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SUBJECT: Quantitative Study of Legal Taxation in IV CTZ

I. General

This study is descriptive rather than prescriptive. Its purpose is twofold: to provide a factual basis for informed tax policy recommendations, and to educate advisors on taxation and its revelations about administrative efficiency, economic activity, and the realities of pacification.

The paper first considers the total tax burden; then breaks this down into National, Provincial, and Village revenues; and finally examines the specific tax components at each level. For each level, aggregate and per capita figures are given by province with major inter-provincial variations identified and explained. Emphasis is placed upon the particular types of revenues which support each level of government and the inter-provincial variations in this pattern. Only Corps-wide generalizations and major exceptions will be described here. The appendices contain sufficient details for each province to analyze their own situation, if desired. The flexibility of GVN procedures allows wide scope for provincial individuality.

The period covered is from 1966 to 1968 with 1968 incomplete due to the extended Vietnamese fiscal year and to administrative inefficiency in processing returns. Changes over time are noted and future trends suggested.

Given the defects of GVN bookkeeping procedures, all figures quoted herein should be considered only as "order of magnitude" indicators. Population figures are subject to a particularly large error and so per capita quotations should be given wide latitude in interpretation. With such crude data, and with the lack of procedural uniformity from province to province, no fine distinctions can be justified. Even the general conclusions presented herein are put forward with all possible humility and the realization that closer scrutiny might reveal major exceptions in particular instances.

II. Summary of Major Conclusions

A. The tax burden in IV CTZ is absurdly low. In 1966 it was 616 million VNP or 114 VNP per capita and in 1967, 799 million VNP or 140 VNP per capita. This means that legal taxation by all levels of the GVN amounted to approximately a chicken per person. The increase in taxation from '66 to '67 (30%) was less than inflation (40%). Preliminary indicators for '68 suggest that insecurity caused a further decline in real taxation to the level of a very scrawny chicken per capita.

B. Prospects for 1968 are for a sharp rise in taxation over '68 thanks to higher rates on many items, expanded area under GVN control, and absence of a major administrative breakdown as occurred during February through May of 1968. The recently announced moratorium on tax collection in newly pacified areas will be effectively applied only to the miniscule land tax and hence will have a negligible effect on total taxation.

C. The National Budget received the bulk of the taxes collected--55%--with Village Budgets retaining 37% and the Provinces only 6%.

D. The most heavily taxed sector of the economy is production of consumer non-durables--ice, soft-drinks, beer, gasoline, etc. Commerce and trade is also heavily taxed. Agriculture is taxed only when its produce is marketed in Saigon or in one of the provincial capitols.

E. The national government taxes production most heavily, and both provincial and national assessments are laid on "paper" transactions of commerce. The village relies most heavily on income from concessions such as markets and fishing rights.

F. The urban dweller is taxed far more heavily than his rural compatriot. The bulk of the rural population pay no legal taxes whatsoever, except indirectly in the form of higher prices for their purchases and lower prices for their produce.

G. The most important source of inter-provincial variation is the presence of major processing and distribution industries. Phong Dinh has twice the total revenues of any other province thanks to the presence of the Delta's only major bottling plant and the presence of the three bulk oil distributors. Dinh Tuong, with the Delta's second major distribution center--My Tho--is a poor second because bottling and bulk oil distribution is handled from Saigon.

H. Security as measured by HES population control is a negligible factor in determining the level of taxation since it affects only the lightly taxed rural population. The two most secure provinces--An Giang and Go Cong--are 11th and 9th in per capita taxation.

I. Though this paper deals quantitatively only with legal taxes, it is readily apparent that supplemental levies for the personal profit of civil servants and the military are as great or greater. Some taxes, such as the business license tax, have illegal supplements of 10 times the legal rate. Other taxes, such as land and income tax, are apparently not subject to such levies. The majority of taxes lie somewhere in between and are subject to petty but irritating "expediting" payments. Aggregate quantification of these illegal activities is of course impossible, but it is clear that they yearly extract the equivalent of another chicken or two from each Delta resident.

J. National Government expenditures in the Delta far outstripped its legal collections here. In 1967 the central government collected 455 million VNP but returned 465 million VNP in direct subsidies to Province and Village budgets. In addition, MORD spent 574 million VNP, not to mention injection by the Armed Forces and the other ministries.

III. The Tax Burden

A. General

It is necessary to distinguish between taxes and revenues. The latter includes subsidies, contributions, transfers and rentals from public property as well as taxes. In this section we will consider only taxes per se while thereafter we shall deal with all revenues. Here we are concerned with the level of the burden borne by the public in supporting GVN activities. These figures may then be compared with both the level of VC taxation and the value of the services rendered by the GVN.

B. The Magnitude of Taxation

Appendix I-E gives the total revenues for each province in IV CTZ while I-A shows the portion of this which may properly be considered as a tax burden. Appendix I-B gives the national component, I-C the Provincial, and I-D the village.

Table 1 summarizes this data for the corps as a whole.

TABLE 1
TAX BURDEN IN IV CTZ

	Value (1,000 VNP)			Per Capita			% of total		
	66	67	68	66	67	68	66	67	68
National	336,893	455,383		62	80		55%	57%	
Provincial	35,426	47,021		7	8		6%	6%	
Village	243,426	296,497		45	52		39%	37%	
TOTAL	615,745	798,901		114	140		100%	100%	

The bulk of the taxes are collected for the central budget with the province's budget receiving a very minor share. No significant change in composition is apparent from '66 to '67. Though monetary receipts increased by 30%, inflation amounted to 40% for a net decline in real taxation.

C. Provincial Variations

The total tax burden varies from 166 million in Phong Dinh (Dinh Tuong is second with 83 million) to 5 million in Kien Tuong. On a per capita basis, it runs from 389 piasters per person in Phong Dinh to 47 piasters per person in Chuong Theic. The primary reasons for these variations have already been noted under "general conclusions."

There is relatively little variance in the rank of a particular province with regard to the level of village, national and province taxes. Significant variations do appear on a per capita basis, however, as summarized in Table 2. (see page 4a).

These variations will be explained more adequately when we turn to the components of each of the levels of taxation. Here we will only note the more disproportionate examples: the extraordinarily high village rank of Kien Phong; the low village ranks for Ba Xuyen, Dinh Tuong, and Vinh Long; the high national rate in An Xuyen; the high provincial rate of Chau Doc; and the low provincial rate of Bac Lieu.

D. Security and Taxation

Table 2 lists the provinces in order of their security as measured by the percentage of population in 'A' and 'B' hamlets according to the December 31, 1967 HRS. It is apparent that there is no correlation between security and taxation at any level. Even the Village per capita figure bears no relationship to security. The explanation for this phenomenon is that security conditions affect only the rural, agricultural areas, where no taxes are collected anyway.

IV. National Budget Revenues

A. General

The revenues considered here are largely collected by the province tax service, deposited in the provincial treasury, and credited to the National Budget. The money itself is then used to cover expenses of the national government within the province.

National revenues are broken down into four artificial categories as shown in Table 3 below.

TABLE 2
SECURITY, POPULATION, AND TAXATION IN IV CTZ: 1967
(by rank)

Province	Security	Absolute Value of Burden				Per Capita Value of Burden			
		Village	Province	National	Total	Village	Province	National	Total
An Giang	1	7	5	7	5	12	15	9	11
Go Cong	2	13	15	14	14	6	5	11	9
Chau Doc	3	5	1	3	3	10	1	7	5
Vinh Long	4	9	3	3	6	14	5	8	12
Sa Dec	5	11	7	13	13	8	3	15	14
Bac Lieu	6	8	13	8	8	3	11	4	2
Kien Giang	7	3	9	4	4	4	9	3	3
Phong Dinh	8	1	2	1	1	2	2	1	1
Ba Xuyen	9	10	6	6	7	13	5	5	7
Dinh Tuong	10	2	4	2	2	9	8	2	4
Kien Tuong	11	16	16	16	16	5	4	12	10
Chuong Thein	12	15	12	15	15	15	9	16	16
Vinh Binh	13	6	10	11	9	7	11	10	13
Kien Phong	14	4	11	12	10	1	11	14	8
An Xuyen	15	12	14	10	12	10	1	6	6
Kien Hoa	16	14	8	9	11	16	15	13	15

NOTE: Security rating by % of population living in 'A' and 'B' hamlets according to Dec. 31, 1967 HES.

TABLE 3
NATIONAL REVENUES IN IV CTZ

	Value (1,000 VNP)			Percentage		
	66	67	68	66	67	68
Direct	53,372	70,637		15.8	15.5	
Indirect	123,207	150,660	156,622	36.6	33.1	
Excise	56,179	70,759	69,739	16.7	15.5	
Registration	104,228	163,327	161,124	30.9	35.9	
TOTAL	336,893	455,383	387,485	100.0	100.0	

It would be highly desirable to break these taxes down further into their component parts, but the data is unavailable at any central location and inquiries at provincial tax offices have yielded rather meager results. Some general comments will have to suffice.

B. Direct Taxes

There are three forms of direct taxes--land, business license and income. The first two of these are "shared" with the village and province and will be discussed fully later on. The income tax has been a negligible source of revenue in the past, but beginning in 1968 a withholding system was instituted for salaried employees and a sharp increase resulted. Table 4 shows the relative importance of the three types of taxes for two provinces.

TABLE 4
TYPES OF DIRECT TAXES IN SELECTED PROVINCE

	Kien Giang		Phong Dinh	
	'67	'68	'67	'68
Land	12%	1%	21%	10%
Business License	86%	88%	45%	64%
Income	2%	11%	34%	28%
TOTAL	100%	100%	100%	100%

The sharp decrease in the role of land taxes is due to the January '68 decree reserving land taxes for the provincial and village budgets. Those land revenues which are listed for '68 are supposedly due from previous years. Of all the categories of taxes discussed in this paper, this one is the most directly proportional to the actual level of economic activity. Phong Dinh heads the list, followed by Dinh Tuong, and Ba Xuyen.

C. Indirect Taxes

Indirect taxes consist primarily of production taxes (on rice, meat, and most manufactured and processed goods) and the paddy transformation tax. The latter tax is supposedly levied at a rate of 3 piasters per 100 kilos of paddy milled, but in actuality is usually collected only on paddy shipped out of province--another example of taxation on trade rather than on production. Indirect taxes are particularly high in Kien Giang due to the production tax applied to fishing.

D. Excise Taxes

Excise taxes are charged at varying rates on soft drinks, alcoholic beverages, tobacco, firecrackers, etc. Phong Dinh province collections are 67% of the entire Corps, with the BGI factory paying over 90% of this.

E. Registration Taxes

Registration taxes are fees for official "paper" on a wide variety of transactions. Though breakdowns are not available for most provinces, random inspection suggests that the stamp tax and the land sale registration tax provide over three-quarters of the revenue in this category. Dinh Tuong and Phong Dinh again head the list, with An Giang ranking high thanks to the "registration" tax on quarrying.

V. Provincial Budget Revenues

A. General

Provincial revenues totaled 410 million in 1966 and 616 million in 1967. However, only 35 million and 47 million, respectively, represented actual taxes. The bulk of the remainder came from central government subsidies. Provincial revenues vary in a narrow range from 24 million VNP in Kien Tuong to 53 million VNP in An Giang. This small range is explained by the fact that the size of provincial staffs and functions are quite uniform and vary only slightly with the size and population of the province. As a result, provincial expenditures are much the same from province to province and the resulting central government subsidy (the controlling factor in provincial revenues) is much more uniform than other forms of revenue.

The inter-province variation in the actual tax burden is even smaller--from 4 million in Kien Tuong to 6 million in Chau Doc (1967). On a per capita basis it ran from a low of 5 VNP per person in An Giang and Kien Hoa to a high of 13 VNP per person in Chau Doc. Again, this minimal gap is due to the fact that the Provincial Budget primarily taxes "paper." Because these are fixed

rate fees, they vary more with the number of businessmen and their transactions than with the volume of their business. This is simply another consequence of the inequity of the GVN tax structure which taxes activities rather than their value.

B. Sources of Provincial Revenues

Table 5 gives the components of provincial revenues for the Corps as a whole.

TABLE 5
COMPONENTS OF PROVINCIAL REVENUE

	Value (1,000 VND)			Percentage of Total		
	66	67	68	66	67	68
1. Property Tax	6,364	6,232		1.5%	1.0%	
2. Business License Tax	17,210	25,554		4.1	4.1	
3. Direct Taxes	3,942	4,622		0.9	0.8	
4. Concessions	5,815	6,368		1.5	1.0	
5. Admin. Services	2,080	3,835		0.5	0.6	
6. Property Transactions	1,970	1,029		0.5	0.2	
7. Subsidies	322,037	465,683		76.5	75.6	
8. Refunds, Contributions, Transfers	55,199	97,149		13.2	15.8	
9. Remainder from previous years	4,951	5,496		1.2	0.9	
TOTAL	419,613	616,078		100.0	100.0	

As can be seen, the central government subsidy provides three-quarters of the provincial revenues, with another 15% provided by "refunds, contributions, and transfers." This latter category is a miscellaneous hodgepodge whose major component is supplementary government subsidies for special items such as elections.

Appendix V-A shows the complete breakdown of the kinds of taxes which can be collected at the provincial level. Though most provinces do not take full advantage of this bewildering variety, it is apparent that what is collected is totally disproportionate to the cost of collection. That is, the salaries of those administering the "paper" taxes is far greater than the revenue generated. The result is uneconomic in two ways: it is a drain on government finances and at the same time an obstruction to commerce both by virtue of its nuisance value and in the opportunity it presents for illegal expediting payments. The exceptions to this are the business license and land taxes discussed separately below.

C. The Land Tax

Land revenues are continually decreasing. In 1966 they generated 6.4 million in provincial revenues and in 1967, 6.2 million. The small absolute decline is due to increased insecurity and therefore lower rice land collections. The much larger decline in land taxes as a percentage of total revenues (from 1.5% to 1.0%) is due to the tax being assessed as a flat rate per hectare (on rice and mixed cultivation land) or per square meter (on urban lands). The result is that in an inflationary situation, revenues do not increase in proportion to the value of production. An even larger decline in provincial land revenues in 1968 is due to the reservation of the rice and mixed cultivation tax for the village budget. Only a minute portion of the rice land tax is collected. It alone would yield 300 to 400 million piasters if collected on all of the Delta's 1.6 million hectares.

D. The Business License Tax

In contrast to the land tax, the business license tax is uniformly adhered to throughout the Delta. Theoretically, it is shared equally by the village, province and national budgets with an additional surcharge of 3.5% of the base rate going to the Saigon Chamber of Commerce. In actuality, the village does not receive its full share. In Ba Xuyen, for example, the provincial business license tax generated 2.5 million piasters in 1967 while the same tax at the village level yielded only 2 million. The same phenomenon is observable in all provinces, but the explanation is unclear. It is of course possible that the discrepancy is simply a diversion of funds to private hands. However, given the ease with which illegal supplemental levies are made in Vietnam, it seems unlikely that such a patent and obvious measure would be used. A more likely explanation is that since large businesses pay their tax at the province tax service, the share of the village is often credited to the province budget rather than the village budget upon submission of the funds to the treasury. This point needs further research, however. A similar phenomenon is found with regard to the land tax.

E. Interprovincial Variations

The leader in both the business license tax and the property tax is Phong Dinh. Since the bulk of the property tax comes from urban rather than rice land, it is natural that the major rice producing provinces--Ba Xuyen, Bac Lieu, and Kieng Giang--rank low in property tax (6th, 15th, and 13th respectively).

The category of "Administrative Services" shows major variations, with three provinces--Vinh Binh (2.4%), Chuong Thain (2.0%), and Kien Hoa (1.6%) deriving significant portions of their total provincial revenues from their source.

A particularly curious fact is that two provinces derive major portions of their income from "Refunds, Contributions and Transfers"--Chau Doc (35.9%) and Kieng Giang (33.6%). In Kieng Giang, the Finance Service Chief attributed this wholly to large government subsidies of elections, but proportional funds should have been provided in other provinces. It is possible that in the other provinces, this subsidy was not entered on the provincial budget, but the point bears further investigation.

VI. Village Budget Revenues

A. General

Total revenues for village budgets in IV CTZ amounted to 331 million VNP in 1966 and 542 million VNP in '67. This was 61 VNP per capita and 95 VNP per capita respectively. This represented a range of from 5 million VNP in Kieng Tuong to 56 million in Dinh Tuong and from 23 piasters per capita in Kien Hoa to 142 per capita in Kien Phong.

B. Sources of Revenue by Chapter

Each province prepares a quarterly village budget summary listing all villages and their expenditures and receipts by chapter. This report is cumulative, so that the final quarter's report shows performance for the entire year. Appendices IV-A through IV-K show the receipts of each province by chapter. Table 6 summarizes the aggregate sources of revenue for the Delta as a whole.

TABLE 6
IV CTZ VILLAGE REVENUES BY SOURCE

	Value (Million VNP)		Percentage of Total	
	'66	'67	'66	'67
1. Land and Business License	23.9	28.7	7.2%	5.3%
2. Direct Taxes	6.7	7.0	2.0	1.3
3. Public Property Occupancy	2.3	2.9	0.7	0.5
4. Miscellaneous Taxes	2.2	3.1	0.7	0.6
5. Concessions	150.8	182.5	45.6	33.8
6. Administrative Services	36.4	42.5	11.0	7.9
7. Public Property	27.6	35.7	8.4	6.6
8. Subsidies, Contributions, Reimbursements, Surplus from prior year	59.9	209.6	18.1	38.8
9. Delayed Collections from prior years	15.4	14.9	4.7	2.8
10. Unforeseen Receipts	5.4	13.8	1.6	2.6
TOTAL	330.9	541.5	100.0	100.2

From 1966 to 1967 there was a small inflationary increase in most items and a quantum jump in "Subsidies, Contributions, Reimbursements, etc." due to the implementation of the new salary subsidy scheme. In most provinces, the government subsidy represents only about one-half of the revenues under this chapter, meaning that only about 20% of village revenues derive from the central government.

The most important single source of village revenues in the Delta is government concessions. The greatest single item is the market tax, with many provinces gaining major revenues from competitive bidding for the right to fish in particular portions of canals, ponds, and sloughs.

Most villages have public lands which are rented out with the proceeds going to the village budget. Many villages also have large tracts of former French land or expropriated lands which have not yet been distributed. Rentals from these lands are shared between the village and the central government, with the village receiving 40% and the central government 60%. Such revenues accounted for 7% of total village revenues on the average and up to 33% in Ba Xuyen. This latter source will be cut off from the villages in 1969 as French and Expropriated land receipts will be reserved for the central government.

The only other significant sources of revenue are land and business license tax. These were already discussed under provincial taxes.

Each village prepares a quarterly summary of revenues and expenditures by Chapter, Article, and Paragraph. (For a complete listing in Vietnamese and English, see Appendix V-B.) These records are on file in District offices and in some provincial Finance Services. To give a more detailed picture of revenue sources, these reports were analyzed for two provinces--Dinh Tuong and Ba Xuyen. The results are shown in Appendix IV-L.

C. Geopolitical Location

In keeping with the GVN policy of taxing trade rather than agriculture, the lion's share of village revenues are collected in the villages where the provincial capital is located. In Dinh Tuong, Dieu Hoi village (My Tho) yielded 35% of total village revenues (out of 93 villages) while in Ba Xuyen, Khanh Hung (Soc Trang) yielded 36%. Similar percentages obtain in other provincial capitals. Naturally enough, district capitals provide the second most important source of revenue so that in most provinces, 50% to 75% of total village revenues come from a half-dozen villages.

D. Interprovincial Variation

Phong Dinh's high village revenues are expected for reasons already noted. The high rankings of Kien Phong and Bac Lieu are due to lucrative concessions (53% and 49% of total revenues respectively). Both provinces are leading fresh water fish producers and it may be assumed that what distinguishes them from other

provinces is a high level of return on fishing rights. Sa Dec's high per capita figure is due to a particularly high central government subsidy.

A major element of confusion was introduced late in the study when it was discovered that Ba Xuyen did not include the central government subsidy in its '67 Village Budgets (though it did do so in 1968). Inspection of the available data suggests that Kien Hoa, Go Cong, and possibly Chuong Thoi also included the central government subsidies. It should be noted that all village subsidies also appear in the Provincial Budget under Chapter 201, Article 53, of expenditures and also under Chapter 9, Article 1, of receipts.