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Proposed Changes in the Patente Tax and Request for Equipment from USOM.

The purpose of this Memorandum is to explain in more detail the proposed changes in the patente tax, to evaluate these changes, and to present a request for assistance made by Mr. Vinh, Acting Director General of Taxation:

- (1) I have no reservations about the desirability of the proposed changes in the patente tax law for the simple reason that I have proposed these changes myself. The patente is a poor tax, but the changes in the law will remove some undesirable exemptions and will help to make the tax more equitable. Most important, the changes will bring in more revenue.
- (2) The idea of current payment of the tax on a quarterly basis is also good. At the present time, assessment of the tax takes place during the first six months of each year based on surveys and collection follows at the end of the year. Quarterly payments on the basis of last year's assessment, with refunds or additional payments to be adjusted later on in the year, will speed up collections and make payments more convenient for taxpayers. It is also desirable for collections to be made by the General Directorate of Taxation instead of the General Treasury.
- (3) I have some reservations, however, about how assessments and collections are to be made under the new system. At the present time, all assessments for the patente tax in Saigon are made by a patente tax bureau located in the main office of the General Directorate of Taxation. This bureau is operated quite well with patente tax enforcement about the best of any tax in Saigon. The Cholon tax is also assessed from the largest tax office in Cholon.

Mr. Vinh proposes to decentralize this system by distributing the present staff into indirect tax offices. The net result would be to have five branch offices for assessment and collection, with the main office in Saigon to be used only for the accounting and gathering of tax collections. I have visited these small indirect tax offices this morning and find that they are already over-crowded and very shabby as compared to the two main offices presently in use. Moreover, I have some doubts about whether the assessment system will work as well if the present staff is broken up into small parts.

Mr. Vinh has also requested assistance in order to put his decentralization plan into effect. He claims that he needs 12 filing cabinets, 6 calculating machines, 6 safes, a Jeep station wagon, and printing service for cards and forms. This would amount to about 500,000\$VN or \$7,000 - 8,000. It is claimed that the equipment is needed for the branch offices, while the Jeep is needed to transport collections each day from the branch offices to the main office.

During my survey of the indirect tax offices, I found that there were safes and calculating machines in each office. There is an unquestioned need for filing cabinets, however, if the decentralization program is carried out. The request for the Jeep is justified more on the grounds that the vehicles used in the General Directorate of Taxation are insufficient and old rather than the claim that the Jeep is needed for collecting receipts.

In brief, I believe that the decentralization idea is ill-advised and the request for equipment is exaggerated. They do not need safes or calculating machines. However, regardless of what is done with respect to the patente tax, they are in need of filing cabinets and vehicles.

There is no question that Mr. Vinh's reforms could be carried out without U. S. assistance in the form of equipment. The question at issue, however, is whether some assistance at this time would be good psychology to show that we are backing tax reform.

A few final points:

- (1) There is no guarantee that these reforms will come about as planned. Mr. Vinh claims that they have been approved "in principle", but admits that there is a difference between approval in principle and approval for execution.
- (2) Mr. Vinh says that he cannot obtain money for equipment himself because there is only 60,000\$VN left in the budget of the General Directorate of Taxation for all offices in Viet-Nam for the remainder of this year.
- (3) Mr. Vinh admits under pressure that the equipment is not needed immediately in order to fulfill his plan, but says that the equipment is needed for any type of improvement in the future. I agree with this, especially with respect to vehicles and filing cabinets.
- (4) I have determined that there are eight vehicles available in Saigon-Cholon for the use of the General Directorate of Taxation. The newest vehicle is a 1955 model Peugeot used by the General Director. The remaining seven date back to 1940 and are more often in a garage being repaired than they are in use. Some of these vehicles have been discarded by other government departments.