial Zone	963	460
87	Management Board of Quang Ninh Industrial Zone.	0	420
88	Management Board of Quang Ngai Industrial Zone	0	420
89	Management Board of Phu Tho Industrial Zone	0	420
90	Management Board of Quang Nam Industrial Zone	0	420
91	Management Board of Tien Giang Industrial Zone	0	410
92	Management Board of Long An Industrial Zone	0	420
93	Management Board of Bac Ninh Industrial Zone	0	420
94	Management Board of Khanh Hoa Industrial Zone	0	420
95	Management Board of Phu Yen Industrial Zone	0	420
96	Management Board of Vinh Phuc Industrial Zone	0	420
97	Management Board of Dong Thap Industrial Zone	0	420
98	Viet Nam Social Insurance	63370	3990
99	10-80 Committee	10587	980
100	Ally of Peace Organizations	2938	1990
101	Viet Nam Farmers' Organization	8470	7800
102	Viet Nam Medicine Association	159	280
103	National Medicine Association	311	300
104	Red Cross Association	27431	804
105	Organization of the Blind	657	2080
106	Folk Literature and Arts Organization	935	420
107	Viet Nam Writers' Organization	2755	1750
108	Artists' Organization	1612	570
109	Veterans' Organization	1942	3637
110	Patron' s Organization for the Disabled and Orphans	100	70
111	Viet Nam Organization for the Elderly	472	210
112	Arts' Organization	1913	730
113	Viet Nam Musicians' Organization	1626	640
114	Viet Nam Movies' Organization	1177	810
115	Photographers' Organization	1430	570
116	Literature and Art Committee	1504	1720
117	Culture Organization of Ethnic Minorities	350	180
118	Viet Nam Journalists' Association	150	887
119	Viet Nam Lawyers' Association	239	190
120	Dancers' Organization	1404	460
121	Architects' Organization	1266	650
122	Alley of Viet Nam Science and Technology Organization	3813	7000
123	The Board of Encyclopaedia Compilers	0	1850
124	Viet Nam Commercial and Industry Association	0	1510

*For Organizations and Associations, the basic construction has not been included*

\* In 1997 this office belongs to Ministry of Education and Training

\*\* This office belongs to National Social Science and Humanity Center

Table 4 The balance sheet of revenues and expenditure of the state budget in 1997  
by province and cities belong to the central

Mill dong

	Province	Revenue of state budget by province/ city	Expenditure of state budget by province/ city	Percentages of the divided revenues to provincial budget	Additional allocation from the central budget to provincial budget	The targeted program/ projects
1	2	3	4	5	6	7
	Total	55398186	29672740		9957610	1121769
I	Red River Delta	12665282	5091403		1521241	147537
1	Ha Noi	8594359	1800422	23	134978	17327
2	Hai Phong	2286113	763234	74	55038	15534
3	Ha Tay	364961	552991	100	236733	20226
4	Hai Duong	541050	396493	77	53608	14747
5	Hung Yen	99068	250929	100	176898	14601
6	Ha Nam	80067	216633	100	165945	13692
7	Nam Dinh	189560	410646	100	247018	17463
8	Thai Binh	395910	429054	100	273589	16238
9	Ninh Binh	114194	271001	100	177434	17709
II	The North East	3498717	4206276		2578893	254076
10	Ha Giang	60686	350891	100	303222	27052
11	Cao Bang	59762	308994	100	266601	19963
12	Lao Cai	113059	297579	100	228008	22354
13	Bac Kan	19761	182771	100	171382	16792
14	Lang Son	310034	331770	100	208885	18446
15	Tuyen Quang	158214	252078	100	249883	17973
16	Yen Bai	130156	354901	100	233659	23050
17	Thai Nguyen	215237	324758	100	127353	20831
18	Phu Tho	274162	341748	100	135145	23205
19	Vinh Phuc	117050	284373	100	175378	15738
20	Bac Giang	130537	345215	100	230566	16318
21	Bac Ninh	206631	237971	100	136532	13821
22	Quang Ninh	1703428	593227	91	112279	18353
III	The North West	273	1004761		795945	74017
23	Lai Chau	61329	337211	100	313830	24619
24	Son La	95161	347567	100	259080	28034
25	Hoa Binh	116635	319983	100	223035	21364
IV	North central coast	3355369	3523426		1718424	157765
26	Thanh Hoa	683545	971972	100	447975	36465
27	Nghe An	523640	803367	100	461193	36702
28	Ha Tinh	147422	388636	100	270443	18218
29	Quang Binh	149314	287977	100	172704	18253
30	Quang Tri	266449	241676	100	140693	17953

	Province	Revenue of state budget by province/ city	Expenditure of state budget by province/ city	Percentages of the divided revenues to provincial budget	Additional allocation from the central budget to provincial budget	The targeted program/ projects
31	Thua Thien - Hue	402035	378771	100	149833	17488
32	Da Nang	1182964	451327	45	75583	12686
V	South central coast	1773551	2072646		867612	85623
33	Quang Nam	234707	534751	100	330175	19384
34	Quang Ngai	186561	342884	100	214536	17758
35	Binh Dinh	335342	441142	100	158764	18117
36	Phu Yen	175300	282292	100	150369	14576
37	Khanh Hoa	841641	471577	99	13767	15788
VI	Central highlands	858780	1245596		523711	66901
38	Kon Tum	133384	239099	100	161757	17064
39	Gia Lai	270194	400080	100	165177	21650
40	Dak lak	455202	606417	100	196777	28187
VII	The South East	27174534	6982556		823756	144939
41	Ho Chi Minh City	20943507	3470933	15	307946	22900
42	Lam Dong	400566	447701	100	103049	20636
43	Ninh Thuan	116075	196667	100	104110	14474
44	Binh Phuoc	190631	253174	94	89369	11359
45	Tay Ninh	464602	404628	100	22357	14563
46	Binh Duong	842995	406438	16	52738	10629
47	Dong Nai	1805679	815372	33	8796	21303
48	Binh Thuan	329149	377588	100	86613	17292
49	Ba Ria - Vung Tau	2081330	610055	37	48778	11783
VIII	Mekong River Delta	5798828	5546076		1128028	190911
50	Long An	629630	490860	100	42213	15968
51	Dong Thap	575213	516540	100	117242	16430
52	An Giang	819421	736665	100	53438	19026
53	Tien Giang	625550	541824	92	20737	14128
54	Vinh Long	383310	380645	100	56294	14217
55	Ben Tre	315933	382758	100	103748	16292
56	Kien Giang	745220	575544	49	80080	18605
57	Can Tho	855166	637238	100	59949	19345
58	Tra Vinh	212558	359770	100	158833	14679
59	Soc Trang	228893	325253	100	152770	15190
60	Bac Lieu	147017	253579	100	151228	11486
61	Ca Mau	260917	345400	100	131795	15545

Note: \* Expenditure on target programs which the central budget authorized to the locals.



Table 5 The projection of revenues and expenditure budget in 1999 by province

mill dong

STT	Province	Revenue of state budget by province/city	Expenditure of state budget by province/city	Percentages of the divided revenues to provincial budget	Additional allocation from the central budget to provincial budget	Targeted programs, projects
1	2	3	4	5	6	7
	Total	71100408	30471886		13310470	2265689
I	Red River Delta	15300020	5732114		2267500	183129
1	Ha Noi	10303740	2256378	23	298310	22609
2	Hai Phong	3842460	647969	74	168430	22085
3	Ha Tay	257700	581360	100	353360	20835
4	Hai Duong	353000	454267	77	175510	19639
5	Hung Yen	77510	314650	100	234470	18724
6	Ha Nam	101430	251924	100	173360	18210
7	Nam Dinh	136920	456944	100	327960	17972
8	Thai Binh	144550	461732	100	317340	21996
9	Ninh Binh	82710	306890	100	218760	21060
II	The North East	3016414	4519361		3030760	716879
10	Ha Giang	30930	390490	100	327680	101792
11	Cao Bang	39570	332270	100	275080	92113
12	Lao Cai	66500	319006	100	257520	98935
13	Bac Kan	15770	227685	100	205830	74250
14	Lang Son	236000	356730	100	253430	46622
15	Tuyen Quang	54720	358190	100	278450	50287
16	Yen Bai	54150	318890	100	259310	50337
17	Thai Nguyen	144980	352553	100	190760	36762
18	Phu Tho	187430	404321	100	200610	48015
19	Vinh Phuc	116640	310258	100	222970	27370
20	Bac Giang	90040	395653	100	296560	38395
21	Bac Ninh	146184	291889	100	184070	16231
22	Quang Ninh	1830800	461426	91	78490	35770
III	The North West	212170	1095417		870240	206676
23	Lai Chau	31730	343225	100	297730	90802
24	Son La	81100	387002	100	301780	72935
25	Hoa Binh	99340	365190	100	270730	42939
IV	North central coast	3170670	3505818		2166180	328744
26	Thanh Hoa	408250	990043	100	656040	80451
27	Nghe An	394770	845960	100	553890	87166
28	Ha Tinh	174700	414440	100	323990	29398
29	Quang Binh	107150	335560	100	192970	40587
30	Quang Tri	382000	244465	100	150110	35085
31	Thua Thien - Hue	308800	343350	100	184320	40900

STT	Province	Revenue of state budget by province/city	Expenditure of state budget by province/city	Percentages of the divided revenues to provincial budget	Additional allocation from the central budget to provincial budget	Targeted programs, projects
32	Da Nang	1395000	332000	45	104860	15156
V	South central coast	1359980	2052272		1046640	176137
33	Quang Nam	129700	501170	100	347990	54149
34	Quang Ngai	149750	368791	100	242710	41397
35	Binh Dinh	269800	454570	100	200850	33845
36	Phu Yen	126240	274404	100	170610	24439
37	Khanh Hoa	684490	453337	99	84480	22307
VI	Central highlands	585395	1294633		692130	161624
38	Kon Tum	63205	245203	100	178260	50358
39	Gia Lai	196320	386890	100	214010	49784
40	Dak lak	325870	662540	100	299860	61482
VII	The South East	42660560	6457860		1370980	227754
41	Ho Chi Minh City	25437000	3160115	15	389070	26936
42	Lam Dong	289650	453640	100	150790	39317
43	Ninh Thuan	79350	208190	100	127220	27901
44	Binh Phuoc	167650	294546	94	135520	33074
45	Tay Ninh	379950	445290	100	102640	15882
46	Binh Duong	1112830	388152	16	130300	11403
47	Dong Nai	2291850	772648	33	166150	23612
48	Binh Thuan	198580	332902	100	124780	32185
49	Ba Ria - Vung Tau	12703700	402377	37	44510	17443
VIII	Mekong River Delta	4795199	5814411		1866040	264745
50	Long An	593500	514394	100	115320	21959
51	Dong Thap	381100	526798	100	219810	24588
52	An Giang	568400	673000	100	129410	27898
53	Tien Giang	548650	555252	92	99690	17155
54	Vinh Long	317180	445440	100	116980	12935
55	Ben Tre	280640	428470	100	155080	18043
56	Kien Giang	632239	549137	49	147170	28876
57	Can Tho	715200	603790	100	111060	21016
58	Tra Vinh	136620	357030	100	210330	22974
59	Soc Trang	233370	420556	100	202610	26659
60	Bac Lieu	163130	340214	100	174480	17672
61	Ca Mau	225170	400330	100	184100	24969

Note: Includes the revenue of 5000 billion dongs VAT transfer to the provinces.

Table 6 The balance sheet of state budget in 1998

Bill dongs

Contents	Implement in 1998
State revenue	72965
State expenditure	81995
Of which:	
- Capital expenditure	20514
- Current expenditure	49998
Of which:	
- Education and training	9723
- Health	3064
- Culture and information	697
- Sport	296
Expenditure on implementation of targeted programs	
Of which:	
1. Afforestation in bare land and bald hills, mountains (327).	318
2. Afforestation in riverside and coastal bare land (773).	120
3. Labor arrangement and job solution	50
4. Education and training	562
5. Health	388
6. Culture	42
7. Broadcasting wave	18
8. Target program on TV	41
9. Family planning	285
10. Development of information technology	75
11. Drug control	35
12. HIV/AIDS control	48
13. Prostitute control	21
<b>III. Deficit</b>	<b>12145</b>
<b>IV. Financing the state budget deficit</b>	<b>12145</b>

Table 7 The Projection of state budget in 2000

Bill dongs

Contents	Projection in 2000
State revenue	74535
State expenditure	96535
Of which:	
- Capital expenditure	25700
- Regular expenditure	50739
Of which:	
- Education and training	11240
- Health	3340
- Culture and information	690
- Sport	300
Expenditure on implementation of target programs	
Of which:	
1. Afforestation in bare land and bald hills, mountains (327).	300
2. Afforestation in riverside and coastal bare land (773).	120
3. The targeted program on labor arrangement to 2000	100
4. Education and training	600
5. Health	385
6. Culture	45
7. Broadcasting wave	18
8. Target program on TV	40
9. Family planning	410
10. Development of information technology	53
11. Drug control	50
12. HIV/AIDS control	60
13. Prostitute control	20
<b>III. Deficit</b>	<b>22000</b>
<b>IV. Financing the state budget deficit</b>	<b>22000</b>

Table 8 The balance sheet of state budget in 1998 by the central offices

mill dongs

	Content	Implementation in 1998	Projection in 2000
1	2	3	4
1	Presidential Secretariat	12012	10530
2	National Assembly's Secretariat	83460	77390
3	Governmental Office	211996	81947
4	Supreme People's Court	15244	14970
5	Ministry of Justice	233013	262190
6	Supreme People's Court of Investigation	166246	183730
7	Ministry of Construction	274956	133487
8	Ministry of Agriculture and Rural Development	2393991	2656655
9	Ministry of Fishery	496242	173620
10	Ministry of Transport	4554588	5473051
11	Ministry of Trade	48813	64850
12	Ministry of Industry	325544	291329
13	Ministry of Foreign Affairs	372681	315500
14	Ministry of Culture and Information	339936	392752
15	Ministry of Education and Training	1900690	967478
16	Hanoi National University	147919	106510
17	Ho Chi Minh City National University	114079	140750
18	Ministry of Health	1225226	1097860
19	Ministry of Labor, Invalid and Social Affairs	128783	105365
20	Ministry of Finance	60748	54360
21	State Auditing Office	16912	12275
22	State Inspection Office	14204	10755
23	Ministry of Science, Technology and Environment	130397	275770
24	State Bank	10659	6590
25	Ministry of Planning and Investment	29699	28340
26	Committee for Ethnic Minorities and Mountainous Areas	18373	19771
27	State Securities Commission	346	7070
28	Governmental Personnel Board	47592	64549
29	National Population and Family Planning Committee	323866	114218
30	Viet Nam News Agency	89238	103220
31	Viet Nam Television station	200234	221760
32	Viet Nam Broadcasting Station	268593	186730
33	Committee of Sport and Physical Culture	118981	190004
34	Viet Nam Women's Association	23662	13170
35	Ho Chi Minh Communist Youth Union	46023	48019
36	Viet Nam Fatherland Front	9530	11887
37	General Land Office	182748	96548
38	General Department of Meteorology and Hydrometeorology	125711	166382
39	Natural Science and National Technology Center	121210	162503
40	National Social Science and Humanity Center	70994	79010
41	General Tourism Office	20150	18790
42	General Statistics Office	125688	110510
43	General Tax Office	1121139	833000
44	General Customs Office	237812	196190
45	Governmental Price Committee	10546	10240
46	Aviation Corporation	51395	18875
47	Steel Corporation	53325	7470

	Content	Implementation in 1998	Projection in 2000
48	Chemicals Corporation	27194	9570
49	Textile and Garment Corporation	17452	15185
50	Paper Corporation	2229	1330
51	Tobacco Corporation	5021	330
52	Electricity Power Corporation	80823	1870
53	Coal Corporation	42856	20010
54	Post and Tele-communication Corporation	22574	22860
55	Petroleum Corporation	1088053	0
56	Rubber Corporation	6771	4922
57	Coffee Corporation	10197	18100
58	Ship Industry Corporation	157107	139400
59	The North Food Corporation	44492	715
60	Aviation Office	104288	52190
61	Navigation Office	100922	437520
62	State Treasury	168093	156000
63	General Planing and Investment Office	43878	0
64	General Department for Management of State Capital and Assets at the Enterprises	33759	0
65	General Post Office	27107	31450
66	Steering Board of Clean Water and Envirometal Hygiene	4626	500
67	Mekong River Committee	3319	0
68	Directorate for Standard and Quality	24982	35500
69	Ally of Viet Nam Cooperatives	7575	8890
70	National Administration Institute	14273	14900
71	Ally of Peace Organizations	3520	2035
72	Viet Nam Farmers' Organization	6388	15265
73	Viet Nam Medicine Association	144	300
74	National Medicine Association	321	400
75	Red Cross Association	119	1212
76	Organization of the Blind	681	3870
77	Folk Literature and Arts Organization	949	750
78	Viet Nam Writers' Organization	2944	1795
79	Artists' Organization	1453	610
80	Veterans' Organization	1634	3759
81	Patron's Organization for the Disabled and Orphans	90	100
82	Viet Nam Organization for the Elderly	263	250
83	Arts' Organization	1396	1120
84	Viet Nam Musicians' Organization	1352	1480
85	Viet Nam Movies' Organization	1263	870
86	Photographers' Organization	1334	620
87	Literature and Art Committee	1574	1075
88	Culture Organization of Ethnic Minorities	691	470
89	Viet Nam Journalists' Association	1428	1385
90	Viet Nam Lawyers' Association	228	2490
91	Dancers' Organization	1094	800
92	Architects' Organization	1977	1000
93	Alley of Viet Nam Science and Technology Organization	3650	4025

Table 9 The balance sheet of state budget in 1998 by the province, city

Million dong

	Province	Revenue of state budget by province/ city	Expenditure of state budget by province/city	Percentages of the divided revenues to provincial budget	Additional allocation from the central budget to provincial budget
1	2	3	4	5	6
	Total	67504197	31808418		12288921
I	The Red River Delta	14652285	5632753		2003029
1	Ha Noi	10501444	2147881	23	393546
2	Hai Phong	2143537	693739	74	75916
3	Ha Tay	381703	648186	100	343962
4	Hai Duong	675678	417171	77	70543
5	Hung Yen	161772	322840	100	201374
6	Ha Nam	99690	255764	100	162210
7	Nam Dinh	191030	424983	100	276104
8	Thai Binh	395519	426540	100	280834
9	Ninh Binh	101912	295649	100	198541
II	The North East	3510720	4801440		3168014
10	Ha Giang	43798	382080	100	345136
11	Cao Bang	61546	340922	100	305376
12	Lao Cai	89212	351433	100	283227
13	Bac Kan	11397	205811	100	199523
14	Lang Son	155226	458584	100	342714
15	Tuyen Quang	218734	346779	100	284573
16	Yen Bai	82905	333373	100	262495
17	Thai Nguyen	187423	335741	100	170356
18	Phu Tho	270584	409747	100	193610
19	Vinh Phuc	155237	350629	100	198697
20	Bac Giang	121262	384852	100	279462
21	Bac Ninh	174972	270990	100	158763
22	Quang Ninh	1938424	630499	91	144083
III	The North West	237042	1072422		877162
23	Lai Chau	36492	341611	100	306108
24	Son La	93877	376339	100	302842
25	Hoa Binh	106673	354472	100	268212
IV	North central coast	3838216	3678585		2104373
26	Thanh Hoa	564258	931839	100	525216
27	Nghe An	546535	861612	100	567523
28	Ha Tinh	381653	424145	100	315155
29	Quang Binh	121302	324700	100	225247
30	Quang Tri	447715	315673	100	197602
31	Thua Thien - Hue	394222	407232	100	185472
32	Da Nang	1382531	413384	45	88159

	Province	Revenue of state budget by province/ city	Expenditure of state budget by province/city	Percentages of the divided revenues to provincial budget	Additional allocation from the central budget to provincial budget
V	South central coast	1633105	2199782		1014497
33	Quang Nam	198569	528931	100	365339
34	Quang Ngai	178732	404296	100	268634
35	Binh Dinh	285724	446777	100	189340
36	Phu Yen	154768	259407	100	157740
37	Khanh Hoa	815312	560371	99	33444
VI	Central highlands	733589	1321042		624735
38	Kon Tum	98047	265451	100	178236
39	Gia Lai	249944	414391	100	185809
40	Dak lak	385598	640200	100	260691
VII	The South East	37714784	7144451		1214829
41	Ho Chi Minh City	22851878	3505381	15	141776
42	Lam Dong	356240	513601	100	152024
43	Ninh Thuan	97295	196750	100	131861
44	Binh Phuoc	137328	270068	94	128561
45	Tay Ninh	403354	445827	100	93859
46	Binh Duong	807355	393223	16	147893
47	Dong Nai	1801214	823487	33	77995
48	Binh Thuan	254062	373601	100	104186
49	Ba Ria - Vung Tau	11006058	624513	37	236674
VIII	Mekong River Delta	5184456	5958943		1282283
50	Long An	530544	524404	100	35678
51	Dong Thap	458935	528847	100	148315
52	An Giang	625524	767801	100	57514
53	Tien Giang	617924	584998	92	38737
54	Vinh Long	383445	417215	100	74415
55	Ben Tre	282660	382309	100	119546
56	Kien Giang	730729	592349	49	84815
57	Can Tho	738039	689497	100	29626
58	Tra Vinh	167891	342916	100	195888
59	Soc Trang	246159	414501	100	204662
60	Bac Lieu	159702	318793	100	136195
61	Ca Mau	242904	395313	100	156893



Table 10 Revenue and expenditure projection of state budget in 2000 by the province, city  
million dong

	Province	Revenue of state budget by province/ city	Expenditure of state budget by province/city	Percentages of the divided revenues to provincial budget	Additional allocation from the central budget to provincial budget	The target programs, projects
1	2	3	4	5	6	7
	Total	75895000	33152770		14119880	2838094
I	The Red River Delta	15889565	6102430		2028970	211085
1	Ha Noi	11306000	2261530	30		32739
2	Hai Phong	3335600	737040	100	129050	24835
3	Ha Tay	318500	627800	100	396450	25949
4	Hai Duong	362300	523480	100	135990	22534
5	Hung Yen	102165	337810	100	233820	17128
6	Ha Nam	105800	266620	100	186080	20994
7	Nam Dinh	141000	492900	100	351890	18575
8	Thai Binh	134300	494190	100	360920	23277
9	Ninh Binh	83900	361061	100	234770	25054
II	The North East	3156240	4817250		3361230	811209
10	Ha Giang	32950	397120	100	350400	106161
11	Cao Bang	47220	333890	100	298900	99850
12	Lao Cai	119800	328190	100	276800	100958
13	Bac Kan	16700	243070	100	223990	73960
14	Lang Son	392600	366570	100	285320	72550
15	Tuyen Quang	57700	397020	100	297140	56485
16	Yen Bai	58300	346500	100	289270	64802
17	Thai Nguyen	123200	375610	100	241030	45135
18	Phu Tho	192800	453120	100	236760	56252
19	Vinh Phuc	154750	337930	100	210350	25486
20	Bac Giang	89830	423130	100	335790	47930
21	Bac Ninh	159950	297210	100	198300	18218
22	Quang Ninh	1710440	517890	100	117180	43422
III	North West	202700	1168570		959480	237553
23	Lai Chau	30700	354290	100	323350	94008
24	Son La	82400	423190	100	338630	81453
25	Hoa Binh	89600	391090	100	297500	62092
IV	North central coast	3044780	4068950		2629230	465924
26	Thanh Hoa	471600	1038890	100	676090	107093
27	Nghe An	445900	961200	100	609340	111893
28	Ha Tinh	423600	423470	100	354910	41025
29	Quang Binh	106150	371180	100	264110	55913
30	Quang Tri	335270	327670	100	237520	55022
31	Thua Thien - Hue	198200	476230	100	395110	64431
32	Da Nang	1064060	461310	100	92150	30547

	Province	Revenue of state budget by province/ city	Expenditure of state budget by province/city	Percentages of the divided revenues to provincial budget	Additional allocation from the central budget to provincial budget	The target programs, projects
V	South central coast	1194140	2386510		1525450	260951
33	Quang Nam	103300	619390	100	492560	78953
34	Quang Ngai	105740	468180	100	385740	67709
35	Binh Dinh	248800	510570	100	288460	48477
36	Phu Yen	106600	300340	100	218130	38250
37	Khanh Hoa	629700	488030	100	140560	27562
VI	Central highlands	601265	1418970		795160	198347
38	Kon Tum	81570	279180	100	196870	52996
39	Gia Lai	187895	431750	100	244860	70257
40	Dak lak	331800	708040	100	353430	75094
VII	The South East	47141920	6926570		814520	297768
41	Ho Chi Minh City	25724600	3396620	24		34971
42	Lam Dong	289900	489980	100	196560	51681
43	Ninh Thuan	78300	223710	100	142120	35727
44	Binh Phuoc	146370	328790	100	188420	44118
45	Tay Ninh	379350	458940	100	120290	27397
46	Binh Duong	828000	419750	52		12236
47	Dong Nai	1928400	795290	53		24119
48	Binh Thuan	207000	365670	100	167130	47021
49	Ba Ria - Vung Tau	17560000	447820	48		20498
VIII	Mekong River Delta	4664390	6263520		2005840	355257
50	Long An	466500	554880	100	162180	34521
51	Dong Thap	416600	588610	100	235860	32998
52	An Giang	578000	696630	100	162130	38251
53	Tien Giang	574000	589650	100	110350	20311
54	Vinh Long	338000	435890	100	133280	14157
55	Ben Tre	262830	473280	100	192720	24179
56	Kien Giang	635100	642560	100	21080	36748
57	Can Tho	620000	676590	100	139340	22430
58	Tra Vinh	140200	369030	100	229160	34584
59	Soc Trang	227800	442180	100	230240	43137
60	Bac Lieu	173000	361700	100	188980	27155
61	Ca Mau	232360	432520	100	200520	26786

## **Income Tax, Import and Export Tax and Taxes Relating to Land**

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### **Situation and solution**

This written paper refers to information and data of the taxes, which are the corporation income tax, the personal income tax, the import and export duty, and other taxes and revenue relating to land. Also, I would like to mention belows the changes and trends of tax revenue from the state-owned enterprises (SOE), the medium and small enterprises, individuals and farmers; and the changes, roles of the above taxes with respect to the Government's revenue as well. Some problems arising in the process of implementation and reform target, the trend of amendment and supplement will be implied detailly in each kind of tax.

The written paper includes:

- Reviewing the major changes in the tax system in Viet Nam;
- Changing in the revenue structure to the budget after the tax reform;
- Reviewing some kinds of taxes: Situation and reform target.

### **Part 1 The major changes in the tax system in Viet Nam**

Before the innovation period, the Vietnamese economy operated as mechanism of the centrally planning and subsidizing. The revenue to the state budget was almost from state-run economy with 90% of total domestic revenue in the forms of state-owned enterprise revenue and profit contribution (hereinafter refer to the 'state-owned enterprises taxation') based on principle of enough collection for expenditure. The annual contributive rate to the state budget was low of 13%-14% of GDP. The tax, which was applied to only the non-state sectors (cooperatives, production groups and privately business household), made up a small contribution to total revenue to the state budget so that the role of tax as a tool for macro-economic management and adjustment was very limited. Taxation was used as an instrument to discriminate against private sector for 'nationalization' and 'collectivization' purposes rather than to create revenues.

The system of collection and taxation of Viet Nam in the period of the centrally planning economy was designed by three economic sectors in accordance with the economic management policies and the State each economic sector as follows:

### **1. The state economic sector**

- The revenue contribution regime from the state-owned enterprises: applying for SOEs production units with particular revenue determined by the difference between the production and selling prices and managed by the government. In later 1980s this regime was improved with the turnover from 0.5 to 40 percent of sales revenue (this was similar to the tax system of the socialist countries).
- The SOEs profit contribution regime applies for the profitable enterprises. The government collected a portion from 40 to 60 percent of actual profit depending on each industry.
- The payment regime of the fundamental depreciation and capital refund.
- The paying regime of the price balance applies for the state-run trade and the production units, which sell higher price than selling price regulated by the State.
- The regime of surcharge applies to the import trade goods of the import-export business units.
- The payment regime of forest feeding applies for the state-run forestry units, which has exploited the forestry products.

### **2. The non state-run industrial and commercial sector**

With the purposed of implementing of the industrial and commercial tax rule aiming to improve mainly the non state-run economic sectors, there are the following taxes:

- The license tax;
- The turnover tax;
- The tax on goods (some goods that are produced domestically, which are imposed the special consumption tax now or considered as non-trade import goods);
- The enterprise profit tax;
- The tax on people buying from afar;
- The butchery tax;
- The registered charge.

### **3. The agricultural sector (the agricultural cooperatives, the production groups, the households and individuals engaging in the agricultural production)**

- The agricultural tax collecting by things in nature;
- The butchery tax (if killing buffalo, pigs, cow);
- The registered charge (if one's assets need to be registered)

To implementing the innovation policy, develop the multi-section economy, the tax system in Viet Nam has been reformed substantially by promulgating the Law and Ordinance system, which has officially applied the economic compositions. After the first-step tax reform (in 1990), the tax policy system includes the following taxes:

1. The license tax;
2. The turnover tax;
3. The excise tax;
4. The export-import duty;
5. The profit tax;
6. The natural resources tax;
7. The agricultural land using tax;
8. The land and housing tax;
9. The tax on transfer of land using right;
10. The butchery tax;
11. The income tax on high income earner;
12. The withholding tax.

In the other words, it also includes fees, charges of registration, transportation, flying through the sky and for granting the certificate and the licenses...

The tax system in the process of implementation has made a great contribution to change the structure of the economic compositions, and created the favorable to develop the economy stronger, richer and more diversified. Applying a unified tax system for all economic compositions has created a fair business environment legally and promoted the competition and the cooperation among the economic compositions.

To continue the renovation cause, The Vietnamese Government submitted the National Assembly to spread the implementation of the second-step tax reform so the tax system has had the remarkable changes. In May 1997, at Legislature IX, the session 11, the National Assembly passed the two important kinds of taxes as the value-added tax and the corporation income tax, which took effect from 1st January 1999 instead of the former turnover tax and profit tax.

In order to guarantee the unification of the two new taxes and the feasibility as well, the National Assembly amended and supplemented the tax laws and ordinances such as the import-export duty, the excise tax, and the natural resources tax. Then, the butchery tax was abolished from 1999 and the tax on transfer of land use right was amended remarkably in accordance with new changes of the real estate market.

Thus, after two reform processes, the current tax system has had most of necessary taxes including the direct tax, the indirect tax, the other taxes and fee, charge as following:

1. The value added tax;
2. The excise tax;
3. The export-import duty;
4. The corporation income tax;
5. The income tax on high income earner;
6. The tax on transfer of land using right;

7. The agricultural land using tax;
8. The land and housing tax;
9. The natural resources tax;
10. The license tax;
11. The withholding tax.

In the other words, it also includes fees and charges.

## Part 2 Changes in the revenue structure to the budget after the tax reforms

### 1. Changes in the revenue structure among the economic sectors

Since the tax reform has been implemented, the Government's revenue has been improved compared with last time basing on three aspects: the scale, the annual revenue speed and the structure.

- (1) In term of scale: The first year of 1991, which was applied for the unified tax system, the tax and fee mobilizing rate to the state budget was 13.1% of GDP (it was equivalent with the mobilizing rate in the centrally planned economy). Then, the tax-mobilizing rate was over 20% of GDP 3 years later and stable for 4 years consecutively (see appendix 1).

In the early years after the tax reform, it is the most remarkable that the mobilizing rate to the state budget increased suddenly (In 1992 of 18.7%; in 1993 of 21.7%). This is a signal to imply that the unified tax system is more efficient than the former revenue regime in respect of making the revenue to the state budget.

However, since 1997 the tax mobilizing rate of GDP to the budget decreased compared to the former period (1997: 19.4%; 1999: 17.6%; the average of five years from 1996 to 2000 of around 18.6%). There are so many causes affecting to the decrease of the mobilizing rate but some major causes are followings:

Firstly, after the years with high economic growth (from 1991 to 1995), though the economic growth of Viet Nam was still had good, it has been fallen down because of the financial crisis in the South East Asia, so many industries and fields had high revenue but the growth rate was low and the price could not go up even it had to go down. Therefore, it affects negatively to the mobilizing rate to the state budget.

Secondly, the business production efficientiveness declined and the domestic consumption had many difficulties due to the postponed consumption demand. Moreover, the competition of Vietnamese goods in the international trade was still limited and the accumulation from the internal economy generally is lower than before.

Thirdly, the countries in the region applied lots of incentives in order to improve the investment environment, so that the State had to share difficulties with the enterprises by expanding the tax incentives,

tax exemption, tax reduction and decreasing price for land leasing. This is one of the factors to affect directly to the mobilizing rate to the budget.

- (2) In term of the annual revenue growth speed: The revenue growth speed, this year, was always over 50% as compared to the former year in the average period from 1991 to 1995. In the next five-year period, it was much lower but the revenue from tax (from 1991 to 2000) made up mainly in total revenue of the budget in ten years, (see appendix 2). That revenue contributed substantially to limit over-expenditure, restrict and push back inflation, stabilize the price and currency, guarantee the increasing regular expenditure demand fundamentally of Government and save for spending on the development investment and debt payment.

- (3) The revenue structure according to the economic sector:

In total revenue to the state budget, the highest proportion is the revenue from the SOEs sector, next is the foreign investment sector, forward is the industrial and commercial business sector, then is the non-state run service and the lowest proportion is the revenue from the agricultural sector although it makes up a great part of population. However, in the process of implementation of the economic and tax reform, the revenue structure among sectors have changed remarkably.

With respect to SOEs: In 1991, the tax revenue from the SOEs sector occupied over 38% of total budget revenue but this rate has had a decreasing tendency (the average rate from 1991 to 1995 of 33%; the average rate from 1996 to 1998 of 26.4% and in 2000 of over 21%). The fast changes of the with the decrease of the revenue from SOEs showed the following situations:

Firstly, in the first years of the tax reform implementation, the State maintained the basic depreciation regime and the capital refund revenue as for SOEs. Thus, with abolishing this revenue regime from 1993 brought, of course, the decrease of the revenue to the budget. (see appendix 1)

Secondly, so many efficient business enterprises joined into the joint-venture enterprises operating according with the Foreign Investment Law in Viet Nam. So that, the revenue proportion of the budget revenue structure between two sectors has changed.

Thirdly, accompanying with the tax reform, the Vietnamese Government dropped lots of the development incentive policies of diversified economy. Besides, the establishment and development of the enterprises of other economic compositions with the privatization of SOEs are the reason for decreasing the contributive rate of the state economy to the revenue structure.

**With respect to the foreign invested sector:** the revenue proportion from this sector in the period from 1991 to 2000 is the second ranking. Especially, it is estimated that the revenue proportion will be contributing higher than SOEs sector in the year of 2000.

However, it does not mean that the foreign invested sectors run business efficiently and make a great

contribution for the Government because the budget revenue from this sector mostly is from the crude oil revenue of the joint-venture enterprises and contracts of petrolic products sharing profited by the Vietnamese Government. As shown in the appendix 1, 2, the total revenue from the foreign invested sectors are nearly from the crude oil in the years of from 1991 to 1994. From 1994 to now, lots of the enterprises have been operating and contributing to the budget tax payments (excluding the land renting payment) but tax payments and other revenue (excluding crude oil) contributed about 1/4 of total revenue from this sector.

With respect to the industrial and commercial business and non-state run service sectors:

The most considerable point of this sector is a small-scale business. The obligation of tax payment from this sector is lower than other but the tax revenue from this sector is usually stable of lower than 10% of total revenue to the budget. Although many enterprises belonging to this sector have established recently and also many enterprises have been transferred from SOEs, the proportion from this sector in total revenue to the budget is still not changeable, even it is decreasing.

**With respect to the agricultural sector:** with over 11,000,000 farm-households paying the agricultural land using tax, their contribution is considerable to the revenue of the localities' budget. As for local areas that the economy has centralized on the agricultural production such as Thai Binh, An Giang, Can Tho... the revenue from the agricultural land using tax is enough for regular expenditure and a part for the development investment expenditure of the localities. However, the revenue from this sector makes up a small proportion lower than 3% of the total revenue to the budget (see appendix 3)

In 1991, the agricultural land using tax was rated of 6.8% of total revenue to the budget but it decreased to 6.2% in 1992 and 2.7% in 1994. At the end of 90s, that rate was changed a little bit. The decrease of the contribution proportion from the agricultural sectors, especially the agricultural land using tax, can be explained as below:

Firstly, the decrease policy of the contribution level of farmers making up more than 76% population, is one of methods to encourage them to increase the output of production aiming to eliminate hunger and reduce poverty. Promulgation of the agricultural land using tax law in 1993 (took effect in January 1994) instead of the agricultural tax ordinance, the contribution level from this tax decreased about 30% as compared to before. Moreover, one-year tax exemption for farmers as followed the Ho Chi Minh president's testament that was implemented by two-year tax reduction 1993, 1994 (each year reduces 50%) so that it is also a factor to change the contributive level to total revenue to the budget.

Secondly, the most important character of the agricultural land using tax is tax calculation by grain, but tax payment in cash (in the form of grain price locally provided by the provincial-level people's committee). The tax norm by paddy was steady in 5 years accompanied with the stable food price so that the revenue from this tax was not changeable much. While other revenue had lots of changes, the stabilization of the agricultural land using tax annually is the reason why the revenue proportion from



the agricultural sector per total revenue to the state budget had a tendency of decrease.

## 2. The revenue structure according to kinds of taxes

The appendix 3 shows the revenue structure from kinds of taxes and fees in the period of 1991-1997 in Viet Nam. The indirect tax revenue to the budget is most considerable in which the highest proportion is the export-import duty, next are the turnover tax and the excise tax. With respect to the direct tax, the highest and stable proportion is always the profit tax (the corporation income tax now). The tax income on high-income earner contributes a small proportion in the first years but it has a tendency of increase now. The tax on land and housing always contributes the lowest proportion.

**Appendix 3 The revenue structure to the state budget 1991-1997**

Unit: % per total revenue from tax and fee

	1991	1992	1993	1994	1995	1996	1997
The turnover tax	20.3	16.7	14.7	16.4	16.5	19.6	20.5
The excise tax	8.2	7.3	6.9	6.6	8.1	7.0	6.7
The export-import duty	11.2	13.6	21.1	28.8	31.0	26.5	27.4
The profit tax	10.4	13.5	17.9	17.5	17.3	17.6	17.7
The natural resources tax	0.3	9.4	6.6	5.3	4.4	5.3	4.5
The agricultural land using tax	7.2	7.0	4.7	3.1	2.4	3.3	2.9
The tax on land and housing	0.05	0.1	0.6	0.6	0.5	0.6	0.4
The income tax on high income earner	0.6	0.8	0.7	0.9	1.0	2.1	2.3
Charge of registration	1.0	2.0	2.6	2.7	2.5	2.0	2.2
Other fees and charges	1.5	8.1	5.8	3.6	2.5	3.0	2.6

Source: Ministry of Finance

The change of the revenue structure has some remarkable points as following:

- Firstly, the export-import duty was a second ranking in 1991 and 1992. After that it has been taking the first ranking and contributing the highest revenue to the budget. In the first years, the export-import duty not only created the revenue also used for the domestic production protection. In this time, equipment, machines, materials and components imported mostly for the domestic production were imposed a low tax rate (almost tax rates of 0%) and the consumption goods were imposed a too high tax rate (even the tax rate of 200%). Since 1994, the domestic production has had lots of changes accompanying with the development of the domestic enterprises so that the foreign invested projects running business in Viet Nam need the State's protection in which one of the protection means is the tax protection. Tax rate adjustment for the imported goods produced domestically (including components, materials) in order to implement the protective policy and re-arrange the tax rate system in the tariff for the consumption goods. Thus, it made a remarkable change between the indirect tax and the direct tax in the revenue structure to the state budget and the indirect tax structure itself.

- Secondly, the direct tax typically with the profit tax and the income tax on high-income earner increase and stabilize, even though in the last time those tax rates were decreased from 30%, 40% and 50% to 25%, 35% and 45% and the taxable threshold of the tax income on high income earner was increasing. It proves that accompanying with the economic growth, the average income of enterprises and citizens is getting more and more after the economic reform.
- Thirdly, the revenue from fees and charges contributed of 10% per total revenue to the state budget in 1992, which had a tendency of decrease in the next years. However, the revenue from fees and charges contributed higher proportion than both of the agricultural land using tax and land, housing tax. In the revenue structure from fees and charges, there are two kinds of charges contributing high revenue, which are the charge of registration and transportation.

### **Part 3 Reviewing some kinds of taxes: situation and reform target**

#### **1. The corporation income tax**

At the legislation IX, session 11, the National Assembly passed the Law on Corporation Income Tax, which took effect from 1st January 1999 instead of the former profit tax. Promulgation of the Law on Corporation Income Tax is one of important contents of the second-step tax reform. The contents of the Law on Corporation Income Tax, some problems arising in the process of implementation and the complete trend of this tax in the coming time will be mentioned as below:

##### **(1) Taxpayer**

- 1) Organizations, individuals engaging in production of and trade in goods and services (herein after referred to as business entities) and deriving income shall be subject to a corporation tax including:
  - The state-owned enterprises; the limited companies; the joint-stock companies; the private enterprises; the cooperatives; the cooperative teams; other organizations engaging in production of and trade in goods and services;
  - The foreign invested enterprises and the foreign parties in " Business Cooperation Contracts" subject to the Law on Foreign Investment in Viet Nam;
  - The foreign companies and other foreign organizations doing business in Viet Nam but not subject to the Law on Foreign Investment in Viet Nam.
- 2) The Vietnamese individuals conducting business in production of and trade in goods and services include:
  - Business individuals and business groups; business households.
  - Independent professionals such as doctors, lawyers, accountants, auditors, painters, architects, musicians and others.