

THE PATENTE (BUSINESS LICENSE TAX) IN VIET-NAM

Milton C. Taylor

MICHIGAN STATE UNIVERSITY
VIET-NAM ADVISORY GROUP



October, 1959

THE PATENTE (BUSINESS LICENSE TAX)
IN VIET-NAM

Milton C. Taylor
Michigan State University
Viet-Nam Advisory Group

October, 1959

TABLE OF CONTENTS

	<u>Page</u>
Introduction	1
<u>Part I - Description</u>	3
1. History of the Patente Tax.	3
2. Central Government Tax Bases and Rates.	4
3. Additional Percentage Increases of the Central Government Tax.	8
4. Exemptions.	11
5. Government Suppliers.	15
6. Review Committees	18
7. Penalties	20
8. Miscellaneous Provisions.	21
<u>Part II - Analysis</u>	23
1. Taxpayer Declarations	23
2. Assessment Procedures in Saigon	24
3. Assessment and Collection Procedures at the Village Level.	28
4. Operation of the Patente Tax Review Committee in Saigon.	30
5. Assessment and Collection Statistics.	33
6. Distribution of Patente Tax Assessments by Business Activities.	52
7. Patente Tax Compliance and Enforcement in Saigon	55

TABLE OF CONTENTS (Continued)

	<u>Page</u>
8. Survey of Selected Business Firms	57
9. Patente Tax Assessments for a Sample of Physicians	71
10. The Special Case of Importers	78
11. The Special Case of Importers and Distributors of Motion Picture Films.	87
12. Taxpayer Observations	90
13. Summary of Previous Studies	91
<u>Part III - Recommendations</u>	94
1. Prologue.	94
2. Specific Recommendations.	96
Appendices	100

INTRODUCTION

This report on the patente tax is the third in a series, following previous studies of the system of income taxation and the real property tax. With the completion of this third report, research on tax policy and administration has been concluded in the area of taxes classified as "direct" by the Vietnamese Government. Subsequent research will be concerned with indirect taxes and excises.

While previous reports have emphasized the need to strengthen the income and property taxes, the policy conclusion for the patente is quite the opposite. The patente, as a form of business taxation, has only a transitional role to play in the evolution toward a modern and progressive system of taxation. By derivation, the patente follows a French system of taxing partly on the basis of external indications of ability to pay. Assessments are based in part on such factors as location and outward appearances of profitability. Because of this, "arbitrary" is the single word that best describes the assessment process.

Because of the shortcomings of the tax, there is the temptation to recommend replacing it immediately with a more rational business tax. But this does not appear to be practicable. Because the General Directorate of Taxation has

more important priorities for tax reform with respect to the income and property taxes, it may be necessary to retain the patente for the foreseeable future. On this assumption, it appears desirable to recommend a few stop-gap measures which would make the patente more productive of revenue and less discriminatory.

Part I. Description

1. History of the Patente Tax

The patente was introduced in France in 1791 in the form of a license or authorization for the privilege of undertaking a business, but subsequent modifications changed the tax more from a license to a tax based in part on "exterior signs" of ability to pay. Introduction of the tax to Viet-Nam was made by the French in 1890 in virtually the same form as it was used in France.

When Viet-Nam was composed of three regional governments — North, Center, and South Viet-Nam — there were also three different patente tax laws. At this time, the patente tax was a regional government tax, with percentage additions being levied to the regional tax for the benefit of the local governments. These variations among the regions were eliminated in 1953 when the new Fiscal Code established a uniform tax for all Viet-Nam.

Regional governments continued in existence after the Geneva Agreement, but now these were composed of South and Center Viet-Nam, and the Highlands. The patente continued to be a regional tax for these three governments until January 1, 1956, when regional governments were eliminated. Since this latter date, the patente has become a central government tax

with local governments adding percentage increases to the central government tax for their own revenue needs. Also, on January 1, 1956, the General Directorate of Taxation assumed responsibility for all patente tax assessments in Viet-Nam except in the case of some village assessments.

2. Central Government Tax Bases and Rates

The patente is legally a business license tax levied on individuals and corporations for the privilege of engaging in a trade, profession, or industry. It is a personal license to undertake certain prescribed types of businesses in the sense that the licenses can only be used by those to whom they are issued. In actual application, however, the patente resembles a tax more than a business license.

There are two parts to the tax. The first, which may be called the basic tax, is a specific levy determined by the type of business. All businesses are listed in Tables B and C of the Fiscal Code. Table B records 743 different businesses and professions and establishes minima and maxima basic taxes for each. For example, a tailor may be taxed within the range of 60 to 3,000\$VN, a carpenter within the range of 60 to 2,000\$VN, and a doctor between 800 to 10,000\$VN. Then Table C lists 25 businesses which are given unique treatment. There is no range in taxation

for these 25 businesses; for example, the basic tax on the manufacture of alcohol is 38VN per 100 liters, while the levy on taxis is 10\$VN per horsepower.¹

Then, in addition to this basic tax, there is an ad valorem levy applied to the rental value of the business property, which is derived either from the gross contract rent paid or the gross estimated rental value if the property is owner-occupied. This rental value tax is assessed only on the 743 businesses listed in Table B of the Fiscal Code and not on the 25 listed in Table C. Taxpayers without a fixed business location pay a rental value tax equal to one-third of the basic tax.

The tax rate on rental value is progressive from 3 to 10 per cent depending on the amount of the basic tax assessment. For example, if a tailor has a basic tax assessment of 2,500\$VN, the tax applied to the rental value of his business property will be 6 per cent, while if his basic tax is 300\$VN, the rental value tax rate is 4 per cent. This tax rate applied to the annual rent, plus the basic tax, constitutes the total patent tax for the central government.

¹Tax rates for a representative group of businesses from Tables B and C of the Fiscal Code are presented in Appendices A and B respectively.

In order to relate the tax rate on rental value to the basic tax, a schedule has been developed in Table A of the Fiscal Code which divides the basic tax levies into six categories, as follows:

<u>Category</u>	<u>Amount of Basic Tax</u> (\$VN)	<u>Rental Value Tax Rate</u> (Per Cent)
First	25,000 to 100,000	10
Second	8,000 to 20,000	8
Third	2,000 to 7,000	6
Fourth	600 to 1,800	5
Fifth	180 to 500	4
Sixth	30 to 160	3

Table A in the Fiscal Code also divides each basic tax category into nine classes. For example, in the Fourth Category of the basic tax, which varies from 600 to 1,800\$VN, the first to the ninth classes of the basic tax are 600\$VN, 700\$VN, 800\$VN, 900\$VN, 1,000\$VN, 1,200\$VN, 1,400\$VN, 1,600\$VN, and 1,800\$VN. This means that if a tailor is to be assessed a basic tax within the range of 600 to 1,800\$VN, there are only nine alternatives for the basic tax assessment. In other words, he may be given a basic tax assessment of 1,400\$VN but not of

1,500\$VN. It also means that if he is given a basic tax assessment of 1,400\$VN, this assessment falls within the Fourth Category and will thus bear a progressive rental value tax rate of 5 per cent.²

One important amendment affecting tax bases and rates has been introduced since the patente tax was codified in 1953. The Fiscal Code of 1953 required importers and exporters to pay only one tax, and this payment permitted them to import and export any product for which governmental approval could be obtained. The new amendment effective on January 1, 1956 established 18 categories of imports and 18 for exports with each category having a basic patente tax within the range of 2,000 to 50,000\$VN.³

This does not mean, however, that a particular firm must pay 36 patente taxes in order to import and export a full line of products. These business firms are first circumscribed by a ruling of the Department of Economy which limits any particular firm to the importation of six categories of products. Export activities, however, do not have this limitation. Also, importers

²Table A of the Fiscal Code is presented in Appendix C of the report.

³A subsequent section of this report explains the administrative regulations which have been developed in order to apply this basic patente tax to importers.

are given the option of paying only one patente tax if their basic tax is at least 75,000\$VN. Thus, importers and exporters in practice will pay either several patente taxes for certain categories of imports and exports or the minimum single patente tax of 75,000\$VN, whichever is to their advantage.

3. Additional Percentage Increases of the Central Government Tax

The patente is a central government tax, but revenues are shared with the local governments and Chambers of Commerce by means of percentage increases of the central government tax. Among the local governments sharing in the proceeds of the tax are the Prefecture of Saigon-Cholon, the municipalities, provinces, and some villages. The central government tax is uniform throughout Viet-Nam, but there is considerable variation among local government rates.

Percentage increases of the central government patente tax are determined by a combination of central government decrees and local government decisions. The central government first establishes by arrêtés the maximum rates which may be levied by prefectures, municipalities, provinces, and villages. These arrêtés are issued for each region. In South Viet-Nam, the maximum rates are 200 per cent for the Prefecture of Saigon-Cholon and 100 per cent for the provinces and villages; in Central Viet-Nam the maximum rates are 100 per cent for

provinces and 50 per cent for villages; while in the Highlands, the maximum rates are 200 per cent for the Municipality of Dalat, 100 per cent for provinces, 200 per cent for towns, and 50 per cent for villages. Most local governments apply these maximum rates, but there are a few levying percentage additions below the maximum. The actual rates levied by local governments in 1958 are listed in Appendix D.

Several other complicating factors should be mentioned. None of the towns in South Viet-Nam have a budget, but the several villages comprising each town will have independent budgets. As a result, the patents tax paid by a businessman in one of these towns will be determined by a combination of central government, provincial, and village rates. In Central Viet-Nam, the Town of Hue and the Municipality of Danang have their own budgets. Both of these urban centers are treated like provinces with maximum allowable rates of 100 per cent, but Hue levies an actual rate of only 75 per cent. On the other hand, a business establishment located in a village outside of Hue will be subject to both provincial and village rates. In the Highlands, the Municipality of Dalat has a rate of 200 per cent, and since there are no town budgets in the Highlands, all other applications of the tax are a combination of central government, provincial, and village rates.

Village rates are particularly variable. In the first instance, some villages in Central Viet-Nam do not levy a village patente rate, even though it is allowed, because they do not have their own budgets. The remaining villages applying a patente tax rate have two alternatives: (1) they may have their rates approved by the Minister of Finance, taxes collected by the General Treasury, and the proceeds refunded back to the village; or (2) they may have their rates approved by their respective province chiefs and collect the patente taxes themselves.

The percentage addition to the central government tax for the various Chambers of Commerce is a uniform 2 1/2 per cent for all Viet-Nam, and all businesses bear this additional rate except the liberal professions. Chambers of Commerce in Viet-Nam are semi-public institutions and their share of the patente tax constitutes their operating revenues.⁴

To illustrate the above, the procedural steps in determining a hypothetical tax assessment may be calculated under the assumptions that a taxpayer operates a tailoring business in

⁴A separate Chamber of Commerce for the Chinese community with a rate of 17 1/2 per cent was eliminated on January 1, 1959. Now there is only one type of Chamber of Commerce in Viet-Nam with a uniform rate of 2 1/2 per cent.

Saigon with a basic tax of 2,500\$VN and an annual rental value for his business property of 12,000\$VN:

(1) Central Government Tax:

(Basic tax + 6 per cent of rental value)

$$2,500\$VN + (.06 \times 12,000\$VN) = 3,220\$VN$$

(2) Saigon-Cholon Tax:

(200 per cent of central government tax)

$$2 \times 3,220\$VN = 6,440\$VN$$

(3) Chamber of Commerce Tax:

(2 1/2 per cent of central government tax)

$$.025 \times 3,220\$VN = \underline{80.5\$VN}$$

Total Tax 9,740.5\$VN

4. Exemptions

Since the patente is a business license tax levied on the privilege of undertaking a business activity, it is an important part of the law to distinguish between taxable and exempt business activities. Accordingly, the Fiscal Code provides for a rather extensive list of exemptions. The more important of these are:

(a) All persons who practice their profession as government employees are exempt, regardless of the level

of government.

- (b) Painters and sculptors are exempt if they do not have a business establishment for the sale of their products. By extension, this exemption also applies to authors, musicians, etc.
- (c) All teachers are exempt, and a decree in 1955 exempted all private schools.
- (d) All farmers are exempt regardless of the size of their farm or number of employees.
- (e) Peddlers without wagons are exempt.
- (f) Fishermen owning their own boats are exempt only if they have no employees.
- (g) All owners of mines operated for the extraction of natural resources are exempt.
- (h) The renting of unfurnished rooms, apartments, or houses is exempt, but the same business activity is taxable if the accommodations are furnished. Landlords renting furnished rooms are exempt if the business activity is not undertaken regularly.
- (i) Corporations or individuals undertaking the development of low-cost housing projects are exempt. In practice, this business activity is confined to individuals.

(j) Non-profit savings banks are exempt, but in practice this exemption applies only to government savings banks.

(k) Private clubs are exempt, which in Saigon includes the Cercle Sportif and Cercle Hippique.

(l) Craftsmen who work in their homes are exempt, and also the widows of these craftsmen provided that they employ no more than one person and do not operate a business establishment outside of their homes.

(m) Owners of one or two horse-drawn carts are exempt provided that two carts are not used simultaneously.

(n) Owners of one taxi cab are exempt, and by extension the owners of a fleet of taxi cabs are granted an exemption for one taxi.

(o) A special exemption was granted in 1958 to two suppliers of automobiles to the Central Government. Authority for this exemption was a letter by the Minister of Finance to the General Directorate of Taxation. As of September, 1959, no action has been taken to renew this exemption for 1959.

(p) Public hospitals are exempt but not hospitals operated by individuals or private groups.

(q) All publishers of newspapers and periodical magazines are exempt.

In addition to the above exemptions, which include relief

from both basic and rental value taxes, some businesses are granted partial exemption. Two types of businesses are granted exemption from the rental value tax only: (a) peddlers with wagons, provided that the wagons do not occupy a fixed location; and (b) hotels subsidized by the Government.

These total and partial exemptions appear to have been developed with the objective of providing tax relief to the following types of business activities: (a) primary producers, like farmers and fishermen; (b) persons without a business establishment, like teachers and artists; (c) non-profit activities; (d) activities resulting in low incomes; and (e) socially desirable business activities.

Despite the fact that there are these discernable, and in some cases reasonable criteria for exemptions, there are also some exemptions which are difficult to justify. These may be made more apparent by comparing certain exempt and taxable undertakings: Why should lawyers and doctors be taxable while teachers and artists are exempt? Why should carpenters and mechanics be taxable while farmers and fishermen are exempt? Why should processors of salt and lime be taxable while the extractors of these products are exempt? Why should a bar or restaurant be taxable while the same services are exempt if provided to the members of a private club?

Many of these inconsistencies could not be removed because it would be too difficult administratively to add additional taxpayers to the rolls. This is probably true with respect to artists, authors, and farmers. There are also some business activities which should not be taxed because the income resulting from the business is so low. But it would appear that both equity and revenue productivity would be improved if exemptions granted to the following business activities were removed: (a) private schools operated for profit; (b) owners of mines; (c) landlords of unfurnished rooms, apartments, and houses; (d) corporations or individuals undertaking the development of low-cost housing projects; (e) private clubs operating restaurants and bars; (f) owners of horse-drawn carts and taxis; and (g) publishers of newspapers and magazines.

5. Government Suppliers

Private business firms supplying goods and services to the Central Government are given unique treatment under the patente tax. This unique treatment is particularly important because government suppliers represent 12.41 per cent of all patente tax assessments in Saigon.⁵ When these firms first

⁵See a later section of this report entitled "Distribution of Patente Tax Assessments by Business Activities".

initiate business with the Government, they are required to pay a fixed amount of 1,500\$VN as their first patente tax payment. This payment is, in a sense, in the nature of an "initiation fee", which does not vary with the size of the firm or with the product or service supplied. After this first assessment, there are individual patente tax assessments whenever a supplier is paid by the General Treasury. In other words, if a firm is paid six times in one year, the firm's name will appear on supplementary tax rolls on six occasions. These assessments are based on notifications of payment received by the Patente Tax Bureau from the General Directorate of the Treasury.

The tax base for the assessment on government suppliers is gross sales made to the Government minus an exemption of 5,000\$VN, while the rate of the tax is .7 per cent for all suppliers of both goods and services. An irregularity arises with respect to the exemption of 5,000\$VN. This exemption is permitted each time that goods and services are supplied the Government. As a result, if a supplier furnishes only one order to the Government for 6 million \$VN, he is allowed only one exemption of 5,000\$VN, while if another supplier furnishes six orders of 1 million \$VN each, he is allowed six exemptions totaling 30,000\$VN. This also means that a supplier

would have no patente tax to pay (except the original tax of 1,500\$VN) if each of the orders received from the Government were 5,000\$VN or less.

In summary, a hypothetical patente tax assessment for a government supplier involves the following steps:

(Gross Sales - Exemption)	Central Tax Rate	Prefectural and Chamber of Commerce Tax Rates	Total Patente Tax Assessment
(1,000,000\$VN - 5,000\$VN	X .007	X 3.025	= 21,069\$VN

Since the patente tax on government suppliers is based on gross sales, the tax is similar to a sales or gross income tax. And since there is an exemption of 5,000\$VN on each contract with the Government, the effective rate of the tax is progressive. The calculations noted below indicate that the effective rate of the tax is 1.06 per cent on sales of 1 million \$VN, and 2.12 per cent on sales of 100,000,000\$VN. For most suppliers, the tax has an effective rate of approximately 2 per cent.

Gross Sales (\$VN)	Patente Tax Assessment (\$VN)	Percentage of Patente Tax Assessment to Gross Sales
10,000	106	1.06
50,000	953	1.96
100,000	2,012	2.01
500,000	10,482	2.09
1,000,000	21,069	2.10
100,000,000	2,117,394	2.12

6. Review Committees

All patente tax assessments made in Viet-Nam are reviewed by committees. These groups function at the provincial and district levels, in the Prefecture of Saigon-Cholon, and in the municipalities. In Saigon and Cholon, the committee members are appointed by the Minister of Finance, while the chiefs of provinces appoint the committees operating at the local government levels. By convention, each committee is composed of two businessmen, two civil servants, and a chairman acting as an official governmental representative. The composition of the review committee in Saigon at the present time is one representative each from the French Chamber of Commerce, the Vietnamese Chamber of Commerce, the General Directorate of the Treasury, and the Prefecture of Saigon, while the Inspector General of Taxation acts as chairman. In addition, all meetings of the committee in Saigon are attended ex-officio by the Chief of the Patente Tax Bureau. New committees are appointed each year.

There is some disparity between formal responsibility and actual practice in the functioning of the Saigon committee. The committee is formally required to accompany the assessing officers as they visit each business estab-

lishment. This procedure would require the committee members to visit 25,000 business establishments, and this responsibility would consume all of their time from approximately January 1 to August 1 of each year. In practice, the committee members accompany the assessing officers for only the first 15 days of each year, and then meet to review the new assessments each time that one-quarter of the tax roll has been completed. To review the whole of the 1959 Patente tax roll in 1959 required six days of the committee's time.

The formal role of the committee is advisory, but in practice the committee tends to have review authority. Although the Chief of the Patente Tax Bureau has final responsibility for proposing all assessments, it is explained that it is more expeditious and convenient in practice for the Chief to accept the recommendations for changes in assessments proposed by the committee. Committee members give particular attention to assessments which have been changed from the previous year. When disagreements arise between the Chief of the Patente Tax Bureau and the committee members, the issue is decided by the Director General of Taxation. After the committee has reviewed the tax roll, notice is given to the public that assessments have been completed and may be obtained at the offices of the General Directorate of

Taxation during a period of 15 days.

This review procedure is clearly desirable. It helps to reduce arbitrary applications of the tax and eliminates some erroneous assessments. Also, it develops better public relations between taxpayers and tax administrators, because it gives taxpayers the feeling that there is an objective group looking after their interests.

7. Penalties

There was no provision for penalties in the original version of the Fiscal Code enacted in 1953, but an amendment was introduced in 1955 which permits the General Directorate of Taxation to penalize those businessmen who have not been assessed in previous years of business activities. Assessments may be made for three years previous to the current tax year. In practice, these assessments for prior years are made equal to the assessment for the current year. Penalties added to these delinquent taxes are 100 per cent of the total tax if the basic tax is less than 500\$VN and 300 per cent of the total tax if the basic tax is over 500\$VN.

These penalties are applied infrequently. It is admitted by the Saigon Patente Tax Bureau that 1959 was the first year in which penalties were applied, and even in

this year, only 30 "large" businessmen were penalized.

Evaders with small assessments are not penalized.

An interesting feature in the application of the penalties is that the assessment staff is given one-fifth of the penalties levied as a bonus. Total penalties levied on the 30 businessmen referred to above amounted to 175,000\$VN in 1959, so the assessment staff in Saigon will share 35,000\$VN.

8. Miscellaneous Provisions

In concluding this descriptive section of the report, brief mention may be made of a few miscellaneous provisions:

(1) If a businessman operates a chain of commercial stores, individual patente taxes will be assessed on each outlet. Warehouses where goods are stored for eventual sale, however, are assessed only on the basis of rental value.

(2) Cooperatives and "public establishments" having a commercial character are taxable. Taxing cooperatives appears particularly inconsistent with exempting private clubs like the Cercle Sportif. The taxing of public establishments having a commercial character has also created some irregular distinctions. For example, both Air Viet-Nam and the company supplying water and electric power in Saigon-Cholon are taxed, but the governmentally operated railroad and bus companies are exempt.

(3) A particularly hazy area in the application of the patente tax is the case of commercial stores which sell more than one type of product. For example, the Fiscal Code provides a particular patente tax for each type of product sold, so it is clear that a grocery store or jeweler must pay only one patente tax assessment. Strictly speaking, then, a store which sells both jewelry and perfume would be assessed two patentes. There are instances in which some commercial stores in Saigon are assessed from three to five patentes, but there is also a tendency at some ill-defined stage for these several patentes to be combined into one under the category of a "bazaar".

(4) Article 49 of the Fiscal Code provides for a committee to be appointed every five years for the revision of the patente tax law. No committees have been appointed for this purpose since the Fiscal Code was revised in 1953.

Part II - ANALYSIS

1. Taxpayer Declarations

Only one declaration is required from the patente tax-payer, and this report must be forwarded before the business is initiated. This declaration requires the following information: nationality, address, amount of working capital,⁶ certification to initiate the business if any is required, amount of rent paid together with a receipt of payment, address of principal business establishment if the declaration refers to a branch, and the address and rental value of any warehouses.

Both the basic tax and the tax on rental value is determined on the basis of this declaration. Principal determining factors in making the assessment is the location of the business, the amount of working capital, and the rent paid. For purposes of levying the tax on rental value, either a rental receipt or the rental contract must be forwarded to the tax office. Tax assessments for the first

⁶This term has not been defined explicitly. Inquiry leaves the impression that working capital includes all liquid assets.

year are prorated for the period during which the business is operated, but if the business does not start operations, or if operations are terminated, no tax refund is given.

For all subsequent tax assessments after the first year, the assessments are based on visits by tax personnel to the business establishments rather than on the basis of taxpayer declarations.

2. Assessment Procedures in Saigon

Patente tax assessments in Saigon are undertaken by a unit staffed with a bureau chief and 11 employees. These 11 employees may be classified into 8 clerks available for field assessments and the preparation of tax rolls, 2 female stenographers, and a male clerk who handles correspondence and delivers mail.

The assessment procedure involves field visits to every business establishment in Saigon. This field survey extends from January 1 to about July 15, and it involves covering 190 streets and about 25,000 businesses. The survey crew is composed of the 8 assessment clerks plus the bureau chief and the mail dispatcher. These 10 persons are grouped into 5 teams of 2 workers each for the purpose of improving the quality of the assessments and reducing the possibility of bribes being accepted.

Either the basic tax or the rental value factor may be changed in the process of re-assessment. Changes in the basic tax are largely discretionary, being based on the location of the business and external indicia of business profitability. Rental receipts are required from the businessmen for the purpose of determining whether the base for the rental value tax should be changed.

Re-assessment proceeds, first, by dividing Saigon into four sections, and each section is completed before the next is surveyed. Then within each section, the re-assessment is undertaken by visiting each business establishment along a particular street. As a result, the tax roll is prepared according to the area of the city and street address. When the tax roll for the first quarter of Saigon is completed about June 1, it is forwarded to an IBM service bureau for processing. A first draft of the roll is received back from the IBM firm about June 15 and is available in the tax office for review by taxpayers for a period of 15 days. Then the roll is returned to the IBM firm for the preparation of the final draft, which is completed by about July 15. After this, the roll is reviewed by the Director of Direct Taxes and forwarded to the General Directorate of the Treasury for collection on about July 20. This same procedure is

followed in turn for the other three areas of Saigon. The General Treasury receives the last quarter of the principal roll about September 15.

Taxpayers appearing on the roll which is forwarded for IBM processing are listed by street and consecutive street address. The principal roll prepared by the IBM equipment for collection purposes also follows this listing, but in addition, a second roll is prepared classifying taxpayers by type of business. This second roll is prepared for statistical purposes, but no use is made of it. Assessments for each category of business are not assembled because of a shortage of staff in the patente tax bureau.

In addition to this foregoing procedure which refers to the principal patente tax roll for Saigon, supplementary rolls are prepared each month. These supplementary rolls are for businessmen leaving Viet-Nam and for new businesses. There are approximately 1,000 names each month on the supplementary rolls, so the annual total for these roles is about one-half that of the principal roll.

The procedure for a taxpayer starting a new business is cumbersome and supports the view (justified on other grounds as well) that the General Directorate of Taxation should collect its own assessments. The taxpayer must first of all

a declaration with the General Directorate of Taxation, and is given a tax assessment on the basis of this declaration. Then the taxpayer takes the assessment to the General Treasury for payment and returns to the tax office for his patente or business license. Alternatively, the taxpayer may delay his payment and the receipt of the patente until his name appears on the supplemental roll and he is advised that the tax is due by the General Treasury.

The use of IBM equipment for the processing of the tax rolls was instituted in 1957 and has been continued with the 1958 and 1959 tax rolls. Processing has been undertaken by the Saigon branch of IBM France, but in 1960 it will be assumed by the General Directorate of the Budget. In addition to preparation of the tax roll, IBM equipment has been used to prepare a file of IBM cards, which lists taxpayers alphabetically by name. These cards are helpful as a cross-reference with the roll, which is prepared by street and street number.

Article 48 of the Fiscal Code requires the Prefecture of Saigon-Cholon and various departments of the central government to forward information to the Patente Tax Bureau which would provide helpful information for the assessment of the patente tax. This information often is not made available. For example, the Prefecture of Saigon-Cholon

does not forward information on residence declarations of foreigners, operators of transportation facilities, or the opening and closing of commercial establishments. No information from central government departments is received on the dissolution of corporations or the institution of new businesses.

3. Assessment and Collection Procedures at the Village Level

There are two alternative ways of assessing and collecting village patente taxes. This lack of uniformity prevents the development of adequate statistics on village patente tax assessments and collections.

Villages following the first procedure develop a general or nominative roll, which lists each taxpayer by name, type of business, address, and amount of tax for the central government, the province, village, and chamber of commerce. Three copies of this general roll are prepared at the village level and are forwarded to the office of the General Directorate of Taxation located in the principal town of the province. This office, in turn, forwards the three copies of the general roll for approval to the Director of Direct Taxes in Saigon. After approval, one copy of the roll is retained by the Director of Direct Taxes, one copy is forwarded to the General Treasury for collection, while the third copy is returned to the village.

In principle, the General Treasury has the responsibility to collect the patente tax, but in practice this responsibility is assumed by village authorities. After the villages collect the tax, payments are forwarded to the provincial offices of the General Treasury. These offices, in turn, reimburse the villages for their share of the patente tax. However, because the head office of the General Treasury in Saigon does not make these reimbursements to the villages, no statistics on these refunds are available in Saigon. Thus, there is no information available on village patente tax collections.

In addition to the general or nominative roll, a recapitulative roll is prepared by the offices of the General Directorate of Taxation located in the principal towns. This recapitulative roll is a summary statement for each village in the province; that is, it lists villages instead of tax-payers.

The recapitulative roll is also forwarded for approval to the Director of Direct Taxes in Saigon, and is then given to the General Treasury and the villages. The purpose of the recapitulative roll is to inform the General Treasury and the villages about the total amount of patente tax which has been approved for collection.

The second procedure which may be followed by the villages results in even less statistics being available on patente tax assessments and collections. In this case, two general or nominative rolls are prepared, one for the share of the tax received by the central government, the province, and the chamber of commerce, and the other for the share of the tax received by the village. The first roll follows the same procedure outlined above, while the village roll is forwarded to the province chief for approval and then returned to the village for collection. In this case, only the provincial authorities have information on assessments and collections of the patente tax for the use of the villages.

In summary, these two procedures mean that village patente tax assessments are available only for those villages following the first procedure, while collection statistics are not available for villages following either the first or second procedures.

4. Operation of the Patente Tax Review Committee in Saigon

An examination of the work of the patente tax review committee in Saigon was undertaken in order to inquire into the effectiveness of this group with respect to improving assessment procedures. It will be recalled that Saigon is divided into four areas, and each area is assessed in

THE PATENTE (BUSINESS LICENSE TAX) IN VIET-NAM

Milton C. Taylor

MICHIGAN STATE UNIVERSITY
VIET-NAM ADVISORY GROUP



October, 1959

THE PATENTE (BUSINESS LICENSE TAX)
IN VIET-NAM

Milton C. Taylor
Michigan State University
Viet-Nam Advisory Group

October, 1959

TABLE OF CONTENTS

	<u>Page</u>
Introduction	1
<u>Part I - Description</u>	3
1. History of the Patente Tax.	3
2. Central Government Tax Bases and Rates.	4
3. Additional Percentage Increases of the Central Government Tax.	8
4. Exemptions.	11
5. Government Suppliers.	15
6. Review Committees	18
7. Penalties	20
8. Miscellaneous Provisions.	21
<u>Part II - Analysis</u>	23
1. Taxpayer Declarations	23
2. Assessment Procedures in Saigon	24
3. Assessment and Collection Procedures at the Village Level.	28
4. Operation of the Patente Tax Review Committee in Saigon.	30
5. Assessment and Collection Statistics.	33
6. Distribution of Patente Tax Assessments by Business Activities.	52
7. Patente Tax Compliance and Enforcement in Saigon	55

TABLE OF CONTENTS (Continued)

	<u>Page</u>
8. Survey of Selected Business Firms	57
9. Patente Tax Assessments for a Sample of Physicians	71
10. The Special Case of Importers	78
11. The Special Case of Importers and Distributors of Motion Picture Films.	87
12. Taxpayer Observations	90
13. Summary of Previous Studies	91
<u>Part III - Recommendations</u>	94
1. Prologue.	94
2. Specific Recommendations.	96
Appendices	100

INTRODUCTION

This report on the patente tax is the third in a series, following previous studies of the system of income taxation and the real property tax. With the completion of this third report, research on tax policy and administration has been concluded in the area of taxes classified as "direct" by the Vietnamese Government. Subsequent research will be concerned with indirect taxes and excises.

While previous reports have emphasized the need to strengthen the income and property taxes, the policy conclusion for the patente is quite the opposite. The patente, as a form of business taxation, has only a transitional role to play in the evolution toward a modern and progressive system of taxation. By derivation, the patente follows a French system of taxing partly on the basis of external indications of ability to pay. Assessments are based in part on such factors as location and outward appearances of profitability. Because of this, "arbitrary" is the single word that best describes the assessment process.

Because of the shortcomings of the tax, there is the temptation to recommend replacing it immediately with a more rational business tax. But this does not appear to be practicable. Because the General Directorate of Taxation has

more important priorities for tax reform with respect to the income and property taxes, it may be necessary to retain the patente for the foreseeable future. On this assumption, it appears desirable to recommend a few stop-gap measures which would make the patente more productive of revenue and less discriminatory.

Part I. Description

1. History of the Patente Tax

The patente was introduced in France in 1791 in the form of a license or authorization for the privilege of undertaking a business, but subsequent modifications changed the tax more from a license to a tax based in part on "exterior signs" of ability to pay. Introduction of the tax to Viet-Nam was made by the French in 1890 in virtually the same form as it was used in France.

When Viet-Nam was composed of three regional governments -- North, Center, and South Viet-Nam -- there were also three different patente tax laws. At this time, the patente tax was a regional government tax, with percentage additions being levied to the regional tax for the benefit of the local governments. These variations among the regions were eliminated in 1953 when the new Fiscal Code established a uniform tax for all Viet-Nam.

Regional governments continued in existence after the Geneva Agreement, but now these were composed of South and Center Viet-Nam, and the Highlands. The patente continued to be a regional tax for these three governments until January 1, 1956, when regional governments were eliminated. Since this latter date, the patente has become a central government tax

with local governments adding percentage increases to the central government tax for their own revenue needs. Also, on January 1, 1956, the General Directorate of Taxation assumed responsibility for all patente tax assessments in Viet-Nam except in the case of some village assessments.

2. Central Government Tax Bases and Rates

The patente is legally a business license tax levied on individuals and corporations for the privilege of engaging in a trade, profession, or industry. It is a personal license to undertake certain prescribed types of businesses in the sense that the licenses can only be used by those to whom they are issued. In actual application, however, the patente resembles a tax more than a business license.

There are two parts to the tax. The first, which may be called the basic tax, is a specific levy determined by the type of business. All businesses are listed in Tables B and C of the Fiscal Code. Table B records 743 different businesses and professions and establishes minima and maxima basic taxes for each. For example, a tailor may be taxed within the range of 60 to 3,000\$VN, a carpenter within the range of 60 to 2,000\$VN, and a doctor between 800 to 10,000\$VN. Then Table C lists 25 businesses which are given unique treatment. There is no range in taxation

for these 25 businesses; for example, the basic tax on the manufacture of alcohol is 3\$VN per 100 liters, while the levy on taxis is 10\$VN per horsepower.¹

Then, in addition to this basic tax, there is an ad valorem levy applied to the rental value of the business property, which is derived either from the gross contract rent paid or the gross estimated rental value if the property is owner-occupied. This rental value tax is assessed only on the 743 businesses listed in Table B of the Fiscal Code and not on the 25 listed in Table C. Taxpayers without a fixed business location pay a rental value tax equal to one-third of the basic tax.

The tax rate on rental value is progressive from 3 to 10 per cent depending on the amount of the basic tax assessment. For example, if a tailor has a basic tax assessment of 2,500\$VN, the tax applied to the rental value of his business property will be 6 per cent, while if his basic tax is 300\$VN, the rental value tax rate is 4 per cent. This tax rate applied to the annual rent, plus the basic tax, constitutes the total patente tax for the central government.

¹Tax rates for a representative group of businesses from Tables B and C of the Fiscal Code are presented in Appendices A and B respectively.

In order to relate the tax rate on rental value to the basic tax, a schedule has been developed in Table A of the Fiscal Code which divides the basic tax levies into six categories, as follows:

<u>Category</u>	<u>Amount of Basic Tax</u> (\$VN)	<u>Rental Value Tax Rate</u> (Per Cent)
First	25,000 to 100,000	10
Second	8,000 to 20,000	8
Third	2,000 to 7,000	6
Fourth	600 to 1,800	5
Fifth	180 to 500	4
Sixth	30 to 160	3

Table A in the Fiscal Code also divides each basic tax category into nine classes. For example, in the Fourth Category of the basic tax, which varies from 600 to 1,800\$VN, the first to the ninth classes of the basic tax are 600\$VN, 700\$VN, 800\$VN, 900\$VN, 1,000\$VN, 1,200\$VN, 1,400\$VN, 1,600\$VN, and 1,800\$VN. This means that if a tailor is to be assessed a basic tax within the range of 600 to 1,800\$VN, there are only nine alternatives for the basic tax assessment. In other words, he may be given a basic tax assessment of 1,400\$VN but not of

1,500\$VN. It also means that if he is given a basic tax assessment of 1,400\$VN, this assessment falls within the Fourth Category and will thus bear a progressive rental value tax rate of 5 per cent.²

One important amendment affecting tax bases and rates has been introduced since the patente tax was codified in 1953. The Fiscal Code of 1953 required importers and exporters to pay only one tax, and this payment permitted them to import and export any product for which governmental approval could be obtained. The new amendment effective on January 1, 1956 established 18 categories of imports and 18 for exports with each category having a basic patente tax within the range of 2,000 to 50,000\$VN.³

This does not mean, however, that a particular firm must pay 36 patente taxes in order to import and export a full line of products. These business firms are first circumscribed by a ruling of the Department of Economy which limits any particular firm to the importation of six categories of products. Export activities, however, do not have this limitation. Also, importers

²Table A of the Fiscal Code is presented in Appendix C of the report.

³A subsequent section of this report explains the administrative regulations which have been developed in order to apply this basic patente tax to importers.

are given the option of paying only one patente tax if their basic tax is at least 75,000\$VN. Thus, importers and exporters in practice will pay either several patente taxes for certain categories of imports and exports or the minimum single patente tax of 75,000\$VN, whichever is to their advantage.

3. Additional Percentage Increases of the Central Government Tax

The patente is a central government tax, but revenues are shared with the local governments and Chambers of Commerce by means of percentage increases of the central government tax. Among the local governments sharing in the proceeds of the tax are the Prefecture of Saigon-Cholon, the municipalities, provinces, and some villages. The central government tax is uniform throughout Viet-Nam, but there is considerable variation among local government rates.

Percentage increases of the central government patente tax are determined by a combination of central government decrees and local government decisions. The central government first establishes by arrêtés the maximum rates which may be levied by prefectures, municipalities, provinces, and villages. These arrêtés are issued for each region. In South Viet-Nam, the maximum rates are 200 per cent for the Prefecture of Saigon-Cholon and 100 per cent for the provinces and villages; in Central Viet-Nam the maximum rates are 100 per cent for

provinces and 50 per cent for villages; while in the Highlands, the maximum rates are 200 per cent for the Municipality of Dalat, 100 per cent for provinces, 200 per cent for towns, and 50 per cent for villages. Most local governments apply these maximum rates, but there are a few levying percentage additions below the maximum. The actual rates levied by local governments in 1958 are listed in Appendix D.

Several other complicating factors should be mentioned. None of the towns in South Viet-Nam have a budget, but the several villages comprising each town will have independent budgets. As a result, the patente tax paid by a businessman in one of these towns will be determined by a combination of central government, provincial, and village rates. In Central Viet-Nam, the Town of Hue and the Municipality of Danang have their own budgets. Both of these urban centers are treated like provinces with maximum allowable rates of 100 per cent, but Hue levies an actual rate of only 75 per cent. On the other hand, a business establishment located in a village outside of Hue will be subject to both provincial and village rates. In the Highlands, the Municipality of Dalat has a rate of 200 per cent, and since there are no town budgets in the Highlands, all other applications of the tax are a combination of central government, provincial, and village rates.

Village rates are particularly variable. In the first instance, some villages in Central Viet-Nam do not levy a village patente rate, even though it is allowed, because they do not have their own budgets. The remaining villages applying a patente tax rate have two alternatives: (1) they may have their rates approved by the Minister of Finance, taxes collected by the General Treasury, and the proceeds refunded back to the village; or (2) they may have their rates approved by their respective province chiefs and collect the patente taxes themselves.

The percentage addition to the central government tax for the various Chambers of Commerce is a uniform 2 1/2 per cent for all Viet-Nam, and all businesses bear this additional rate except the liberal professions. Chambers of Commerce in Viet-Nam are semi-public institutions and their share of the patente tax constitutes their operating revenues.⁴

To illustrate the above, the procedural steps in determining a hypothetical tax assessment may be calculated under the assumptions that a taxpayer operates a tailoring business in

⁴A separate Chamber of Commerce for the Chinese community with a rate of 17 1/2 per cent was eliminated on January 1, 1959. Now there is only one type of Chamber of Commerce in Viet-Nam with a uniform rate of 2 1/2 per cent.

Saigon with a basic tax of 2,500\$VN and an annual rental value for his business property of 12,000\$VN:

(1) Central Government Tax:

(Basic tax + 6 per cent of rental value)

$$2,500\$VN + (.06 \times 12,000\$VN) = 3,220\$VN$$

(2) Saigon-Cholon Tax:

(200 per cent of central government tax)

$$2 \times 3,220\$VN = 6,440\$VN$$

(3) Chamber of Commerce Tax:

(2 1/2 per cent of central government tax)

$$.025 \times 3,220\$VN = \underline{80.5\$VN}$$

Total Tax 9,740.5\$VN

4. Exemptions

Since the patente is a business license tax levied on the privilege of undertaking a business activity, it is an important part of the law to distinguish between taxable and exempt business activities. Accordingly, the Fiscal Code provides for a rather extensive list of exemptions. The more important of these are:

(a) All persons who practice their profession as government employees are exempt, regardless of the level

of government.

- (b) Painters and sculptors are exempt if they do not have a business establishment for the sale of their products. By extension, this exemption also applies to authors, musicians, etc.
- (c) All teachers are exempt, and a decree in 1955 exempted all private schools.
- (d) All farmers are exempt regardless of the size of their farm or number of employees.
- (e) Peddlers without wagons are exempt.
- (f) Fishermen owning their own boats are exempt only if they have no employees.
- (g) All owners of mines operated for the extraction of natural resources are exempt.
- (h) The renting of unfurnished rooms, apartments, or houses is exempt, but the same business activity is taxable if the accommodations are furnished. Landlords renting furnished rooms are exempt if the business activity is not undertaken regularly.
- (i) Corporations or individuals undertaking the development of low-cost housing projects are exempt. In practice, this business activity is confined to individuals.

- (j) Non-profit savings banks are exempt, but in practice this exemption applies only to government savings banks.
- (k) Private clubs are exempt, which in Saigon includes the Cercle Sportif and Cercle Hippique.
- (l) Craftsmen who work in their homes are exempt, and also the widows of these craftsmen provided that they employ no more than one person and do not operate a business establishment outside of their homes.
- (m) Owners of one or two horse-drawn carts are exempt provided that two carts are not used simultaneously.
- (n) Owners of one taxi cab are exempt, and by extension the owners of a fleet of taxi cabs are granted an exemption for one taxi.
- (o) A special exemption was granted in 1958 to two suppliers of automobiles to the Central Government. Authority for this exemption was a letter by the Minister of Finance to the General Directorate of Taxation. As of September, 1959, no action has been taken to renew this exemption for 1959.
- (p) Public hospitals are exempt but not hospitals operated by individuals or private groups.
- (q) All publishers of newspapers and periodical magazines are exempt.

In addition to the above exemptions, which include relief

from both basic and rental value taxes, some businesses are granted partial exemption. Two types of businesses are granted exemption from the rental value tax only: (a) peddlers with wagons, provided that the wagons do not occupy a fixed location; and (b) hotels subsidized by the Government.

These total and partial exemptions appear to have been developed with the objective of providing tax relief to the following types of business activities: (a) primary producers, like farmers and fishermen; (b) persons without a business establishment, like teachers and artists; (c) non-profit activities; (d) activities resulting in low incomes; and (e) socially desirable business activities.

Despite the fact that there are these discernable, and in some cases reasonable criteria for exemptions, there are also some exemptions which are difficult to justify. These may be made more apparent by comparing certain exempt and taxable undertakings: Why should lawyers and doctors be taxable while teachers and artists are exempt? Why should carpenters and mechanics be taxable while farmers and fishermen are exempt? Why should processors of salt and lime be taxable while the extractors of these products are exempt? Why should a bar or restaurant be taxable while the same services are exempt if provided to the members of a private club?

Many of these inconsistencies could not be removed because it would be too difficult administratively to add additional taxpayers to the rolls. This is probably true with respect to artists, authors, and farmers. There are also some business activities which should not be taxed because the income resulting from the business is so low. But it would appear that both equity and revenue productivity would be improved if exemptions granted to the following business activities were removed: (a) private schools operated for profit; (b) owners of mines; (c) landlords of unfurnished rooms, apartments, and houses; (d) corporations or individuals undertaking the development of low-cost housing projects; (e) private clubs operating restaurants and bars; (f) owners of horse-drawn carts and taxis; and (g) publishers of newspapers and magazines.

5. Government Suppliers

Private business firms supplying goods and services to the Central Government are given unique treatment under the patente tax. This unique treatment is particularly important because government suppliers represent 12.41 per cent of all patente tax assessments in Saigon.⁵ When these firms first

⁵See a later section of this report entitled "Distribution of Patente Tax Assessments by Business Activities".

initiate business with the Government, they are required to pay a fixed amount of 1,500\$VN as their first patente tax payment. This payment is, in a sense, in the nature of an "initiation fee", which does not vary with the size of the firm or with the product or service supplied. After this first assessment, there are individual patente tax assessments whenever a supplier is paid by the General Treasury. In other words, if a firm is paid six times in one year, the firm's name will appear on supplementary tax rolls on six occasions. These assessments are based on notifications of payment received by the Patente Tax Bureau from the General Directorate of the Treasury.

The tax base for the assessment on government suppliers is gross sales made to the Government minus an exemption of 5,000\$VN, while the rate of the tax is .7 per cent for all suppliers of both goods and services. An irregularity arises with respect to the exemption of 5,000\$VN. This exemption is permitted each time that goods and services are supplied the Government. As a result, if a supplier furnishes only one order to the Government for 6 million \$VN, he is allowed only one exemption of 5,000\$VN, while if another supplier furnishes six orders of 1 million \$VN each, he is allowed six exemptions totaling 30,000\$VN. This also means that a supplier

would have no patente tax to pay (except the original tax of 1,500\$VN) if each of the orders received from the Government were 5,000\$VN or less.

In summary, a hypothetical patente tax assessment for a government supplier involves the following steps:

(Gross Sales - Exemption)	Central Tax Rate	Prefectural and Chamber of Commerce Tax Rates	=	Total Patente Tax Assessment
(1,000,000\$VN - 5,000\$VN	X .007	X 3.025	=	21,069\$VN

Since the patente tax on government suppliers is based on gross sales, the tax is similar to a sales or gross income tax. And since there is an exemption of 5,000\$VN on each contract with the Government, the effective rate of the tax is progressive. The calculations noted below indicate that the effective rate of the tax is 1.06 per cent on sales of 1 million \$VN, and 2.12 per cent on sales of 100,000,000\$VN. For most suppliers, the tax has an effective rate of approximately 2 per cent.

Gross Sales (\$VN)	Patente Tax Assessment (\$VN)	Percentage of Patente Tax Assessment to Gross Sales
10,000	106	1.06
50,000	953	1.96
100,000	2,012	2.01
500,000	10,482	2.09
1,000,000	21,069	2.10
100,000,000	2,117,394	2.12

6. Review Committees

All patente tax assessments made in Viet-Nam are reviewed by committees. These groups function at the provincial and district levels, in the Prefecture of Saigon-Cholon, and in the municipalities. In Saigon and Cholon, the committee members are appointed by the Minister of Finance, while the chiefs of provinces appoint the committees operating at the local government levels. By convention, each committee is composed of two businessmen, two civil servants, and a chairman acting as an official governmental representative. The composition of the review committee in Saigon at the present time is one representative each from the French Chamber of Commerce, the Vietnamese Chamber of Commerce, the General Directorate of the Treasury, and the Prefecture of Saigon, while the Inspector General of Taxation acts as chairman. In addition, all meetings of the committee in Saigon are attended ex-officio by the Chief of the Patente Tax Bureau. New committees are appointed each year.

There is some disparity between formal responsibility and actual practice in the functioning of the Saigon committee. The committee is formally required to accompany the assessing officers as they visit each business estab-

lishment. This procedure would require the committee members to visit 25,000 business establishments, and this responsibility would consume all of their time from approximately January 1 to August 1 of each year. In practice, the committee members accompany the assessing officers for only the first 15 days of each year, and then meet to review the new assessments each time that one-quarter of the tax roll has been completed. To review the whole of the 1959 Patente tax roll in 1959 required six days of the committee's time.

The formal role of the committee is advisory, but in practice the committee tends to have review authority. Although the Chief of the Patente Tax Bureau has final responsibility for proposing all assessments, it is explained that it is more expeditious and convenient in practice for the Chief to accept the recommendations for changes in assessments proposed by the committee. Committee members give particular attention to assessments which have been changed from the previous year. When disagreements arise between the Chief of the Patente Tax Bureau and the committee members, the issue is decided by the Director General of Taxation. After the committee has reviewed the tax roll, notice is given to the public that assessments have been completed and may be obtained at the offices of the General Directorate of

Taxation during a period of 15 days.

This review procedure is clearly desirable. It helps to reduce arbitrary applications of the tax and eliminates some erroneous assessments. Also, it develops better public relations between taxpayers and tax administrators, because it gives taxpayers the feeling that there is an objective group looking after their interests.

7. Penalties

There was no provision for penalties in the original version of the Fiscal Code enacted in 1953, but an amendment was introduced in 1955 which permits the General Directorate of Taxation to penalize those businessmen who have not been assessed in previous years of business activities. Assessments may be made for three years previous to the current tax year. In practice, these assessments for prior years are made equal to the assessment for the current year. Penalties added to these delinquent taxes are 100 per cent of the total tax if the basic tax is less than 500\$VN and 300 per cent of the total tax if the basic tax is over 500\$VN.

These penalties are applied infrequently. It is admitted by the Saigon Patente Tax Bureau that 1959 was the first year in which penalties were applied, and even in

this year, only 30 "large" businessmen were penalized.

Evaders with small assessments are not penalized.

An interesting feature in the application of the penalties is that the assessment staff is given one-fifth of the penalties levied as a bonus. Total penalties levied on the 30 businessmen referred to above amounted to 175,000\$VN in 1959, so the assessment staff in Saigon will share 35,000\$VN.

8. Miscellaneous Provisions

In concluding this descriptive section of the report, brief mention may be made of a few miscellaneous provisions:

(1) If a businessman operates a chain of commercial stores, individual patente taxes will be assessed on each outlet. Warehouses where goods are stored for eventual sale, however, are assessed only on the basis of rental value.

(2) Cooperatives and "public establishments" having a commercial character are taxable. Taxing cooperatives appears particularly inconsistent with exempting private clubs like the Cercle Sportif. The taxing of public establishments having a commercial character has also created some irregular distinctions. For example, both Air Viet-Nam and the company supplying water and electric power in Saigon-Cholon are taxed, but the governmentally operated railroad and bus companies are exempt.

(3) A particularly hazy area in the application of the patente tax is the case of commercial stores which sell more than one type of product. For example, the Fiscal Code provides a particular patente tax for each type of product sold, so it is clear that a grocery store or jeweler must pay only one patente tax assessment. Strictly speaking, then, a store which sells both jewelry and perfume would be assessed two patentes. There are instances in which some commercial stores in Saigon are assessed from three to five patentes, but there is also a tendency at some ill-defined stage for these several patentes to be combined into one under the category of a "bazaar".

(4) Article 49 of the Fiscal Code provides for a committee to be appointed every five years for the revision of the patente tax law. No committees have been appointed for this purpose since the Fiscal Code was revised in 1953.

Part II - ANALYSIS

1. Taxpayer Declarations

Only one declaration is required from the patente tax-payer, and this report must be forwarded before the business is initiated. This declaration requires the following information: nationality, address, amount of working capital,⁶ certification to initiate the business if any is required, amount of rent paid together with a receipt of payment, address of principal business establishment if the declaration refers to a branch, and the address and rental value of any warehouses.

Both the basic tax and the tax on rental value is determined on the basis of this declaration. Principal determining factors in making the assessment is the location of the business, the amount of working capital, and the rent paid. For purposes of levying the tax on rental value, either a rental receipt or the rental contract must be forwarded to the tax office. Tax assessments for the first

⁶This term has not been defined explicitly. Inquiry leaves the impression that working capital includes all liquid assets.

year are prorated for the period during which the business is operated, but if the business does not start operations, or if operations are terminated, no tax refund is given.

For all subsequent tax assessments after the first year, the assessments are based on visits by tax personnel to the business establishments rather than on the basis of taxpayer declarations.

2. Assessment Procedures in Saigon

Patente tax assessments in Saigon are undertaken by a unit staffed with a bureau chief and 11 employees. These 11 employees may be classified into 8 clerks available for field assessments and the preparation of tax rolls, 2 female stenographers, and a male clerk who handles correspondence and delivers mail.

The assessment procedure involves field visits to every business establishment in Saigon. This field survey extends from January 1 to about July 15, and it involves covering 190 streets and about 25,000 businesses. The survey crew is composed of the 8 assessment clerks plus the bureau chief and the mail dispatcher. These 10 persons are grouped into 5 teams of 2 workers each for the purpose of improving the quality of the assessments and reducing the possibility of bribes being accepted.

Either the basic tax or the rental value factor may be changed in the process of re-assessment. Changes in the basic tax are largely discretionary, being based on the location of the business and external indicia of business profitability. Rental receipts are required from the businessmen for the purpose of determining whether the base for the rental value tax should be changed.

Re-assessment proceeds, first, by dividing Saigon into four sections, and each section is completed before the next is surveyed. Then within each section, the re-assessment is undertaken by visiting each business establishment along a particular street. As a result, the tax roll is prepared according to the area of the city and street address. When the tax roll for the first quarter of Saigon is completed about June 1, it is forwarded to an IBM service bureau for processing. A first draft of the roll is received back from the IBM firm about June 15 and is available in the tax office for review by taxpayers for a period of 15 days. Then the roll is returned to the IBM firm for the preparation of the final draft, which is completed by about July 15. After this, the roll is reviewed by the Director of Direct Taxes and forwarded to the General Directorate of the Treasury for collection on about July 20. This same procedure is

followed in turn for the other three areas of Saigon. The General Treasury receives the last quarter of the principal roll about September 15.

Taxpayers appearing on the roll which is forwarded for IBM processing are listed by street and consecutive street address. The principal roll prepared by the IBM equipment for collection purposes also follows this listing, but in addition, a second roll is prepared classifying taxpayers by type of business. This second roll is prepared for statistical purposes, but no use is made of it. Assessments for each category of business are not assembled because of a shortage of staff in the patente tax bureau.

In addition to this foregoing procedure which refers to the principal patente tax roll for Saigon, supplementary rolls are prepared each month. These supplementary rolls are for businessmen leaving Viet-Nam and for new businesses. There are approximately 1,000 names each month on the supplementary rolls, so the annual total for these roles is about one-half that of the principal roll.

The procedure for a taxpayer starting a new business is cumbersome and supports the view (justified on other grounds as well) that the General Directorate of Taxation should collect its own assessments. The taxpayer must first of all

a declaration with the General Directorate of Taxation, and is given a tax assessment on the basis of this declaration. Then the taxpayer takes the assessment to the General Treasury for payment and returns to the tax office for his patente or business license. Alternatively, the taxpayer may delay his payment and the receipt of the patente until his name appears on the supplementary roll and he is advised that the tax is due by the General Treasury.

The use of IBM equipment for the processing of the tax rolls was instituted in 1957 and has been continued with the 1958 and 1959 tax rolls. Processing has been undertaken by the Saigon branch of IBM France, but in 1960 it will be assumed by the General Directorate of the Budget. In addition to preparation of the tax roll, IBM equipment has been used to prepare a file of IBM cards, which lists taxpayers alphabetically by name. These cards are helpful as a cross-reference with the roll, which is prepared by street and street number.

Article 48 of the Fiscal Code requires the Prefecture of Saigon-Cholon and various departments of the central government to forward information to the Patente Tax Bureau which would provide helpful information for the assessment of the patente tax. This information often is not made available. For example, the Prefecture of Saigon-Cholon

does not forward information on residence declarations of foreigners, operators of transportation facilities, or the opening and closing of commercial establishments. No information from central government departments is received on the dissolution of corporations or the institution of new businesses.

3. Assessment and Collection Procedures at the Village Level

There are two alternative ways of assessing and collecting village patente taxes. This lack of uniformity prevents the development of adequate statistics on village patente tax assessments and collections.

Villages following the first procedure develop a general or nominative roll, which lists each taxpayer by name, type of business, address, and amount of tax for the central government, the province, village, and chamber of commerce. Three copies of this general roll are prepared at the village level and are forwarded to the office of the General Directorate of Taxation located in the principal town of the province. This office, in turn, forwards the three copies of the general roll for approval to the Director of Direct Taxes in Saigon. After approval, one copy of the roll is retained by the Director of Direct Taxes, one copy is forwarded to the General Treasury for collection, while the third copy is returned to the village.

In principle, the General Treasury has the responsibility to collect the patente tax, but in practice this responsibility is assumed by village authorities. After the villages collect the tax, payments are forwarded to the provincial offices of the General Treasury. These offices, in turn, reimburse the villages for their share of the patente tax. However, because the head office of the General Treasury in Saigon does not make these reimbursements to the villages, no statistics on these refunds are available in Saigon. Thus, there is no information available on village patente tax collections.

In addition to the general or nominative roll, a recapitulative roll is prepared by the offices of the General Directorate of Taxation located in the principal towns. This recapitulative roll is a summary statement for each village in the province; that is, it lists villages instead of tax-payers.

The recapitulative roll is also forwarded for approval to the Director of Direct Taxes in Saigon, and is then given to the General Treasury and the villages. The purpose of the recapitulative roll is to inform the General Treasury and the villages about the total amount of patente tax which has been approved for collection.

The second procedure which may be followed by the villages results in even less statistics being available on patente tax assessments and collections. In this case, two general or nominative rolls are prepared, one for the share of the tax received by the central government, the province, and the chamber of commerce, and the other for the share of the tax received by the village. The first roll follows the same procedure outlined above, while the village roll is forwarded to the province chief for approval and then returned to the village for collection. In this case, only the provincial authorities have information on assessments and collections of the patente tax for the use of the villages.

In summary, these two procedures mean that village patente tax assessments are available only for those villages following the first procedure, while collection statistics are not available for villages following either the first or second procedures.

4. Operation of the Patente Tax Review Committee in Saigon

An examination of the work of the patente tax review committee in Saigon was undertaken in order to inquire into the effectiveness of this group with respect to improving assessment procedures. It will be recalled that Saigon is divided into four areas, and each area is assessed in

rotation. For the purpose of studying the review committee's work, all 1959 assessments (with the exception of importers) were surveyed in the first area or first quarter of Saigon.

This first quarter in Saigon has only 2,918 patente tax assessments out of a principal patente tax roll for the city which contains about 25,000 assessments, but the area includes the principal commercial district of Saigon. Out of these 2,918 assessments, 2,703 cases were left unchanged by the assessment officers and so were taxed at the same amount in 1959 as in 1958. The remaining 215 cases were presented to the patente tax review committee. This committee, in turn, changed the assessments of only 12 out of the 215 cases brought to its attention. Out of these 12 assessments, two assessments were increased over the previous year while ten were decreased. The two increases were made because of higher rental values, while the ten decreases in assessments were justified by the committee on the grounds that business conditions had deteriorated.

Establishing assessment values to these committee changes results in the determination that the work of the review committee amounted to an increase of assessments of 1,600\$VN for two cases and a decrease of assessments of 14,240\$VN for ten cases. The net result was that total patente tax assess-

ments for the first quarter of Saigon decreased from 3,708,400\$VN in 1958 to 3,695,760\$VN in 1959.

Certainly, this means that a great deal of effort has been expended with very minimum results. In fact, if only 12 assessments out of 2,918 are to be changed, and if the net result of these changes is only to affect the previous year's total assessment of 3,708,400\$VN by 12,640\$VN, one cannot help but conclude that a rather minimum accomplishment has been made.

Is the patente tax bureau or the committee responsible for this minimum effort? Previous mention has been made that the bureau brought 215 cases to the attention of the committee. When the Chief of the Bureau was asked directly if he would have altered more than 12 assessments in the absence of a committee, he replied in the negative. He indicated that his association with businessmen had convinced him that business conditions in 1959 were generally poor, and for this reason assessments in general should be retained at the same level in 1959 as in 1958. As Chief of the Bureau, his own recommendation to the committee was to alter only 12 assessments, but he brought 215 cases to the attention of the committee because these were particularly large assessments and he felt that they should be reviewed.

Several important implications follow from this study of the review committee's operations: (1) There is, apparently, a tendency for the committee to accept the recommendations of the Chief of the Patente Tax Bureau. This raises the issue of whether the committee is vestigial in practice. (2) It would seem more appropriate for the committee to serve in a review capacity after the assessments have been made known to the public; i.e. to review taxpayer complaints. (3) There appears to be very little attempt by the Patente Tax Bureau to alter assessments selectively. Rather, a judgement is made whether assessments should be changed in general. (4) If it is impossible in practice to change assessments selectively, and if the level of assessments is to be determined on the basis of business conditions, it would be more appropriate for the assessment policy to be determined by the Minister of Finance or the General Director of Taxation than by the Chief of the Patente Tax Bureau.

5. Assessment and Collection Statistics

Assessment and collection statistics for the patente tax vary from nearly complete to unobtainable, depending on the level of government for which data are required. The availability of statistics may be summarized as follows:

- (1) Central Government: The patente tax became a

source of revenue for the central government on January 1, 1956. Before this date, the tax was a source of revenue for the two regional governments in South and Central Viet-Nam. Assessment data for 1954 and 1955 are available for both South and Central Viet-Nam, but collection data for these two years are available only for South Viet-Nam. Assessment data for the central government are complete for 1956 to 1958, but collection statistics have two shortcomings:

(a) The collection statistics for any one year refer only to collections made from the assessments of the same year and not to collections made on previous year's assessments. Data on these delinquent collections are not available. (b) Data on collections for 1958 are available only up to December 31, 1958 and not for the end of the financial year on May 31, 1959.

(2) Provincial Governments: There is no organized system of collecting provincial statistics with the result that the data in this report are original. Statistics were developed only for 1957 because 35 provincial budgets had to be examined. Financial year 1957 was chosen in order to provide a comparison with data previously developed for the property tax report.

(3) Urban Governments: Statistics have been developed only for Saigon and Cholon. Data for Dalat, Da-Nang, and Hue

are obtainable only through correspondence and this was considered to be too time-consuming.

(4) Village Governments: Assessment and collection statistics are available only for some villages and to obtain the information would require the examination of at least 1,600 tax rolls. Availability of time and research staff precluded this undertaking, especially in view of the fact that the statistics would be incomplete.

(5) Chamber of Commerce: No separate record is kept of assessments and collections for the various chambers of commerce, but the totals for Viet-Nam are easily determined as 2 1/2 per cent of central government assessments and collections. Similarly, there is no complete record of the 15 per cent tax on the Chinese community. Statistics for this tax are available for Cholon, however, and the vast majority of the Chinese in Viet-Nam live in Cholon.

Table 1 presents patente tax assessments and collections for South Viet-Nam and the central government for financial years 1954 to 1958. In the Vietnamese system of classifying taxes, the central government has three "direct" taxes — the income, property, and patente taxes. As a source of revenue for the central government, the patente is of secondary importance to the income tax. During financial year 1957,

the last year for which statistics are complete, income tax assessments were 764 million \$VN, while patente and property tax assessments were 120 million \$VN and 98 million \$VN respectively. Patente tax assessments for the central government in financial year 1957 represented 1.4 per cent of total central government tax assessments as compared to 9.4 per cent for the income tax and 1.2 per cent for the property tax.

Table 1 indicates that the percentage of collections to assessments for the patente is approximately 80 per cent, but this figure does not reflect the collection effort accurately. All collection statistics in Table 1 refer only to collections made during the corresponding assessment period; i.e., collections shown in 1954 refer to those made from 1954 assessments. In addition to these collections, there will be additional receipts made from 1954 assessments in years following 1954. Statistics on these additional collections are not available in the General Directorate of Taxation, but they were assembled for Cholon for presentation in this report in order to obtain an indication of the overall collection effort. The statistics for Cholon are presented in a following section.

Table 2 presents a summary of provincial tax statistics for financial year 1957, which was developed from primary

Table 1

Patente Tax Assessments and Collections
for South Viet-Nam and the Central Government,
Financial Years 1954 to 1958

Financial Years	Assessments ⁽¹⁾ (\$VN)	Collections ⁽²⁾ (\$VN)	Percentage of Collections to Assessments
1954	63,550,677	38,267,808	60.2
1955	59,737,295	47,555,114	79.6
1956	104,699,409	85,604,092	81.8
1957	119,747,068	93,215,459	77.8
1958	113,089,740	65,279,952 ⁽³⁾	57.7

(1) Assessment and collection data appearing in the Table refer to the Regional Government of South Viet-Nam for 1954 and 1955 and to the Central Government in 1956, 1957, and 1958. Assessments for the Regional Government of Center Viet-Nam were 9,952,228\$VN in 1954 and 10,762,588\$VN in 1955.

(2) All collection statistics refer to collections made during the corresponding assessment period; i.e., the collections shown in 1954 refer to collections made from 1954 assessments. In addition to these collections, there will be additional collections made from 1954 assessments in years following 1954. Statistics on these additional collections are not available.

(3) Collection statistics for 1958 are available only up to December 31, 1958.

Source: General Directorate of Taxation.

data for this report. The data were compiled from statistics in each provincial budget, and were assembled for financial year 1957 in order that they would be comparable with statistics previously assembled for the property tax.

The patente is a minor source of provincial tax collections. One reason for this is that the greater share of patente tax revenue goes to the central government. Relating information in Tables 1 and 2, it may be determined that patente tax collections at the provincial level in 1957 amounted to only 27.6 per cent of central government patente tax collections for the same year. The patente accounted for only 5.45 per cent of total provincial tax revenues in 1957. By comparison, previous research in the property tax report indicates that the property tax accounted for 6.6 per cent of total provincial tax revenue in 1957.

Patente tax assessments and collections for Saigon are assembled in Table 3. Total assessments show improvement from 1954 to 1955 as a result of the return to civil order in the city, but assessments have leveled off from 1956 to 1958. Patente tax assessments in Saigon during financial year 1957 represent 62.7 per cent of patente tax assessments

for the central government during the same year. Despite this, however, the patente is not a strategic source of revenue for Saigon. Assuming that patente tax assessments in Saigon for financial year 1958 will be approximately 75 million \$VN, this amount represents only about 11 per cent of the city's total estimated budget receipts of 685 million \$VN. By comparison, estimated Saigon assessments for the property tax in 1958 are 100 million \$VN, which amounts to about 14 per cent of the city's budget.

Cholon has been used as a case study in this report in order to inquire into some of the assessment and collection problems underlying the statistics. Patente tax assessments and collections in Cholon are assembled in Table 4. This Table shows a dramatic increase in assessments from 1954 to 1956 and then a slight decrease in 1957 and again in 1958. The rise in assessments in 1955 and 1956 is attributable to a return of order and security in the city, while assessment officers attribute the weakness in assessments in 1957 and 1958 to deteriorating business conditions, particularly to a decrease in import licensing. It is interesting to note, however, that estimates for the gross national product in Viet-Nam indicate a rise from 64,264 billion \$VN in 1955 to 69,419 billion \$VN in 1956,

Table 2

Provincial Tax Statistics for All Provinces
Financial Year 1957

<u>Category</u>	<u>Amount</u>
(1) Total assessments for all taxes	607,112,536\$VN
(2) Total subsidies from central government	1,129,500,000\$VN
(3) Total assessments for all taxes plus subsidies	1,736,612,536\$VN
(4) Total collections for all taxes	471,384,613\$VN
(5) Total collections for all taxes plus subsidies	1,600,884,613\$VN
(6) Estimated receipts for patente tax	25,702,150\$VN
(7) Patente tax assessments	33,862,762\$VN
(8) Patente tax collections	25,684,476\$VN
(9) Percentage of patente tax collections to assessments	75.8 per cent
(10) Percentage of all other tax collections to assessments	79.5 per cent
(11) Percentage of patente tax collections to all tax collections	5.45 per cent
(12) Percentage of patente tax collections to all tax collections plus subsidies	1.60 per cent

Source: General Directorate of the Treasury.

Table 3

**Patente Tax Assessments and Collections in Saigon,
Financial Years 1954 to 1958(1)**

Financial Years	Total Assessments (\$VN)	Central Gov't. Collections (\$VN)	Prefectural Collections (\$VN)	Chamber of Commerce Collections (\$VN)	Chinese Community Collections (\$VN)	Total Collections (\$VN)	Percentage of Total Collections to Assessments
1954	111,025,526	20,002,095	40,004,191	499,214	276,189	60,781,689	54.7
1955	144,562,875	20,653,870	41,307,740	587,462	383,230	62,942,302	43.4
1956	152,885,667	36,467,043	72,934,086	901,266	820,431	111,122,826	72.1
1957	156,163,697	37,824,314	75,648,628	841,797	729,418	115,044,157	73.5
1958	155,411,806	36,720,906	73,441,812	918,022	291,410	111,372,150	72.2

(1) All collection statistics refer to collections made from assessments of the corresponding financial year and not to collections made from assessments of prior years.

Source: General Directorate of Taxation.

then a slight drop to 69,200 billion \$VN in 1957, followed by an increase to 69,700 billion \$VN in 1958.

As shown in Table 4, patente tax collections made from assessments of the corresponding year are within the range of 80 to 84 per cent of assessments. This means, for example, that 82 per cent of all patente tax assessments made during financial year 1954 in Cholon was collected during this same financial year. In general, information on the amount of collections which may be expected in subsequent years from an uncollected balance is very difficult to obtain in Viet-Nam. Fortunately, however, the Cholon office of the General Directorate of the Treasury maintains records on these delinquent collections. These records are assembled in Table 6, and they are of some importance as an indication of what may be expected in other areas of Viet-Nam with respect to the collection of delinquent patente taxes. Table 5 indicates that the percentage of current and delinquent collections to assessments was 94.6 per cent in 1954, which means that collection activities in 1954 and in all subsequent years resulted in the collection of 94.6 per cent of 1954 assessments. Therefore, extrapolating from the Cholon experience, it is possible that subsequent collection activity in later years can be expected to raise the collection score by about 15 per cent,

or from about 82 per cent to about 95 per cent.

The principal reason why only about 82 per cent of assessments is collected during any financial year is delay on the part of the General Directorate of Taxation in forward-ing tax rolls to the General Treasury. The assessment period is 17 months - from January 1 of one year to May 31 of the following year. Invariably, however, tax rolls are received by the General Treasury in November or December of the financial year, with the result that only about six months (until May 31) are available to make collections. Tax rolls were received in the Cholon Office of the General Treasury on the following dates for the past five years: December 12, 1954; December 9, 1955; November 24, 1956; November 8, 1957; and November 7, 1958.

Several other reasons contribute to the delinquency problem both with respect to the slowness in making current collections and inability to collect the tax in subsequent years: (1) For small businessmen with only a capital of about 1,000\$VN, a tax payment of 200\$VN is a heavy burden to pay in a lump sum. Installment payment would alleviate this problem. (2) When collections are delayed, some businessmen are either bankrupt by the time collection is attempted or they have left Cholon. (3) Some of the business addresses received from the General Directorate of Taxation are in

Table 4

Patente Tax Assessments and Current Collections
in Cholon, Financial Years 1954 to 1958⁽¹⁾

Financial Years	Total Assessments (\$VN)	Central Gv't. Collections (\$VN)	Prefectural Collections (\$VN)	Vietnamese Chamber of Commerce Collections (\$VN)	Chinese Community Collections (\$VN)	Total Collections (\$VN)	Percentage of Total Collections to Assessments
1954	38,887,435	10,142,745	20,285,490	308,908	1,220,155	31,957,298	82.1
1955	50,802,102	13,626,437	27,252,874	403,308	1,617,220	42,899,839	84.4
1956	78,380,668	20,442,279	40,884,559	623,754	2,460,599	64,411,191	82.1
1957	77,974,439	20,419,618	40,839,236	619,554	2,339,102	64,217,510	82.3
1958	74,721,448	19,605,033	39,210,066	598,186	1,008,404	60,421,689	80.9

(1) All collection statistics refer to collections made from assessments of the corresponding financial year and not to collections made from assessments of prior years.

Source: Cholon Office of the General Directorate of the Treasury.

Table 5
 Current and Delinquent Patente
 Tax Collections for Cholon, Financial
 Years 1954 to 1958

<u>Financial Years</u>	<u>Assessments (\$VN)</u>	<u>Current Collections (\$VN)</u>	<u>Percentage of Current Collections to Assessments</u>	<u>Total Delinquent Collections (\$VN)</u>	<u>Current Plus Delinquent Collections</u>	<u>Percentage of Current and Delinquent Collections to Assessments</u>
1954	38,887,435	31,957,298	82.1	4,723,666	36,680,958	94.6
1955	50,802,102	42,899,839	84.4	4,342,836	47,242,675	92.9
1956	78,380,668	64,411,191	82.1	8,128,163	72,539,354	92.5
1957	77,974,439	64,235,501	82.4	5,556,010	69,791,511	89.5
1958	74,721,448	60,421,689	80.9	-	60,421,689	80.9

Source: Cholon Office of the General Directorate of the Treasury.

error. (4) Taxpayers are reluctant to pay the tax because they believe the increases in assessments are arbitrary.

Several factors also contribute to make prosecution for nonpayment of the patente tax difficult. Auction proceedings are initiated to recover the tax in about 10 instances each year, but even when this action is resorted to, only part of the tax is recovered. No cases are brought to court on the grounds that the tax payments are not high enough to justify the difficulties involved. Prosecution is also inhibited by limited staff. In the Cholon office of the General Directorate of the Treasury, there are only 19 staff members available for the collection of all central government direct taxes as well as all prefectoral taxes. Only four persons are available for field work.

Government suppliers and contractors pose a particular collection problem because of their importance as a source of revenue. Two examples will illustrate the types of evasion which are practiced by these taxpayers: (1) A payment to a government supplier will be processed by the General Treasury and then a patente tax assessment will follow based on the information supplied by the General Treasury to the Patente Tax Bureau. However, there will be a delay of three to four months between the time the payment is made to the supplier by

the General Treasury and the subsequent attempt by the General Treasury to make collection of the tax assessment. During this period of time, the supplier either cannot be found or he claims that he is unable to pay the assessment. Then the next time that the supplier wishes to do business with the Government, he reappears by representation through a relative, say his son or a cousin.

(2) A government contractor will have a legal address in a city like Hue, where a construction project is to be undertaken for the Defense Department. The contract for the project may be signed in Saigon, however, and also the General Treasury may make payment for the project in Saigon. But since assessments must be levied in the city of residence of the taxpayer, the General Treasury will notify the office of the General Directorate of Taxation in Hue for the purpose of processing an assessment. Then, by the time that collection is attempted on this assessment, the taxpayer can no longer be found in either Hue or Saigon.

These examples demonstrate that the lapse of time between payment by the Government and then subsequent assessment and collection of the patente tax makes it possible for government suppliers to become bankrupt or otherwise avoid their tax liabilities. The policy conclusion is obvious: withholding of the tax at the time payment is made to the suppliers would ensure perfect compliance.

The other principal policy conclusion which has become

apparent is the likelihood that collections would be improved if this responsibility were transferred from the General Directorate of the Treasury to the General Directorate of Taxation. This transfer of responsibility would avoid the shortcomings of splitting the responsibility for raising governmental revenues between two agencies and would accelerate the collection process, which is at the root of much of the difficulty.

To conclude this section on assessment and collection statistics, the data in Table 6 present the results obtained by classifying all patente tax assessments in Viet-Nam and Saigon-Cholon by amounts of assessment and by nationality of the taxpayers for both 1956 and 1957. Data in the Table without parenthesis refer to 1956, while data with parenthesis refer to 1957.

These statistics were assembled from reports which are required by the General Directorate of Taxation from each province and the Prefecture of Saigon-Cholon. The data in all of these separate reports were then compiled into one table for presentation in this study.

Classifying assessments by amounts of assessment has some considerable value for tax policy purposes, but a classification by nationalities has more relevance for political science than

for taxation. Classification by nationalities is a carry-over from French rule, during which time the French were apparently anxious to know the relative importance of French, Chinese, and Vietnamese business interests in Viet-Nam. This nationality consciousness was carried to such an extreme degree during French rule that a separate patente tax roll was actually prepared for each nationality. This latter procedure has now been eliminated.

A summary of the more important conclusions which may be derived from Table 6 follows:

(1) The total number of patente tax assessments in Viet-Nam rose from 127,659 in 1956 to 134,685 in 1957, but the number of assessments for the same two years in Saigon-Cholon fell from 41,525 to 39,232. This reduction in Saigon-Cholon is said to be attributable to depressed business conditions following the withdrawal of the French.

(2) The vast majority of patente tax payments in Viet-Nam are of modest amounts. Only one per cent of all patente tax payments in Viet-Nam during 1957 was in excess of 7,000\$VN, while only .2 per cent of the assessments were in excess of 20,000\$VN. On the other hand, 83 per cent of the assessments were below 500\$VN.

(3) Most of the larger patente tax assessments in Viet-Nam are in the Prefecture of Saigon-Cholon. This city had

only 29 per cent of all assessments in Viet-Nam in 1957, but had nearly 80 per cent of all assessments over 25,000\$VN and 81 per cent of all assessments over 8,000\$VN. There were only 215 patente tax assessments over 25,000\$VN in Saigon-Cholon in financial year 1957.

(4) The importance of the Chinese commercial interests is shown by the fact that 24 per cent of all patente tax assessments in Viet-Nam were levied on Chinese in 1956 and 17 per cent in 1957. This decrease is attributable to some Chinese adopting Vietnamese citizenship and others temporarily dropping out of business because of depressed business conditions in 1957. The "European Assessments" category is nearly all composed of French and indicates a considerable increase in number of assessments from 1956 to 1957. This increase is not attributable to an increase in business activity on the part of French citizens but to a change in the patente tax law with respect to importers, which required several individual patente tax assessments for each import firm instead of a single assessment. The "Other Assessments" category is mostly composed of Indian and Japanese citizens. This category indicates a decrease in number of assessments from 1956 to 1957, which is attributable in part to a movement of these businessmen to Cambodia in the wake of a similar movement on the part of the French.

Table 6

Distribution of Basic Patente Tax by Amounts of Assessment for
Viet-Nam and Saigon-Cholon, Financial Years 1956 and 1957¹

Amount of Assess- ment ² (\$VN)	Vietnamese Assessment Viet-Nam Saigon-Cholon (Number)	Per Cent of to (1)	Chinese Assessment Viet-Nam Saigon-Cholon (Number)	Per Cent of to (3)	European Assessment Viet-Nam Saigon-Cholon (Number)	Per Cent of to (5)	Other Assessment Viet-Nam Saigon-Cholon (Number)	Per Cent of to (7)	Total Assessment Viet-Nam Saigon-Cholon (Number)	Per Cent of to (9)
30 to 160	57,578 (63,504)	6,382 (6,648)	11 (10)	10,633 (7,160)	1,601 (1,191)	15 (17)	46 (49)	0 (25)	80 (51)	37 (10)
180 to 500	21,802 (31,113)	8,426 (10,529)	38 (34)	10,812 (8,431)	6,497 (4,585)	60 (54)	229 (134)	87 (74)	38 (55)	165 (41)
600 to 1,800	8,752 (9,933)	4,436 (4,145)	51 (41)	6,417 (5,414)	4,961 (4,201)	77 (77)	159 (239)	67 (193)	42 (81)	285 (82)
2,000 to 7,000	5,497 (4,312)	4,243 (2,865)	77 (66)	2,799 (2,031)	2,374 (1,718)	84 (84)	314 (478)	246 (427)	78 (89)	597 (276)
8,000 to 20,000	470 (641)	342 (470)	73 (73)	560 (192)	541 (180)	97 (94)	55 (255)	28 (236)	50 (92)	188 (58)
25,000 to 100,000	65 (92)	34 (60)	52 (65)	20 (19)	18 (8)	90 (42)	29 (154)	11 (142)	38 (92)	107 (7)
Totals	94,164 (109,655)	23,863 (24,717)	25 (22)	31,241 (23,247)	15,992 (11,883)	51 (51)	832 (1,309)	439 (1,097)	52 (85)	1,422 (474)
									1,231 (397)	86 (84)
									127,659 (134,685)	41,525 (39,232)
										33 (29)

¹ Data without parenthesis refer to 1956 and data with parenthesis refer to 1957.² Basic tax rates are not uniformly continuous; i.e., there is no basic tax of 170\$VN or for 22,000\$VN.

6. Distribution of Patente Tax Assessments by Business Activities

As indicated previously, the patente tax assessment rolls in Saigon are prepared in the Patente Tax Bureau of the General Directorate of Taxation, and are then forwarded to a private firm for IBM processing. When these rolls are forwarded for IBM processing, the taxpayers are listed according to street and street number. The final tax roll as prepared by the IBM equipment also lists the taxpayers according to street and street number, but in addition, a second roll is prepared grouping the taxpayers by types of business activities.

This second tax roll has not been utilized in any way by the General Directorate of Taxation because of a lack of research staff, so an attempt was made to exploit its usefulness for the benefit of this report. The roll was prepared by assigning a code number to each of the 743 business activities listed in the Fiscal Code, and then the operators of the IBM equipment grouped each individual patente tax assessment under the applicable code numbers.⁷ What was

⁷There is some doubt as to how accurately this grouping was done. The IBM operators were required to assign a code number to each assessment and their lack of familiarity with the description for each code undoubtedly resulted in some inaccuracy in assigning code numbers to particular assessments. This source of error will be removed in financial year 1959, when personnel of the Patente Tax Bureau will place code numbers beside each assessment before the roll is forwarded for IBM processing.

done for the purpose of this report was to list each code number with its respective total patente tax assessment.

After this was done, Table 7 was prepared, which lists the 30 most important patente tax categories as determined by expressing the patente tax assessment for each category as a percentage of total patente tax assessments in Saigon during financial year 1958.

These 30 most important patente tax categories out of a total of 743 categories represent 69.0 per cent of all patente tax assessments in Saigon during financial year 1958. Within the group of 30 categories, government suppliers and importers are particularly important. Importing activities unquestionably account for the largest single source of patente tax assessments, but a precise determination is not possible because several of the categories in Table 7 combine activities involving importing, selling, and manufacturing. The best speculation that can be made from the available data is that import activity accounts for between 25 to 35 per cent of all patente tax assessments in Saigon. Government suppliers follow in second importance with 12.41 per cent.

Ideally, the information in Table 7 for patente tax assessments for particular categories of business activities should be related to other indices of the importance of

Table 7

Thirty Most Important Patente Tax
Categories in Saigon, Financial Year 1958

<u>Code Number</u>	<u>Type of Business</u>	<u>Assessment (\$VN)</u>	<u>Percentage of Assessment to Total Saigon Assessment</u>
724	Government suppliers	19,287,267	12.41
270	Large commercial, manufacturing, and importing enterprises	13,226,986	8.51
416	Textile importing	12,605,253	8.11
414	Automobile importing	6,524,195	4.19
369	Real estate, finance, and commercial banks	5,378,313	3.46
404	Construction, including importation of goods	4,096,207	2.63
271	Medium-size commercial enterprises	3,911,461	2.51
532	Haberdashery	3,908,289	2.51
415	Importation of spare parts for machines	2,997,794	1.92
659	Automobile agencies	2,560,068	1.64
556	Jewelry imports and sales	2,353,849	1.51
424	Importation of scientific instruments	2,068,663	1.31
621	Drugstores	2,001,814	1.28
410	Miscellaneous imports	1,918,839	1.23
319	The financing of imports	1,851,761	1.19
412	Chemical imports	1,798,300	1.15
409	Food imports and exports	1,765,860	1.13
252	Printing	1,713,825	1.10
11	Physicians and surgeons	1,644,656	1.05
418	Forestry product imports	1,592,806	1.02
242	Grocery stores	1,546,152	1.00
281	Hotels	1,542,196	1.00
632	Truck transport	1,509,950	1.00
327	Tailors	1,482,367	.95
411	Importation of medical supplies	1,450,230	.95
480	Small restaurants	1,427,463	.95
621	Textile wholesale	1,354,813	.87
87	Movie theaters	1,348,534	.85
421	Selling of cement and mineral products	1,229,292	.80
628	Air transport agencies	1,136,904	.73
	Total	107,234,017	69.00

Source: General Directorate of Taxation

particular industries. All that can be done is to point out a few irregularities based more on impression than incontrovertible evidence: (1) The patente tax assessment for the single firm supplying all water and electric power in Saigon was 404,000\$VN in 1958, while total patente tax assessments for all movie theaters was over three times this amount. (2) Only one liberal profession -- physicians -- is listed among the 30 most important patente tax categories. (3) Some business activities which appear to be important enough to be listed among the highest 30 categories are transportation, rice and rubber exporters, insurance, and the sale of petroleum products.

7. Patente Tax Compliance and Enforcement in Saigon

Inquiry was made of administrators as to the compliance score of the patente tax in Saigon. Their impression is that compliance is virtually complete in the "better" business districts, with only an occasional evader. Supporting this belief is the evidence that only 30 of the "larger" businesses were penalized for evasion in 1959, which may be compared to the total number of taxable businesses of about 25,000. It is admitted that there is "more" evasion in slum blocks on the part of small businessmen who believe mistakenly that they are exempt. One reason why patente tax compliance is believed to be so good is the enforcement assistance received from city police.

Table 8

Summary of Business Surveys to Determine
Patente Tax Compliance

Type of Business	Number of Businesses in the Samples	Number of 1958 Patente Certificates	Number of 1958 Patente Certificates on Display	Number of Certificates Claimed to be "at Home"	Number Without Certificates for 1958	Number of Certificates for 1959 as of September, 1959
Offices in an office building	21	20	0	1		14
Market stalls	30	26	3	1		30
Taxi cabs	30	26	4	0		26
Cyclos with motors	30	25	5	0		27
Wagons with fixed locations	26	26	0	0		26
Stores in a good district	13	13	0	0		12
Stores in a slum	28	26	0	2	—	28
Totals	178	162	12	4	—	163

This assistance results from the fact that the Prefecture of Saigon shares patente tax receipts, and so has a vested interest in high collections.

These impressions on the part of tax administrators of relatively high patente tax compliance in Saigon were tested by a series of small samples. The results obtained from the surveys are summarized in Table 8. This table shows that 178 businesses were surveyed and only four certain instances of non-compliance were found with respect to the 1958 tax. There were an additional eight cases in which businessmen claimed that the tax was paid but that the patente tax certificate was "at home". But even if there were 12 instances of non-compliance out of 178 cases, this level of compliance is immeasurably better than it is in the case of either the income or property taxes. The survey showed, however, that assessments and collections are unduly delayed. There were 163 businesses out of 178 in possession of a 1959 patente tax certificate as of September, 1959.

8. Survey of Selected Business Firms

The objective of this research was to study patente tax assessments for a small group of business firms in order to inquire into some of the problems involved in making assessments. No attempt was made to obtain a reliable random sample, because only a small number of firms could be studied. In

Table 9

Patente Tax Components for a Sample of Business Firms,
 Financial Year 1958
 (All amounts in \$VN)

Type of Business	Basic Tax	Rental Value Tax	Chamber of Commerce and Chinese Community Taxes	Total Central Gov't. Tax	Prefecture of Saigon Tax	Total Central Gov't., Chamber of Commerce, and Saigon Tax
Commercial bank	75,000	45,000	3,000	120,000	240,000	363,000
Commercial bank	100,000	138,000	41,650(2)	238,000	476,000	755,650
Hotel	48,000	69,000	2,925	117,000	234,000	353,925
Jewelry store	25,000	7,680	817	32,680	65,360	98,857
Manufacturer	100,000	62,600	4,065	162,600	325,200	491,865
Oil distributor	100,000	108,000	5,200	208,000	416,000	629,200
Travel agency	26,000	34,272	1,482	59,272	118,544	179,298
Travel agency	140,000	63,000	5,075	203,000	406,000	614,075
Drug store	10,500	1,520	300	12,020	24,040	36,360
Dentist	2,500	660	(1)	3,160	6,320	9,480
Night club	7,000	8,190	380	15,190	30,380	45,950
Book store	9,000	4,800	345	13,800	27,600	41,745
Night club	9,000	15,600	4,305(2)	24,600	49,200	78,105

Table 9 (Continued)

<u>Types of Business</u>	<u>Basic Tax</u>	<u>Rental Value Tax</u>	<u>Chamber of Commerce and Chinese Community Taxes</u>	<u>Total Central Gov't. Tax</u>	<u>Prefecture of Saigon Tax</u>	<u>Total Central Gov't., Chamber of Commerce, and Saigon Tax</u>
Hotel	23,000	123,776	3,669	146,776	293,552	443,997
Grocery store	19,000	14,400	5,845 (2)	33,400	66,800	106,045
Printing	74,000	53,760	3,194	127,760	255,520	386,474
Physician	5,000	720	(1)	5,720	11,440	17,160
Attorney	10,000	120	(1)	10,120	20,240	30,360
Insurance	10,000	10,618	515	20,618	41,236	62,369
Tailor	1,600	3,000	115	4,600	9,200	13,915
Milk bar	24,000	16,800	1,020	40,800	81,600	123,420
Film distributor	<u>15,000</u>	<u>16,560</u>	<u>789</u>	<u>31,560</u>	<u>63,120</u>	<u>95,469</u>
Totals	832,600	798,076	84,691	1,630,676	3,261,352	4,976,719

(1) Liberal professions do not pay the Chamber of Commerce Tax.

(2) Chinese businessmen were subject to a 15 per cent Chinese Community tax in 1958. This tax was eliminated on January 1, 1959.

selecting the 22 firms, an attempt was made to choose businesses which would represent a cross-section of industry and commerce. All of the data obtained are presented in five tables, and the ensuing text points out the implications of each table.

Table 9 shows the various components of the patente tax and the distribution of the proceeds. The relative importance of the basic tax and the rental value tax vary considerably among the several businesses, but the totals for each of the two components for the whole group of firms are nearly equal. Three out of the 22 businesses were owned by Chinese and were subject to a 17 1/2 per cent Chinese Community tax in 1958. This tax was eliminated on January 1, 1959, so henceforth businesses operated by Chinese will be assessed the normal rate of 2 1/2 per cent of the central government tax for the benefit of the Chamber of Commerce. As indicated in Table 9, the Prefecture of Saigon received 200 per cent of each central government patente tax assessment.

Table 10 presents a more revealing picture of the relative importance of the three components comprising total patente tax assessments. There is apparently no tendency for either the basic tax or the rental value tax to be more important or equally important for each firm. For 12 of the firms, the basic tax is more

important than the rental value tax, while the converse is true for the remaining 10. The extreme limits in the sample are an attorney, whose basic tax represents 98.8 per cent of his total patente tax assessment, and a hotel, for which the rental value tax represents 83.6 per cent of the total patente tax assessment.

The purpose of Table 11 is to demonstrate how assessments have varied over the past four years. Seventeen out of the 22 firms were in business during the four years from 1955 to 1958, and the basic patente tax for each one of these firms was increased over this period of time. The totals for basic tax assessments for these 17 firms over the past four years were: 1955: 400,900\$VN; 1956: 496,600\$VN; 1957: 593,100\$VN; and 1958: 664,600\$VN. From these data, there appears to be a steady increase in basic tax assessments over the past four years, but the statistics are misleading. Closer examination of Table 11 shows that there was a general tendency to raise tax assessments from 1956 to 1957, but the administrative policy apparently was to hold assessments stable from 1957 to 1958. This is apparent from the fact that one firm -- a commercial bank -- accounted for all of the increase in the total of basic tax assessments from 1957 to 1958.

Rental value assessments for the 17 firms in business

Table 10

Relative Importance of Patente Tax Components
for a Sample of Business Firms, Financial Year 1958

Type of Business	Percentage of Basic Tax to Total Patente Tax	Percentage of Rental Value Tax to Total Patente Tax	Percentage of Chamber of Commerce Tax to Total Patente Tax
Commercial bank	62.0	37.2	.8
Commercial bank	40.1	54.7	.8 (1)
Hotel	40.7	58.5	.8
Jewelry store	75.8	23.4	.8
Manufacturer	61.0	38.2	.8
Oil distributor	47.7	51.5	.8
Travel agency	41.8	57.4	.8
Travel agency	68.4	30.8	.8
Drug store	86.6	12.6	.8
Dentist	79.1	20.9	(2)
Night club	45.7	53.5	.8
Book store	64.7	34.5	.8
Night club	34.6	60.0	.8 (1)
Hotel	15.6	83.6	.8
Grocery store	53.8	40.7	.8 (1)
Printing	57.5	41.7	.8
Physician	87.4	12.6	(2)
Attorney	98.8	1.2	(2)
Insurance	48.1	51.1	.8
Tailor	34.5	64.7	.8
Milk bar	58.3	40.9	.8
Film distributor	47.1	52.1	.8

(1) Chinese businessmen were subject to an additional 15 per cent Chinese Community Tax in 1958.

(2) Liberal professions do not pay the Chamber of Commerce tax.

during the four years from 1955 to 1958 were as follows:

1955: 484,039\$VN; 1956: 505,000\$VN; 1957: 524,836\$VN; and 1958: 646,536\$VN. This rate of increase is less than for the basic tax. Moreover, the increase in the rental value tax for the 17 firms from 1957 to 1958 is again deceptive because it is attributable in its entirety to the increase in assessment levied on a commercial bank.

Only two of the 22 firms in the sample show an increase in the rental value tax from 1957 to 1958. According to the Fiscal Code, the rental value tax is to be determined on the basis of present rental value as determined by leases, comparison with other buildings, or by direct estimating. This procedure breaks down in practice, however, because of the existence of key rents. It was determined previously in the report on The Taxation of Real Property in Viet-Nam that rental value as a base has been ruined by key rents, because this practice results in widespread and serious underassessment, unneutrality of treatment, and the inability to raise rental value assessments in general. There is difficulty in raising assessments based on rental value because the rise in rents generally takes effect through key rents rather than through contract rents. These conclusions arrived at in the property tax report are also applicable to the portion of the patente tax which is based on rental values.

Table 11

Comparison between Basic Tax and Rental Value Tax for a Sample of Business Firms, Financial Years 1955 to 1958
(All Amounts in \$VN)

Type of Business	1955		1956		1957		1958	
	Basic Tax	Rental Value Tax						
Commercial bank	60,000	45,000	60,000	45,000	75,000	45,000	75,000	45,000
Commercial bank	16,000	16,200	16,000	16,200	30,000	16,200	100,000	138,000
Hotel	34,500	69,000	35,000	69,000	48,000	69,000	48,000	69,000
Jewelry store	(1)	(1)	40,000	7,680	40,000	7,680	25,000	7,680
Manufacturer	75,000	62,000	100,000	62,600	100,000	62,600	100,000	62,600
Oil distribution	(1)	(1)	100,000	108,000	100,000	108,000	100,000	108,000
Travel agency	18,000	34,272	18,000	34,272	25,000	34,272	25,000	34,272
Travel agency ⁽²⁾	115,000	63,000	115,000	63,000	140,000	63,000	140,000	63,000
Drug store	3,000	1,520	7,500	1,520	10,500	1,520	10,000	1,520
Dentist	1,600	660	1,800	660	2,500	660	2,500	660
Night club	6,000	2,280	6,000	8,190	6,000	8,190	7,000	8,190

Table 11 (Continued)

Type of Business	1955		1956		1957		1958	
	Basic Tax	Rental Value Tax						
Book store ⁽²⁾	(1)	(1)	2,000	4,800	3,000	4,800	9,000	4,800
Night club	6,000	14,400	7,000	15,600	7,500	15,600	9,000	15,600
Hotel	19,500	104,000	19,500	104,000	23,000	123,776	23,000	123,776
Grocery store	(1)	(1)	13,000	14,400	19,000	14,400	19,000	14,400
Printing	12,000	43,009	75,000	53,760	75,000	53,760	74,000	53,760
Physician	3,500	276	4,000	726	5,000	720	5,000	720
Attorney	9,000	60	9,000	60	10,000	120	10,000	120
Insurance	7,000	7,963	8,000	10,618	10,000	10,618	10,000	10,618
Tailor	800	3,000	800	3,000	1,600	3,000	1,600	3,000
Milk bar ⁽²⁾	14,000	16,800	14,000	16,800	24,000	16,800	24,000	16,800
Film distributor	(1)	(1)	8,000	7,680	11,000	7,680	15,000	16,560
Totals	400,900	484,039	659,600	647,566	766,100	667,396	832,600	798,076

(1) Not in business.

(2) Increase in basic tax is attributable to import activities and to the change in the patente tax on importers introduced in 1956.

Table 12 associates taxable income and income tax assessments for the group of 22 firms with their respective patente tax assessments. In this Table, two firms have been combined because they are operated by the same businessman. As a result, only 21 firms appear in the Table.

Data are available for comparing the income and patente taxes for only 10 firms. One firm shows no record of having filed an income tax return, while the returns for four others were filed but could not be found. Presumably, these four returns were removed from the files for verification by auditors. Another six returns indicate losses during 1957. These losses are surprising in view of the fact that some of these firms represent rather substantial business undertakings.

But even though only 10 firms remain for analysis, they offer an interesting insight into the relationship between taxable income and patente tax assessments. For the two commercial banks, for example, one has a ratio of patente tax to taxable income of 1.3 per cent while the same ratio for the other bank is 3.7 per cent, or nearly three times higher. On the other hand, the ratio of patente tax to taxable income for the manufacturing firm is only .2 per cent. Again, this latter assessment may be compared with the patente tax assessment for the hotels, which is 14 per cent of taxable income.

Table 12

Comparison between Income and Patente Taxes
for a Sample of Business Firms,
Financial Year 1957

Type of Business	Taxable Income (\$VN)	Income Tax (\$VN) ⁽⁵⁾	Percentage of Income Tax to Income	Patente Tax (\$VN)	Total Percentage of Patente Tax to Income
Commercial bank ⁽¹⁾	9,791,000	2,349,840	24.0	363,000	3.7
Commercial bank ⁽¹⁾	11,148,000	2,675,520	24.0	146,685	1.3
Jewelry store	196,868 ⁽⁴⁾	--	--	144,232	--
Manufacturer ⁽¹⁾	168,245,000	40,378,800	24.0	491,365	.2
Oil distributor ⁽¹⁾	19,789,360	4,749,360	24.0	629,200	3.2
Travel agency	91,000 ⁽⁴⁾	--	--	179,298	--
Travel agency ⁽¹⁾	1,300,000 ⁽⁴⁾	--	--	614,075	--
Drug store	(2)	(2)	--	36,360	--
Dentist	189,000	7,610	4.0	9,480	5.0
Night club	(3)	(3)	--	45,053	--
Book store	381,000	98,910	25.9	23,595	6.2
Night club	(2)	(2)	--	73,342	--
Two hotels	5,495,500	2,266,500	41.2	767,672	14.0
Grocery store	270,000	46,350	17.2	106,045	39.3
Printing ⁽¹⁾	(2)	(2)	--	389,499	--
Physician	68,000	4,010	5.9	17,160	25.0
Attorney	150,000	17,290	11.5	30,360	20.0
Insurance ⁽¹⁾	2,225,000 ⁽⁴⁾	--	--	62,369	--
Tailor	(2)	(2)	--	13,915	--
Milk bar	3,241,945 ⁽⁴⁾	--	--	123,420	--
Film distributor ⁽¹⁾	1,561,000 ⁽⁴⁾	--	--	56,507	--
 Totals:	 223,142,673	 52,594,190		 4,322,632	

(1) Corporation.

(2) Declaration filed but not available for examination.

(3) No income tax declaration filed.

(4) Loss

(5) Corporate profits tax in the case of corporations
and general income tax for individuals.

The extreme case is a grocery store, where the patente tax assessment is so high that it represents 39.3 per cent of taxable income, which is more than double the amount of income tax paid. Even though there are only 10 cases in the sample, this should be proof enough that the patente tax bears little relationship to capacity to pay as measured by net income.

Both the patente and the real property tax utilize rental value as a base for assessments. It was thought that it would be fruitful, therefore, to compare rental values for the 22 firms in the survey as determined by the respective bureaus responsible for assessing the patente and real property taxes. This comparison is assembled in Table 13.

In explanation of Table 13, it should be observed, first, that the various determinations of rental value by the patente and property tax bureaus are not strictly comparable in all cases for two reasons: (1) Rental value for the patente tax includes only that part of the building used for business purposes, while rental value for the property tax includes both business and non-business use. For example, if a proprietor lives at the back of his store, rental value for the patente tax should be lower than rental value for the property tax. (2) According to Article 14 of the Fiscal Code, rental value for the patente tax includes the material means of production (machinery, equipment, etc.) for industrial establishments,

Table 13

Comparison between Rental Values as Determined
for Patente and Property Taxes, Financial Year 1958

Type of Business	(A) Rental Values for Patente Tax (\$VN)	(B) Rental Values for Property Tax (\$VN)	Percentage of Column (A) to Column (B)
Commercial bank	450,000	600,000	75.0
Commercial bank	1,380,000	984,000	140.0
Hotel	690	(1)	--
Jewelry store	96,000	96,000	100.0
Manufacturer	626,000	1,068,000	58.6
Oil distributor	1,080,000	1,440,000	75.0
Travel agency	423,400	408,000	103.7
Travel agency	546,000	480,000	113.7
Drug store	42,000	60,000	70.0
Dentist	13,200	13,200	100.0
Night club	136,500	204,000	70.0
Book store	60,000	(2)	--
Night club	36,000	48,000	75.0
Hotel	1,547,200	1,457,880	106.0
Grocery store	240,000	240,000	100.0
Printing	537,600	559,200	96.0
Physician	12,000	8,400	142.0
Attorney	1,200	1,200	100.0
Insurance	132,720	120,000	110.6
Tailor	60,000	60,000	100.0
Milk bar	210,000	108,000	194.4
Film distributor	207,000	(2)	
Totals	8,527,820	7,955,880	

(1) Exempt because owned by the Government.

(2) Not available.

while rental value for the property tax includes only land and buildings.

Despite these differences, however, some of the determinations of rental value in Table 13 are difficult to explain. In the case of the two commercial banks, for example, it may be seen that one bank is assessed higher for the patente than for the property tax, while the converse is true for the other bank. Since living quarters are not an issue in the case of either bank, one would expect that the patente tax valuations would be higher than the property tax valuations for both banks, since the patente tax includes equipment in determining rental value. Or take the case of the manufacturing firm. It is explained that the patente tax valuation is lower than the property tax valuation for this firm because living quarters are located on the property. But this factor should be compensated for in part by the fact that patente tax valuations include machinery and equipment. Another anomaly is that there are five instances in Table 13 in which the valuations for the patente and the property tax are the same. This happens because the proprietors report the same contract rents to both the patente and property tax bureaus. However, these valuations would not be the same for the two taxes if machinery and equipment actually

were included in the base for patente tax assessments.

At the present time, there is no cooperation between the patente and property tax bureaus in making evaluations for their respective taxes on rental value, despite the fact that both bureaus are located on the same floor of the General Directorate of Taxation. It would appear that many of the apparent inconsistencies indicated above would be removed if this cooperation were instituted.

9. Patente Tax Assessments for a Sample of Physicians

A sample of physicians was studied in order to inquire into the problems of tax policy and administration involved in the application of the patente tax on the liberal professions. Limits on research time and staff restricted the sample selected for investigation to 30 physicians out of a universe of about 200 practicing physicians in Saigon in August of 1959. The sample was drawn in a rather unorthodox manner. Since the patente tax assessments on medical doctors is based principally on location of the business office, it was considered desirable to obtain some variation of locations in the sample. This was accomplished by dividing Saigon streets into three rough categories: those which would serve clientele with high, medium, and low incomes. Ten doctors were selected from each of these three types of

streets by traveling throughout the city and by choosing business offices at random. This procedure was also used to ensure that the doctors were actually practicing medicine and had a patente tax liability in 1959.

A patente tax assessment on a physician has two parts: a basic tax which may be established within the range of 800 to 10,000\$VN, and a rental value tax. The sum of these two components constitutes the central government tax, while the assessment for the Prefecture of Saigon is 200 per cent of the central government tax. Determination of the basic tax within the range of 800 to 10,000\$VN is important not only because this tax is a component of the total tax, but also because the rental value tax rate is related directly to the level of the basic tax assessment. This relationship is accomplished in the following manner: doctors with a basic tax assessment of from 8,000 to 10,000\$VN have a rental tax rate of 8 per cent, basic tax assessments from 2,000 to 7,000\$VN have a rental tax rate of 6 per cent, and basic tax assessments from 800 to 1,800\$VN have a rental tax rate of 5 per cent.⁸

⁸See Appendix C for the complete schedule relating basic taxes and rates for the rental value tax.

The Fiscal Code provides little assistance to the tax administrator in applying the basic patente tax on physicians within the range of 800 to 10,000\$VN. There is a provision in Article 29 of the Fiscal Code which requires a physician (like any other businessman) to declare the amount of capital invested in his business, but this declaration is obviously inadequate as a basis for the tax. As a result, the Patente Tax Bureau has evolved three principal criteria: (1) the location of the doctor's office, particularly with respect to the type and number of clientele which the location would attract; (2) the number of years spent in medical practice; and (3) whether the doctor has specialized training. In addition to these criteria, there are two other subordinate considerations: (1) part-time service with the army, in which case the patente tax is reduced; and (2) the level of fees charged.

These criteria are quite obviously vague and even irrational. Basing the tax on location of the business office is of doubtful reliability, because an office in a slum area has the advantage of population density which may be more important from a revenue point of view than having the type of clientele which is able to pay high fees. Moreover, the Patente Tax Bureau has made no systematic classification of

districts so that it can be determined precisely that one district is "better" than another. Nor has the Bureau detailed information on the number of years each doctor has been in practice or whether they have specialized training. These criteria, therefore, are not applied in any precise or rational manner.

Table 14 summarizes the patente tax statistics for the sample of doctors. Significant conclusions which may be derived from these data are:

(1) All doctors in the sample were on the patente tax roll in 1959, which is indicative of a relatively high level of enforcement for the patente tax as compared to the income and property taxes.

(2) There is some relationship between "better" locations and size of patente tax assessment. This is evident in Table 14 by comparing the patente tax rank in the first column with the locational groups in the second column. Most doctors in the best locations (designated (1) in the Table) have high patente tax assessments, but the relationship of location and assessment is less clear-cut with respect to doctors with average locations (designated (2) in the Table), and doctors with slum locations (designated (3) in the Table).

(3) Basic patente tax assessments vary from a high of

7,000\$VN to a low of 1,600\$VN, with the average for the whole group being 2,670\$VN. An assessment of 2,000\$VN for the basic tax is the most frequently levied, with 14 doctors receiving this assessment. Rental value assessments range from 3,600\$VN to 120\$VN, with an average of 794\$VN. Total patente tax assessments (including shares for both the Central Government and the Prefecture of Saigon) range from 21,648\$VN to 5,160\$VN, with an average of 10,392\$VN.

(4) Income tax records for the 30 physicians were investigated in order to compare patente tax assessments and levels of business income. The result of this investigation is particularly revealing with respect to income tax administration, for it was found that 12 out of the 30 doctors had not filed an income tax return for 1958. Out of these 12 income tax delinquents, 8 have never filed income tax returns and 4 have filed returns prior to 1958. Comparison between incomes reported from medical practice and amounts of patente tax assessments shows the arbitrary application of the latter. Although an attempt is made to relate both the basic and rental value taxes to capacity to pay, visual inspection indicates that there is very little relationship in Table 14 between the rank by size of patente tax assessment and rank by medical income earned. For example, consider the case

of one doctor who has a patente tax of 17,160\$VN and a business income of 68,000\$VN, while another doctor has a patente tax assessment of 16,320\$VN and a business income of 324,000\$VN.

(5) Despite the fact that the Patente Tax Bureau attempts to assess the basic tax on the basis of tax-paying capacity, no attempt is made to utilize income tax returns as an indication of capacity to pay the tax. Similarly, although both the Patente Tax Bureau and the Property Tax Bureau are both assessing on the basis of rental value, there is no cooperation between the two bureaus. Alternatively, the Profits Tax Bureau does not utilize patente tax information in order to reduce the delinquency problem of the income tax. Quite obviously, the administration of all of these taxes would be improved if there was more cooperation among the various tax bureaus.

(6) The brief conclusion which appears to be warranted is that the patente tax is arbitrary in assessment but that it has the advantage as far as this particular group of businessmen is concerned of being pro-

Table 14

Statistical Summary
of a Sample of Physicians

Rank by Size of Patent Tax Assess- Group- ment	Loca- tional Patent Tax (\$VN)	Basic Patent Tax (\$VN)	Rental Value Tax (\$VN)	Central Gov't. Tax (\$VN)	Total Patent Tax (\$VN)	Income from Medical Practice, 1958 (\$VN)	Medical Income Rank
1 (1)	7,000	216	7,216	21,648	411,000	1	
2 (1)	4,000	2,160	6,160	18,480	(No return)	-	
3 (1)	2,500	3,600	6,100	18,300	98,000	5	
4 (1)	4,000	1,800	5,800	17,400	(No return)	-	
5 (1)	5,000	720	5,720	17,160	68,000	8	
6 (1)	4,000	1,440	5,440	16,320	324,000	2	
7 (1)	4,000	600	4,600	13,800	65,000	9	
8 (2)	3,500	360	3,860	11,580	(No return)	-	
9 (1)	3,000	576	3,576	10,728	41,372	12	
10 (3)	3,000	576	3,576	10,728	120,000	3	
11 (1)	3,000	504	3,504	10,512	99,000	4	
12 (2)	2,000	1,080	3,080	9,240	18,885	16	
13 (3)	2,500	432	2,932	8,796	50,920	10	
14 (2)	2,000	864	2,864	8,592	(No return)	-	
15 (2)	2,000	864	2,864	8,592	(No return)	-	
16 (2)	2,000	840	2,840	8,520	71,000	7	
17 (2)	2,000	720	2,720	8,160	(No return)	-	
18 (3)	2,000	720	2,720	8,160	73,380	6	
19 (2)	2,000	720	2,720	8,160	(No return)	-	
20 (3)	2,000	576	2,576	7,728	31,955	12	
21 (2)	1,600	900	2,500	7,500	(No return)	-	
22 (3)	2,000	432	2,432	7,296	(No return)	-	
23 (1)	1,800	600	2,400	7,200	(No return)	-	
24 (3)	2,000	360	2,360	7,080	25,000	14	
25 (3)	2,000	360	2,360	7,080	16,511	17	
26 (2)	2,000	360	2,360	7,080	24,000	15	
27 (2)	2,000	360	2,360	7,080	(No return)	-	
28 (3)	2,000	360	2,360	7,080	28,920	13	
29 (3)	1,600	600	2,200	6,600	43,400	11	
30 (3)	1,600	120	1,720	5,160	(No return)	-	

¹Refers to the manner in which the sample was selected: The 10 doctors with the best locations are indicated by (1); the 10 with average locations by (2); and the 10 located in slum areas by (3).

ductive of revenue. Its productivity is derived both from a high score in enforcement and relatively high assessments as compared to the income tax.

10. The Special Case of Importers

Particular attention to the assessment of the patente tax on importers is warranted because these businessmen constitute the largest single category of assessments. The immediate irregularity with respect to the taxation of importers is that the patente tax is levied principally on the basis of administrative regulations rather than on provisions in the Fiscal Code. In the Fiscal Code, importers may be taxed in two ways. There is first a provision for a minimum basic tax of 2,000\$VN and a maximum of 50,000\$VN for each of eighteen categories of imports. In other words, the importation of tobacco and cigarettes, one of the 18 import categories, may bear a basic tax within the range of 2,000 to 50,000\$VN, depending on the determination made by the assessment officers. Secondly, an importer may elect to pay a single patente tax of 75,000\$VN to 100,000\$VN for all import activities instead of several separate patente taxes for different import activities. Since both of these

statutory directives permit assessments within a maximum and minimum range, the Patente Tax Bureau has evolved criteria for the specific application of the tax. For this purpose, three factors have been considered to be relevant: (1) the amount of working capital, (2) whether the business is an individual proprietorship or a corporation, and (3) whether the individuals and corporations are Vietnamese or foreign.

Table 15 provides the basic information on the way these factors are associated in order to determine basic patente tax assessment for importers. Precedurally, each importer is required to make a declaration of the amount of working capital used for the importation of goods. The basic tax is then determined on the basis of this declared working capital and in conjunction with whether the business is an individual proprietorship or corporation, and whether the business is owned by Vietnamese or foreigners. Table 15 shows that corporate rates are double those for individuals, except in the case of the importation of automobiles. Rates for foreign businessmen are consistently higher than those for Vietnamese businessmen, but the percentage increases vary with the levels of assessments.

It is important to note that the administrative regulations summarized in Table 15 establish maxima rates below

Table 15

Summary of Administrative Regulations for the Application
of the Basic Patente Tax on Importers

(All amounts in \$VN)

Amount of Declared Capital	Basic Patente Tax			
	Vietnamese Individuals	Vietnamese Corporations	Foreign Individuals	Foreign Corporations
100,000	3,000	6,000	4,000	8,000
200,000-300,000	4,000	8,000	5,000	10,000
400,000-500,000	5,000	10,000	6,000	12,000
600,000-700,000	6,000	12,000	7,000	14,000
800,000-900,000	7,000	14,000	8,000	16,000
1,000,000	8,000	16,000	10,000	20,000
1,500,000	10,000	20,000	12,000	25,000
2,000,000	12,000	25,000	16,000	30,000
<u>Exceptions</u>				
Importation of automobiles	10,000	20,000	14,000	35,000
Importation of scooters and spare parts for transportation vehicles	6,000	12,000	8,000	16,000

Source: Saigon Patente Tax Bureau of the General Directorate of
Taxation

those authorized in the Fiscal Code. According to the Fiscal Code, patente taxes may be levied either in the range of 2,000 to 50,000\$VN for particular categories of imports or exports or between 75,000 to 100,000\$VN for all categories of products. Table 15, shows, however, that the maxima rates vary from 21,000\$VN for a Vietnamese individual to 30,000\$VN for a foreign corporation. An exception is made in the case of the importation of automobiles, where the maximum rater rises to 35,000\$VN for a foreign corporation.

The foregoing procedure for assessing the patente tax on importers was followed in financial years 1957 and 1958, but then it became apparent that some businessmen were evading their full tax liabilities by minimizing the amounts of their working capital. For this reason, it was decided by both the Patente Tax Bureau and the Patente Tax Review Committee in Saigon that a helpful indication of the amount of capital used would be the amount of foreign exchange allocated during 1958. Therefore, working capital was continued as the principal base for 1959 patente tax assessments on importers, but foreign exchange allocated in 1958 was used to modify the tax whenever a change in assessment was considered desirable. Specifically, the procedures followed in assessing importers in 1959 may be summarized

as follows: (1) The basic tax was based on working capital except in those cases where modification was necessary because the declared capital was inconsistent with the amount of foreign exchange allocated in 1958. (2) In those instances in which modification was considered desirable, it was assumed that working capital was one-third the amount of foreign exchange allocated. (3) In the absence of foreign exchange information for a particular importer, the patente tax was assessed on the basis of the amount of working capital.

Table 16 has been developed in order to demonstrate the effects of both the old and new methods of assessing the patente tax on importers. A brief explanation should first be given of how the 18 firms in the Table were selected. As indicated previously, Saigon is divided into four quarters for patente tax assessment purposes, and after the assessments for each quarter are completed by the Patente Tax Bureau, they are reviewed by a committee. Out of the total number of 1959 assessments on importers in the first two quarters of Saigon, 55 were brought to the attention of the review committee. Those cases not brought to the attention of the committee apparently were those assessments not contested by taxpayers or those which caused no administrative problems. Out of the 55 cases reviewed by the committee,

18 were selected for the purpose of analysis in this report.

Referring to Table 16, it may be seen that 11 out of the 18 firms reported less working capital in 1959 than in 1958, which under ordinary circumstances would have meant lower basic patente tax assessments in 1959 than in 1958. Six other firms reported the same amount of capital for 1958 and 1959, while one firm, an importer of automobiles, had no capital declarations for either 1958 or 1959. No satisfactory explanation could be obtained why this automobile firm failed to declare the amount of capital used in its business. The issue is probably academic, however, in view of the fact that the basic patente tax assessment of 35,000\$VN for this firm is at the maximum allowed under administrative regulations. It should be noted again, however, that the Fiscal Code permits a maximum rate of 50,000\$VN for any single category of imports.

Attention is directed now to the three columns in Table 16 designated (A), (B), and (C): Column (A) shows 1959 basic patente tax assessments as they would have been if based on 1959 working capital. Eleven firms would have received lower assessments in 1959 than in 1958 if declared value had been used as the base of the tax. Column (B) shows the modifications made to these assessments by the

Table 16

Basic Patente Tax Assessments on Importers for Financial Years 1958 and 1959

(All amounts except column (D) in \$VN)

Firm No.	Working Capital 1958	Working Capital 1959	Foreign Exchange Allocations 1958	Basic Patente Tax 1958	1959 Basic Patente Tax		Percentage Based on One-Third of Foreign Exchange Allocations	Tax Based on one percent of Foreign Exchange Allocations
					Based on 1959 Working Capital	As Modified by Patente Tax Bureau		
1	1,000,000	500,000	335,965	7,000	5,000	5,000	3,000	1.49
2	800,000	500,000	1,170,400	7,000	5,000	7,000	5,000	.59
3	1,000,000	500,000	636,000	8,000	5,000	6,000	4,000	.94
4	700,000	700,000	1,748,000	12,000	12,000	12,000	12,000	.69
5	500,000	500,000	2,991,000	10,000	10,000	16,000	16,000	.53
6	500,000	500,000	654,563	5,000	5,000	5,000	4,000	.76
7	200,000	200,000	979,304	4,000	4,000	5,000	4,000	.51
8	2,250,000	1,000,000	4,561,130	16,000	8,000	18,000	10,000	.39
9	2,000,000	1,000,000	4,757,663	12,000	8,000	14,000	10,000	.29
10	1,500,000	1,000,000	2,900,000	12,000	10,000	14,000	10,000	.48
11	3,000,000	1,000,000	1,198,085	40,000	16,000	20,000	10,000	1.67
12	1,000,000	500,000	501,694	8,000	5,000	5,000	4,000	.99
13	3,000,000	1,000,000	7,238,412	20,000	16,000	25,000	25,000	.34
14	2,000,000	2,000,000	2,232,580	30,000	30,000	30,000	14,000	.13
15	1,000,000	1,000,000	5,974,584	16,000	16,000	18,000	25,000	.30
	200,000	200,000	6,165,730	8,000	8,000	10,000	25,000	.16
	200,000	200,000	3,340,418	8,000	8,000	10,000	16,000	.29
16	800,000	800,000	2,834,255	16,000	16,000	16,000	16,000	.56
	800,000	800,000	10,232,640	16,000	16,000	20,000	30,000	.19
	800,000	800,000	2,679,825	16,000	16,000	18,000	14,000	.67
17	(No return)	(No return)	20,245,991	30,000	35,000	35,000	35,000	.17
18	5,500,000	2,200,000	3,668,210	50,000	30,000	40,000	20,000	1.09
	5,500,000	2,200,000	18,173,346	50,000	30,000	50,000	30,000	.27
Totals	32,250,000	18,700,000	102,419,795	401,000	314,000	399,000	352,000	1,052,198

Source: Patente Tax Bureau of the General Directorate of Taxation.

Patente Tax Bureau on the basis of 1958 foreign exchange allocations. The result of these modifications was that the assessments for 5 firms were left the same in 1959 as they were in 1958, while the assessments for 9 firms were raised and 5 were reduced. Column (c) indicates, however, that if foreign exchange allocations had been used as a guide consistently (that is, 1959 working capital for each firm is assumed to be one-third of 1958 foreign exchange allocations), 11 firms would have received lower assessments in 1959 than in 1958, 2 firms would have received the same assessments in the 2 years, and 5 firms would have received higher assessments in 1959 than in 1958.

Another way to view the inconsistencies which have arisen is to compare columns (B) and (C). Out of a total of 18 firms, there are only 5 instances in which the patente tax based on foreign exchange allocations in column (C) agrees with the tax as actually assessed in column (B). For a particularly unusual case, consider firm No. 11 in Table 16. This firm had an assessment of 40,000\$VN in 1958, but based on lowered declared capital in 1959, the assessment would have been reduced to 16,000\$VN. The assessment actually made in 1959 was 20,000\$VN, but if foreign exchange receipts had been used as a base, the tax would have been 10,000\$VN. The conclusion is unavoidable from this evidence that the criterion

of foreign exchange allocations was applied as a correction factor on an uneven basis, and whatever faults there were in the previous use of working capital were only partially removed in the 1959 assessments.

Probably the most glaring fault with the assessments on importers, however, is the ceilings applied to the patente tax. It may be noted from Table 16 that one firm was allocated 20,245,991\$VN in foreign exchange in 1958 and had a basic patente tax of 35,000\$VN in both 1958 and 1959. By comparison, the last firm in the Table was allocated only 3,668,210\$VN in foreign exchange and had a basic patente tax of 30,000\$VN. The result of these ceilings is a very serious under-assessment of large importers as compared to the tax burdens borne by the smaller firms.

The unneutralities caused by these ceilings and by arbitrary assessments are revealed in column (D) of Table 16, which presents the percentage of 1959 basic patente tax assessments to 1958 foreign exchange allocations. It may be seen that the basic patente tax burdens for the 18 firms range from 1.67 to .13 per cent of foreign exchange allocations. This means, in general, that the burden of the tax has been very uneven. The data also confirm that large importers have been under-assessed.

What is recommended to resolve this problem of arbitrary and regressive assessments is to base the patente tax directly on foreign exchange allocations. Column (E) in Table 16 shows the tax liabilities which would result if this were the base of the tax, and if the rate were one per cent. As indicated in Table 16, it is possible that this new base and tax rate would more than double the basic patente tax assessments on importers.

If the new base and tax rate are adopted, it would be desirable to eliminate the rental value tax on importers. Withholding of the tax should also be instituted in order to reduce collection problems.

11. The Special Case of Importers and Distributors of Motion Picture Films

The determination that a Vietnamese subsidiary of a large United States producer of motion picture films regularly reports a substantial loss from operations in Viet-Nam encouraged a review of patente tax assessments borne by the motion picture film industry in Viet-Nam. The whole of the industry may be classified into several specialized groups. To serve all Viet-Nam, there are 10 firms which import and distribute films, 11 firms which distribute films but do not import, and 9 Vietnamese producers of films. The total patente

tax assessment for these 30 firms in 1958 was 864,925\$VN. By comparison, however, there are 38 movie houses in Saigon alone, and the total patente tax assessment for these in 1958 was 1,339,181\$VN. This evidence suggests that film importers and distributors are under-assessed.

Income tax declarations were reviewed for the 30 importers, distributors, and producers, and the results obtained showed a very low compliance score. In financial year 1957, only one of the 9 Vietnamese film producers filed an income tax return, while none of the 11 distributors filed a return. Five out of the 10 importers and distributors filed income tax returns, but 3 declared losses. Out of the 6 United States-owned firms importing and distributing films in Viet-Nam, 2 filed no income tax declarations, one declared a profit, and 3 declared losses.

These losses on the part of United States film importers are attributable to the irregular arrangement by which the films are imported. It is the practice for United States film producers to establish an importing subsidiary in Viet-Nam and to rent the films to the subsidiary for 70 per cent of the gross proceeds. The result of this arrangement is that all expenses are deducted from the remaining 30 per cent of gross proceeds, which often results in a net operating loss.

for the subsidiary. In turn, this means that often no income tax liability is incurred by the subsidiary. For example, the Vietnamese subsidiary of one large United States film producer had the following operating statistics for the period September 1, 1957 to August 31, 1958:

Gross income:	7,916,161\$VN
Share paid to the head office in the U. S.:	5,435,602\$VN
Import duties:	1,735,215\$VN
General expenditures :	1,323,220\$VN
Amortization of film costs:	1,703,666\$VN
Loss:	601,834\$VN

This procedure should not be permitted for the determination of income tax liability. Net income for income tax purposes should be determined by subtracting all legitimate business expenses from gross income. One legitimate business expense should be the rental charge of the film, but the latter should not be determined on the basis of gross proceeds.

The fact that foreign exchange remittances represent a large percentage of the gross income of film importers suggests a base for the patente tax. These firms could be taxed on the basis of .7 per cent of their foreign exchange remittances in

lieu of both their existing basic and rental value patente taxes.

12. Taxpayer Observations

Several businessmen were interviewed in order to obtain their reaction to the patente tax, and the result was universal and strong criticism. Some of the observations made were:

- (1) The patente is a stupid tax because it is based only on external appearances and the assessment is not changed unless the business appears to be different to the assessor. For example, the patente will not be changed unless a businessman introduces a new machine or installs air conditioning. This is arbitrary and works against economic progress.
- (2) The patente is a particularly oppressive burden on small businessmen, while with large business it is the income tax which weighs heavily.
- (3) The patente tax should be varied from year to year according to business conditions. When the level of business goes down, however, the patente tax remains the same.
- (4) The patente has no economic rationale. For example, a physician may pay a basic tax of from £00 to 10,000\$VN, while an insurance broker may be taxed only from 80 to 5,000\$VN.
- (5) The patente tax schedules were developed when import

taxes are low. Now that they are higher, the sellers have to pay a patente levied on a much higher base, which reduces their margin of profit.

In addition, one ringing denunciation of the patente tax was published in the Weekly Magazine of the Chamber of Commerce, which referred to the tax as a feudal relic and maintained that the tax was arbitrary, that businessmen were not able to estimate their own tax liabilities, that the review committees were only a screen to protect the inequitable assessments of tax officers, and that the tax was designed to favor large corporations and penalize small businessmen.⁹

13. Summary of previous Studies

(1) Professor Lindholm's Proposals¹⁰: Professor Lindholm's principal policy recommendation was that an effort should be made toward substituting gross receipts as the base of the

⁹Nguyen-Dong Xuu, "A Feudal Relic: The Patente Tax Code," Weekly Magazine, Chamber of Commerce of Saigon, No. 44, April 18, 1958, pp. 6-7 and 30.

¹⁰Professor Richard Lindholm was associated with the Michigan State University Advisory Group and USOM from 1955 to 1957, during which time his emphasis in research was central government taxation. The above summary of his patente tax proposals was prepared from Analysis of Vietnam's Tax System and Recommendation, United States Operations Mission, Vietnam, 1956, Part IX, pp. 18-23.

patente tax with a uniform rate for all types of businesses. Suggested administrative improvements were: (a) consolidation of assessment and collection in one office; (b) the mailing of assessment notices with instructions for payment by mail; (c) the use of IBM equipment for summarizing patente tax records and mailing assessment notices; and (d) the centralization of all patente tax records for Viet-Nam in one office.

(2) Professor Cole's Proposals¹¹: Professor Cole recommended a business receipts tax to replace the patente and various other provincial and local taxes on specific types of businesses. This business receipts tax would actually have three bases and three rates depending on the adequacy of accounting records of the various businesses. Businesses which maintain reliable accounting records would be taxed on the basis of value-added, while all other businesses would be subject to taxation on the basis of gross receipts. Gross receipts, in turn would be determined either from actual business records or would be estimated if no records existed. It is Professor

¹¹ Professor David Cole was a consultant with the Michigan State University Group from 1955 to 1957, during which time he undertook extensive research on provincial and village taxation. His recommendations have been summarized from a Ph. D. Dissertation submitted to the University of Michigan.

Cole's hope that eventually all businesses would be taxed on the basis of value-added when accounting techniques would be improved in the business sector.

The type of value-added tax recommended would permit a deduction for both current and capital purchases during the reporting period. Any excess of expenditures over gross receipts could be carried forward for deduction in succeeding periods.

The recommended rates of the three taxes are 6 per cent on value-added, 4 per cent on estimated gross receipts, and 3 per cent on actual gross receipts. Income from the business receipts tax would be divided equally between the national government and the province or prefecture in which the main office of the taxpaying business is located.

Professor Cole's recommendation for a business receipts tax based on value-added is part of his over-all program to impose a basic 6 per cent tax on most of the net national product originating outside of the governmental sector. There is already in Viet-Nam a 6 per cent production tax, borne mostly by manufacturing. Professor Cole would extend this tax burden in the form of a value-added tax to agricultural production, property income, and commercial business.

Part III - RECOMMENDATIONS

1. Prologue

Nominally and legally in Viet-Nam, the patente is defined as a license levied for the privilege of being allowed to engage in a business, trade, or profession. Also, taxpayers have a tendency to construe the payment of the patente as a prerequisite for operating a business. Despite these characteristics of the patente, however, the levy is more in the nature of a tax than a license. In the lexicon of taxation, a license is used for regulatory purposes (hunting, fishing, automobile licenses, etc.) and there is usually a relationship between the payment for a license and a particular service rendered by the government for the grantee of the license. Neither of these characteristics of a license are apparent in the case of the patente. Instead, the patente has the basic characteristics of a general tax on business because the levy has broad application, regulation is not involved in the assessment or collection of the levy, and revenues are used for general fund purposes. Thus, the patente should be evaluated as a business tax rather than as a license.

The patente has two components, a basic tax and a rental value tax, and research in this report has demonstrated that

both of these elements have serious shortcomings as rational and equitable bases for a business tax. Apart from certain exceptions like government suppliers and particular businesses listed in Table C of the Fiscal Code, the basic tax is levied partly on the basis of external indications of capacity to pay, such as location and outward appearance of profitability. As a result, basic tax assessments have scant relationship to any rational criteria of ability to pay such as gross or net income. On the other hand, rental value as a base for the tax deserves no better rating, for this base is corrupted by the existence of key rents.

The conclusion is warranted, therefore, that the tax is uneven in application and is too crude an instrument of taxation for a modern and progressive tax system. But inadequate as the patente tax is, the present does not appear to be the propitious time for its elimination. The General Directorate of Taxation would appear to have higher priorities for tax reform in rationalizing the system of income and land taxation, instituting such administrative reforms as withholding and current payment of the income tax, the development of a collection division for direct taxes, and removing some of the more serious faults in the fields of indirect taxes and excises. All of these reforms will take time and much effort.

Perhaps it will be several years before it will be possible to replace the patente with a better business tax.

In the meantime, the need to retain the patente for the short run may be justified on the grounds that even a bad tax has some compensations. One consideration is that Viet-Nam has such a severe need for tax revenues that any productive tax has some value. Moreover, the patente has an unusually good compliance score, it is a familiar if not popular tax, and it is probably the only way to exact a benefit-received payment from small businessmen who presently maintain inadequate records for the assessment of a more rational tax.

Because the patente should be eliminated as soon as it is practicable, no basic and comprehensive reforms are recommended in this report. On the other hand, because it is desirable to retain the tax in the short run, which may be several years, it appears worthwhile to remove some of the more serious statutory and administrative shortcomings. The recommendations listed below represent temporary improvements for the dual purposes of making the patente more productive of revenue and removing some of the more glaring inequalities in assessment.

2. Specific Recommendations

- (1) In principle, neither subsidy to private ownership by the government, nor public ownership in whole or in part, should

constitute an entitlement to patente tax exemption. Implementation of this recommendation would mean a full taxable status for subsidized hotels, government-owned bus companies, and manufacturing firms partly or wholly owned by the Government.

(2) The base of the patente tax should be broadened by removing the present exemptions to the following groups:

(a) private schools operated for profit; (b) owners of mines; (c) landlords of unfurnished rooms, apartments, and houses; (d) corporations or individuals undertaking the development of low-cost housing projects; (e) private clubs operating restaurants and bars; (f) owners of horse-drawn carts and taxis; and (g) publishers of newspapers and magazines.

(3) The patente tax code should be revised by the insertion of the following amendment: "Notwithstanding any maxima basic tax ceilings designated in the patente tax code for particular industries, a maximum basic tax assessment may be levied up to 200,000\$VN on any business undertaking considered to be unusually large by the General Directorate of Taxation. These large businesses include, but are not limited to, the following:

(a) manufacturing and industrial enterprises; (b) transportation facilities and travel agencies; (c) financial and

insurance companies; (d) automobile dealers; (e) exporters and importers; and (f) printing firms."

(4) The present system of taxing importers on the basis of working capital should be abandoned and should be replaced by a tax of one per cent levied on the amount of foreign exchange allocated. This recommended rate of one per cent for importers is higher than the present rate of .7 per cent applicable to government suppliers because the tax on importers would be based on cost of goods rather than on gross income. No distinction in the tax rate should be made between individual proprietors and corporations. Also, the patente tax on importers should be withheld by the Government at the time when foreign exchange is allocated. No general increase in the patente tax is recommended for exporters on the grounds that this industry should be encouraged by a relatively light tax burden.

(5) The exemption of 5,000\$VN for government suppliers should be eliminated and the patente tax for these firms should be withheld by the Government at the time that suppliers are paid.

(6) Importers of motion picture films should be taxed at the rate of .7 per cent of their foreign exchange remittances in lieu of both their existing basic and rental value patente taxes.

- (7) Current collection on an installment basis should be instituted, with quarterly payments of the patente tax due in January, April, July, and October. Payments for January and April may be based on one-quarter of the previous year's total assessment with adjustments for refunds or additional payments being made in July and October.
- (8) All collections should be made by the General Directorate of Taxation instead of by the General Treasury.
- (9) The patente tax review committees should review the protests of taxpayers after the tax rolls have been completed and made available to the public rather than have the committees become involved in the detail of making assessments.
- (10) Administration of the patente tax would be improved by cooperation between the patente tax bureau and the property and income tax bureaus.
- (11) In the IBM processing of the patente tax roll, assessments should be classified by categories of business.
- (12) The General Directorate of Taxation should make an effort to obtain all information for enforcement purposes from the Prefecture of Saigon-Cholon and various central government departments which is provided for in Article 48 of the Fiscal Code.

Appendix A
Basic Tax Rates for a Representative
Group of Businesses from Table B
of the Fiscal Code (1)

<u>Business Activity</u>	<u>Basic Tax Rates</u>
Architect	300 - 6,000\$VN
Lawyer	600 - 10,000\$VN
Physician	800 - 10,000\$VN
Veterinary doctor	180 - 2,500\$VN
Piano tuner	50 - 300\$VN
Carpenter	60 - 2,000\$VN
Insurance agent or broker	80 - 5,000\$VN
Travel agency	160 - 2,000\$VN
Air travel agency	1,600 - 30,000\$VN
Advertising agency	80 - 5,000\$VN
Barber shop for men	40 - 2,000\$VN
Barber shop for men and women or for women only	80 - 2,000\$VN
Beauty parlor	50 - 1,000\$VN
Jeweler	500 - 20,000\$VN
Butcher	80 - 4,000\$VN
Baker	160 - 2,500\$VN
Grocer	40 - 10,000\$VN
Clothing store	300 - 3,000\$VN
Tavern keeper or bar	160 - 3,000\$VN
Restaurant	160 - 16,000\$VN
Commercial bank	3,000 - 100,000\$VN
Large hotel	1,400 - 25,000\$VN
Automobile agency	600 - 25,000\$VN
Theater	300 - 10,000\$VN
Manufacturer of matches	1,000 - 45,000\$VN
Manufacturer of bottles	100 - 2,000\$VN
Manufacturer of shoes	200 - 3,000\$VN
Manufacturer of bricks and tiles	200 - 10,000\$VN

(1) Table B of the Fiscal Code lists 743 different types of business activities, each of which has a unique basic tax rate. The sample in the above Table has been selected in order to offer a few comparisons between similar types of business activities.

Appendix B
Basic Tax Rates for a Representative
Group of Businesses from Table C
of the Fiscal Code⁽¹⁾

<u>Business Activity</u>	<u>Basic Tax Rate</u>
Manufacturer of alcohol	3\$VN per hectolitre of pure alcohol manufactured during the previous year.
Alcohol wholesaler or retailer	5\$VN per hectolitre of alcohol sold during the previous year
Taxis and buses	10\$VN per horsepower
Motor-cyclos	30\$VN each
Lessor or owner of pedicabs	20\$VN each
Contractor of public works	Basic tax of 500\$VN with additional tax of .7\$VN per 100\$VN after deduction of an exemption of 5,000\$VN 2.25\$VN per 100\$VN of public services
Contractor of public services	10\$VN per ton
Manufacturer of salt	10\$VN for hectolitre of capacity
Soap factory	30\$VN for each horsepower of equipment
Sugar factory	
Mechanical weaving	100\$VN per loom
Handweaving	30\$VN per loom
Horse-drawn carriages	15\$VN for each one-horse carriage and 20\$VN for each two-horse carriage
Forest products	.6\$VN per 100\$VN of the value of the product
Owner and tapper of trees	3\$VN per 100\$VN of the value of tapped products

(1) Table C of the Fiscal Code lists 25 different types of business activities which are taxed without minima and maxima basic tax ranges. The sample in the above Table has been selected in order to present the more important business activities.

Appendix C
Schedule of Basic Taxes and Rates for the
Rental Value Tax from Table A of the
Fiscal Code

Category	Class	Basic Tax (\$VN)	Rates for the Rental Value Tax (Per Cent)
First	1	100,000	
	2	75,000	
	3	60,000	
	4	50,000	
	5	45,000	10 per cent
	6	40,000	
	7	35,000	
	8	30,000	
	99	25,000	
Second	1	20,000	
	2	18,000	
	3	16,000	
	4	14,000	
	5	12,000	8 per cent
	6	11,000	
	7	10,000	
	8	9,000	
	9	8,000	
Third	1	7,000	
	2	6,000	
	3	5,000	
	4	4,500	
	5	4,000	6 per cent
	6	3,500	
	7	3,000	
	8	2,500	
	9	2,000	

Appendix C (Continued)

Category	Class	Basic Tax (\$VN)	Rate for the Rental Value Tax (Per Cent)
Fourth	1	1,800	
	2	1,600	
	3	1,400	
	4	1,200	
	5	1,000	5 per cent
	6	900	
	7	800	
	8	700	
	9	600	
Fifth	1	500	
	2	450	
	3	400	
	4	350	
	5	300	4 per cent
	6	250	
	7	220	
	8	200	
	9	180	
Sixth	1	160	
	2	140	
	3	120	
	4	100	
	5	80	3 per cent
	6	60	
	7	50	
	8	40	
	9	30	

Appendix D

Actual Percentage Increases of Central Government Patente
Tax Levied by Provinces and Villages in 1958

<u>Provinces</u>	<u>Provincial Percentages</u>	<u>Village Percentages</u>
<u>South Viet-Nam</u>		
An-Giang	100	-
An Xuyen	100	-
Bien-Hoa	100	-
Binh Duong	100	100
Binh Tuy	100	50
Binh Long	100	-
Ba Xuyen	100	100
Gia-Dinh	100	100
Dinh-Tuong	100	100
Kien-Giang	100	-
Kien-Hoa	100	100
Kien-Phong	100	-
Kien-Tuong	100	50
Long-An	100	100
Long-Khanh	100	100
Phong-Dinh	100	100
Phuoc-Long	100	100
Phuoc-Tuy	100	100
Tay-Ninh	100	-
Vinh-Binh	100	100
Vinh-Long	100	-
<u>Center Viet-Nam</u>		
Binh-Dinh	100	-
Binh-Thuan	100	50
Khanh-Hoa	50	-
Phu-Yen	100	50
Quang-Nam	40	-
Quang-Ngai	100	-
Quang-Tri	50	40
Ninh-Thuan	100	-
Thua-Thien	75	-
<u>Highlands</u>		
Dalat	200	-
Darlac	100	20
Di Linh	100	50
Pleiku	100	50
Kontum	100	50
Prefecture of Saigon-Cholon	200	-
Municipality of Danang	100	-

Source: General Directorate of Taxation