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THE TAXATION OF INCOME
IN VIET NAM

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INTRODUCTION

This report on the taxation of income in Viet Nam represents the first of several, each of which will be devoted to a single central government tax. Each individual study will cover problems of tax policy and administration, and will conclude with a series of recommendations. Then it is planned at some later time to synthesize the several reports into one single document which will represent an analysis of the central government tax system with recommendations for reform.

The study on income taxation is released at this time without much pride of authorship. It is, quite frankly, a rough draft, which will require considerable subsequent revision before it is relatively complete and reasonably reliable. In fact, the principal reason for distributing the research at this stage is to receive as many critical comments as possible so that the document can be improved.

It is apropos to comment briefly on why income taxation was singled out as the subject of the first report. The reason is that for a specialist in taxation from the Western World, there is only one really good tax -- the personal or individual income tax. One can even go so far as to say that the degree to which a country utilizes the personal income tax represents the degree of its enlightenment with respect to taxation.

Why is this so? Briefly, it is because the personal income tax, more than any other levy, is identified with equity, or the distribution of the tax load among income groups in such a way as to take into consideration individual ability to pay, while most other taxes actually result in low-income groups paying a higher percentage of their income in taxes than upper income groups. As a result, the personal income tax is identified with governments which are sincerely motivated with concern for the good of individuals.

Most countries of the world utilize the taxation of income, but there is a considerable variation in the degree of its use among nations. Generally speaking, those countries with relatively high per capita incomes -- like Germany, France, Great Britain, Canada, and the United States -- depend on income taxes for a large part or for most of their governmental revenues, while the so-called underdeveloped countries often raise only a small proportion of their governmental revenues from income taxes. Viet Nam falls into the latter category, with approximately 10 per cent of central governmental revenues being raised from income taxation.

Tax progress in Viet Nam, therefore, is to some considerable degree identified with the development of the income tax. In fact, not much with respect to basic tax reform in Viet Nam can be accomplished if the level of social responsibility and the capacity of tax administration cannot tolerate a further development of income taxation.

PART I - DESCRIPTION

1. History of Income Taxation

Historically, the income tax in Viet Nam evolved as a result of the gradual addition of fragmented parts. The earliest tax which vaguely resembled an income levy was a capitation or poll tax, which was levied only on [illegible] individuals who paid more than 500 piasters in the form of either a land tax or patente (business license tax). The first direct tax on income, dating back to 1908 and codified in 1929, was a gross tax on dividends and interest paid by corporations. This tax is still in effect, but it is not considered by legal construction or by ordinary understanding to be an income tax, because it is collected at the source without reference to the other income which may be received by dividend and interest recipients. The rates of the tax on dividends and interest paid by corporations depends on certain characteristics of the corporations making the payments.

By 1938, the capitation or poll tax evolved into two separate income taxes, one applying a flat-rate tax on salaries, pensions and other similar fixed types of payments to individuals, and the second (called the general income tax) applying progressive rates tn all income, including salaries. Finally in 1941, a special tax on agricultural, commercial, and industrial profits was added, applying to both unincorporated and incorporated businesses.

Accordingly, whatever shortcomings Viet Nam may have in income taxation, one defect is not a lack of variety. There are, at present, five separate and distinct taxes, which together comprise the system of taxing income: (1) a tax of 1 to 5 per cent on wages and salaries; (2) a tax on profits earned by individuals and the self-employed at the rate of 16 per cent; (3) a tax on corporate profits at the rate of 24 per cent; (4) a tax on dividends and interest paid by corporations at rates varying between 18 and 30 per cent; and (5) a general income tax on all income received by individuals at rates from 1 to 50 per cent.

Another way of looking at these five income taxes is to say that they form two levels of taxation. First, there are four schedular taxes applied to four distinct categories of income -- on salaries, profits of individuals, profits of corporations, and on dividends and interest paid by corporations. Among these four schedular taxes, only the one on salaries is levied at a progressive rate. Each of the separately taxed categories of income are then taxed once more when received by individuals under a personal or general income tax, levied at progressive rates and with respect to total income from all sources.

Initially, the concept of income under the general or personal income tax was income arising from property, trade, the professions, and from lucrative operations in which the taxpayer is engaged "habitually." Because of this latter qualification, capital gains and lottery winnings were not taxed. In 1943, the restriction "habitually" was dropped, but in order that this amendment would not make lottery winnings taxable, the government made immediate provision for the exemption of lottery winnings from the tax. Capital gains also continue to receive special treatment in that they are subject to the tax on profits but not to the general income tax, and the law only taxes gains realized from the sale of tangible assets. Even the tax on the gain from tangible assets is exempt if the realized selling price is reinvested within three years.

There are two dates of significant importance in the evolution of the administrative responsibilities of the income tax. When the several income taxes were introduced, there were three regional governments -- in the North, Central, and South -- and each region had several provinces. Although the income tax was introduced in all three regions, the rates and bases of the tax varied from region to region. Also, although the income taxes were levied and assessed by the three regional governments, the revenue from the taxes was received by the central government. These variations in rates and bases were removed in 1953 when a new fiscal code was adopted, making the taxation of income uniform throughout Viet Nam. The second administrative milestone was in 1955, when a decree created the General Directorate of Taxation and gave this Directorate the responsibility for administering the income taxes for all of Viet Nam.

2. The Tax on Salaries and Wages

In addition to wages and salaries, the base of this tax includes indemnities, emoluments, pensions, and annuities, and embraces all compensations for service whether in income or kind. The tax rates applied to salaries and wages are progressive in the range of 1 to 5 per cent, but there are only three brackets: 1 per cent on income up to 50,000$VN; 2 per cent on income from 50,000$VN to 100,000$VN; and 5 per cent on income over 100,000$VN. Taxable income of less than 1,000$VN is exempt. The abatements (personal exemptions) are 30,000$VN for single persons and heads of households; 15,000$VN additional for married persons; 5,000$VN for each child under 20 supported by the taxpayer; and 3,000$VN for each parent or grandparent over the age of 60 supported by the taxpayer, or under 60 if ill and incapable of self-support. The tax on salaries and wages is only applied when there is a bona fide employer-employee relationship; it is not paid by the self-employed.

All foreigners with residence in Viet Nam are taxable under the salary income tax, but a relatively large source of revenue to the Vietnamese Government is lost because diplomatic immunity to taxation is extended to all foreign employees of United States Government agencies. In principle, exempting this large group of Americans is undesirable; it would be preferable for American personnel to be taxed, but to have their salaries adjusted upward as a compensation. If this were done, the amount of direct United States aid extended to the Vietnamese Government could be reduced by the amount of revenue which the Vietnamese Government obtains from the taxation of United States citizens resident in Viet Nam.

The salary tax is to a large extent a tax on civil servants. The Chief of the Salary Tax Bureau estimates that out of the total number of declarations, which approximates 15,000, about 7,500 returns are from civil servants. Another 5,000 returns are received from army personnel. There remains only 2,500 salary tax returns for the total private sector of all Viet Nam. About 11,000 out of the 15,000 salary returns are attributable to the Saigon area.

The only area in which there is withholding of the salary tax is from the salary of army personnel. This procedure was initiated in 1957. With the present level of salary and abatements, withholding for army personnel presently does not take effect below the rank of list lieutenant. Provision is made in the Fiscal Code for the extension of withholding to other areas by the Minister of Finance.

The salary tax and general income tax are combined for ease in administration. If a taxpayer has salary income, he completes both a salary tax and a general income tax declaration, but both declarations are forwarded to the Salary Tax Bureau. The computation of the taxable income from the gross income for both taxes is the same with the exception of the deduction for taxes paid in the income year. For this deduction, only the salary tax paid is allowed as a deduction before arriving at the taxable income of the salary tax, while both the salary tax and the general income tax paid is allowed as a deduction before arriving at the taxable income of the general income tax.

If a person has income from both salary and profits, he must complete three tax declarations: for the salary tax, for the profits tax, and for the general income tax. All deductions are the same in determining the taxable income for each tax with the exception of the deduction for taxes paid. This deduction is limited to the particular income tax paid. If a person receives both salary and profits, both declarations are administered by the Profits Tax Bureau, but the total tax is reported as a profits tax.

There have only been three amendments to the salary tax since the revised Fiscal Code was adopted in 1953: (1) the law was changed to remove the allowance of double abatements whenever a taxpayer's family lives outside of Viet Nam; (2) an exemption to military personnel was removed; and (3) a special exemption given to army pilots was removed.

In addition to abatements (personal exemptions), there is an extensive list of other allowable personal deductions which may be subtracted from gross income. Special consideration will be given to these deductions in a subsequent section of the report, because they are very instrumental in eroding away the tax base.

3. <u>The Tax on Agricultural, Commercial, and Business Profits</u>

This levy is looked upon in Viet Nam as a single tax on business and professional income, and the legal conditions of its application carry out this unified approach because all provisions of the tax are in Title 1 of the General Code of Income Taxes of April 13, 1953. There are, however, sufficient differences in the application of the tax between corporate and natural persons to warrant classifying the levy into two separate taxes. There are two reasons justifying classification: (1) unincorporated businesses are taxed at a rate of 16 per cent and incorporated businesses at 24 per cent; 1/ and (2) the profits tax on individuals has the same abatements (personal exemptions) as the income tax on salaries and the general income tax, while the profits tax on corporations is a business rather than a personal tax. Partnerships are taxed like corporations.

The base of the profits tax, for both the levy on natural and artificial persons, includes income arising from seven sources: (1) industry and commerce; (2) professional activities; (3) land and buildings; (4) rice and other agricultural products; (5) rubber plantations; (6) mining; and (7) salt and quarries. Income from stocks and bonds is exempt from the profits tax, apparently on the grounds that such income is taxed by the special levy on dividends and interest paid by corporations. Capital gains from the sale of corporate shares are also exempt from the profits tax, and gains from the sale of land and improvements are exempt if reinvested within three years.

1/ These rates were raised in 1957 from 12 and 18 per cent respectively.

Deductions include, in general, all ordinary and necessary expenses attributable to earning the profit. These include administrative expenses of all kinds, as well as rent, labor, depreciation, etc. The law permits the carrying forward of business losses for three years, provided that the losses have not been deducted from the general income tax.

The filing date for the profits tax is before April 1 of each year for the calendar year income of the previous year. Returns may be filed on either a calendar or fiscal year basis, but there is an irregularity if returns are filed on a fiscal year basis. In such cases, the taxpayer can file his return either three months after the close of the fiscal year or he can wait until the normal time for filing calendar year returns. For example, a taxpayer using the fiscal year period of July 1, 1957 to June 30, 1958, can file his return before October 1, 1958 or before April 1, 1959.

The income tax return for the declaration requires only information on income and deductions; all of the tax computation is undertaken by the General Directorate of Taxation. The explanation given at the tax office for this procedure is that Vietnamese businessmen are not familiar enough with tax rates or the tax law generally to calculate their own tax.

4. <u>The General Income Tax</u>

The base of the general income tax is the total income of individuals after subtracting the same deductions allowable for the salary and profits tax. Practically every taxpayer subject to a schedular tax is also subject to the general income tax. Dividends are taxable, even though a withholding tax on dividends has been applied at the corporate level. Salary and profits taxes of the previous year, as well as the general income tax paid in the previous year are deductible from gross income. Other deductions include the receipt of certain pensions, interest on government bonds with a maturity of over three years, payments for pensions, and interest on personal debts. Like the other income taxes, the filing date of the general income tax is before April 1 of each year.

Tax rates for the general income tax are progressive, varying from 1 to 50 per cent. There are 18 income brackets:

Income Bracket	General Income Tax Rate
0 - 10,000$VN	1 per cent
10,000 - 20,000	2
20,000 - 30,000	3
30,000 - 40,000	4
40,000 - 50,000	5
50,000 - 60,000	6
60,000 - 70,000	7
70,000 - 80,000	8
80,000 - 90,000	9
90,000 - 100,000	10
100,000 - 200,000	15
200,000 - 300,000	20
300,000 - 400,000	25
400,000 - 500,000	30
500,000 - 600,000	35
600,000 - 700,000	40
700,000 - 800,000	45
Over 800,000	50

An interesting feature of the general income tax is the attempt to favor families and dependents through both abatements and the payment of a higher rate. Before 1953, when the Fiscal Code was revised, the tax liability was increased by 20 per cent for single persons or childless married persons above 30 years of age. Since 1953, this "penalty" of 20 per cent is restricted to single persons and divorced taxpayers without children.

There is no provision for income splitting. Instead, the general income tax is assessed on the income of the entire household including the personal income of the head of the household, and that of his wife and of other members of the family living with the taxpayer.

5. The Tax on Dividends and Interest Paid by Corporations

The convention among both Vietnamese tax administrators and previous United States tax advisors is to consider the tax on distributed corporate dividends and on interest paid by corporations as something apart from the taxation of income. Lindholm, for example, begins the subject of income taxation with the statement "Like ancient Gaul, the income tax of Viet Nam is divided into three parts."2/ Then he proceeds to discuss these three parts: the salary tax, the profits tax on individuals and corporations, and the general income tax.

2/ Richard W. Lindholm, Analysis of Vietnam's Tax System and Recommendations. Published by United States Operations Mission, Vietnam, 1956, Part V., p. 1.

Although the tax on dividends and interest paid by corporations is called a "registration" tax, and although it is administered separately from the other income taxes, it is really part of the over-all system of income taxation. This is apparent by considering the total tax burden on the net income realized by a corporation. Corporations first bear a corporate profits tax levied on all of their profits of 24 per cent. Then there is a tax on dividends and interest paid by corporations of 18 to 30 per cent, the rate depending on certain characteristics of the corporation. Finally, corporate dividends and interest payments received by individuals are taxed under the general income tax. Conceptually, all of these taxes are part of the total income tax burden on corporate investors.

According to the law, the tax is an obligation of the shareholder rather than that of the corporation, but in practice the administrators of the tax have no contact with the shareholder. The tax may be looked upon as a withholding levy in the sense that dividends and interest are exempt from the profits tax. Some of this rationale is lost, however, in view of the fact that the tax on dividends and interest varies between 18 and 30 per cent, while the profits tax on individuals is only 16 per cent.

For application of the dividends and interest tax, corporations are first divided into foreign and Vietnamese. This distinction is based on whether or not the headquarters of the corporation is located in Viet Nam. Corporations with headquarters outside of Viet Nam (foreign corporations) are taxed at the rate of 30 per cent on all dividends and interest payments allocated to Viet Nam. The allocation is made on the basis of the total "turnover" resulting from operations in Viet Nam and the total "turnover" of the corporation. In other words, the application of the tax follows the formula:

$$30\% \times \text{total distribution} \times \frac{\text{"turnover" resulting from operations in Viet Nam}}{\text{total "turnover" of the corporation}}$$

The determination of what constitutes "turnover" depends on the nature of the business. Examples are: amount of premiums for insurance companies; amount of loans for mortgage companies; amount of assets for real estate companies; physical amount of product for plantations; amount of sales for commercial businesses; and the amount of receipts for banks. The tax no doubt has many unneutralities among various businesses with such diverse bases being used for application of the tax rate.

Vietnamese corporations (those with headquarters in Viet Nam) are divided into two types:

(1) Société à responsabilité limitée (S.A.R.L.): These are limited liability corporations, but the shares of the company can be sold to non-owners only with approval of all shareholders. Generally, this type of corporation is formed by members of a family or by close relatives; it compares to what is known as a family-type corporation in the United States

or is like a partnership, but with limited liability. The rate of tax on dividends paid by S.A.R.L. corporations is 18 per cent. Real estate companies are treated uniquely because the law defines all of these as S.A.R.L. companies.

(2) Société anonyme (S.A.): These are also limited liability corporations, but the shares may be sold to anyone without the approval of other shareholders. The rate of tax on dividends paid by these corporations is 24 per cent.

Interest payments and fees are taxed somewhat differently than dividends. Interest is taxed at a rate of 18 per cent for both S.A.R.L. and S.A. companies, but interest paid by foreign corporations is taxed at 30 per cent. Fees receive a total exemption of 50,000$VN for each company, with no more than 25,000$VN allowable per director. This exemption is permitted on the grounds that fees are in part a remuneration for services. The exemption for fees applies only to S.A.R.L. companies, however, and fees not covered by the exemption are taxed at the rate of 30 per cent.

The greater number of corporations operating in Viet Nam are of the S.A.R.L. type, but most of the large Vietnamese and foreign corporations are S.A. In 1959, there were approximately 588 S.A.R.L. corporations, practically all of which were owned by Vietnamese, while there were 182 S.A. corporations with headquarters in Viet Nam and 205 S.A. corporations with foreign headquarters.

Banking corporations afford a particular illustration of the application of the varying tax rates. There are 12 banking corporations operating in Viet Nam, all of which are S.A. Three of the banks are headquartered in Viet Nam, and so pay a tax of 24 per cent on dividends and 18 per cent on interest payments, while 9 banks have headquarters in foreign countries and thus pay a tax of 30 per cent on both dividends and interest paid after appropriate allocation.

The administration of the tax on dividends and interest bears little similarity to the enforcement of the other taxes on income. First, assessment and collection of the tax is undertaken by the same agency, and, in fact, constitute the same operation in the sense that what is assessed is also collected. Secondly, there is prepayment of the tax. Each year, a company must pay four-fifths of the tax which was paid during the previous year. These taxes are paid in quarterly installments, and the payments constitute prepayment because they are actually made before the dividends are declared. Thirdly, the taxes are paid voluntarily, although it is the obligation of the Directorate to determine that all taxpayers are forwarding tax payments. The fact that corporations in Viet Nam need no legal authorization in order to incorporate (with the exception of insurance companies) makes it necessary to add to the roll of new taxpayers by reading newspapers, obtaining information from other tax departments, etc. Finally, the tax is computed on the gross amount of dividends and interest paid without permitting any deductions.

Companies owned by the French have gone through three stages of tax treatment within recent years: (1) Before 1955, French companies headquartered in France and with operations in Viet Nam could pay their taxes in France, and the French Government in turn reimbursed the French Government in Viet Nam. (2) In 1955, French companies were required to pay their taxes in Viet Nam, but were given the benefit of the lower rate on companies headquartered in Viet Nam even though their headquarters were in France. (3) Since January 7, 1959, French companies have been considered as foreign companies if headquartered in France, and thus are subject to the higher tax rate applicable to foreign companies.

The tax on dividends and interest is applied under the provisions of a code adopted in November, 1929, entitled "Code des Valeurs Mobiliers." This code has not been revised since its adoption.

PART II - ANALYSIS

1. Assessments and Collections

Assessments

There is a sharp difference in the administrative procedure of assessing and collecting four of the income taxes in Viet Nam as compared to the fifth one. The unique one is the tax on dividends and interest paid by corporations. This tax requires voluntary assessment and current payment of the tax on the part of corporations, and the tax collections are made by the General Directorate of Taxation instead of by the General Treasury. As a result, assessment and collection totals are identical. The other four income taxes--on salaries, individual profits, corporate profits, and the general income tax--follow three steps in administration: (1) the taxpayer has the obligation to forward a tax return, which should contain all of the relevant information needed for the assessment of the tax; (2) it is the responsibility of the General Directorate of Taxation to calculate and assess the tax based on the information given by the taxpayer, or to verify the information if need be; and (3) the General Treasury has the responsibility of collecting all tax assessments made by the General Directorate of Taxation. Because of this hybrid method of administering the five taxes, the ensuing Table 1 showing total assessments for the five taxes on income only indicates the actual collections for the tax on dividends and interest paid by corporations.

Because the General Directorate of Taxation is only responsible for assessing and not collecting four of the five income taxes, tax assessment rather than collection data constitute the principal quantitative measuring rod of performance of the General Directorate. Despite this, there is no regularized, complete, and accurate system of recording assessments. Table 1, in fact, represents the first time that the total of all income tax assessment data has been assembled in a single schematic presentation. To be reasonably certain of the accuracy of the assessments in this Table, and to obtain the type of breakdown desirable for tax policy purposes, it was necessary in some instances to develop original series of assessments from primary data. Possible reasons for this inadequacy of statistics are the complexity of the taxes themselves, imperfections in the methods used to report assessments, and probably most important, a lack of appreciation for the usefulness of accurate statistics for tax policy and administrative purposes.

Table 1 requires several preliminary explanatory remarks:

(1) Statistics for the taxes on salaries, profits of individuals and corporations, and the general income tax are for the Vietnamese financial year, which is a period of 17 months following the income year. For example, income earned during calendar year 1957 is assessed during the financial year of January 1, 1958 to May 31, 1959. This latter period of 17 months is referred to as financial year

1958. The only exception to this rule is for the tax on dividends and interests. For this tax, the assessment is made during the same 12-month period during which the dividends and interest are paid.

(2) Statistics are not available for the period before financial year 1954 because of the partition of the country in that year, while statistics for financial year 1958 are incomplete because this period will not be closed until May 31, 1959.

(3) Assessments for the salary and profits tax on individuals are intermixed to a minor degree. The reason for this is that if a taxpayer only has a salary income, the tax assessment on this income is reported as a salary tax, but if a taxpayer has both salary and profit income, both tax assessments are reported as a profit tax assessment. This means that the statistics in Table 1 understate the amount of salary tax assessment and overstate by an equal amount the total of profit tax assessment. These errors are not thought to be of much importance, however, because taxpayers with both types of income are considered to represent a relatively small percentage of all taxpayers.

(4) Table 1 shows no breakdown for the profits tax between assessments on individuals and that on corporations, although the tax is really two distinct levies. This breakdown is only available for Saigon, and it would be a very laborious and time-consuming effort to obtain all provincial

records in order to obtain the breakdown between the two taxes for all of Viet Nam.

(5) As mentioned previously, income is usually reported by the taxpayer on a calendar year basis, say from January 1, 1957 to December 31, 1957. The assessment period for this income (the time during which the tax is assessed on the reported income) is 17 months--or for income year 1957, the financial or assessment year is from January 1, 1958 to May 31, 1959. If, however, a tax is assessed during this assessment period on income earned before calendar year 1957, there is no record maintained of whether this tax is attributable to the salary, profits, or general income tax. These assessments are reported in Table 1 as "Unclassified."

It is quite apparent from the foregoing explanations that no finitely accurate conclusions are possible from the statistics in Table 1, because there are serious shortcomings in both the quality and quantity of data available. However, it is still possible to derive at least three important policy conclusions that are substantially reliable:

(1) <u>The system of taxing income in Viet Nam is particularly burdensome on non-wage income</u>. This is apparent by assigning percentages to the total of all assessments for financial years 1954 to 1958 inclusive. The results obtained are:

TABLE 1

Amount of Income Tax Assessments and
Number of Corporations and Individuals Assessed

Type of Tax	1954	1955	1956	1957	1958	Totals
I Salary ($VN)	10,952,486	18,196,975	19,130,439	20,901,527	20,119,855[1]	89,301,282
Number	4,514	5,386	10,826	13,728	(2)	34,454
II Profits of Individuals and Corporations ($VN)	378,903,561	642,605,685	494,587,408	398,460,212	410,348,544[1]	2,324,905,410
Number	5,[illegible],687	5,211	11,437	11,609	(2)	33,404
III General Income ($VN)	109,670,683	124,018,933	132,599,345	123,778,023	103,904,765[1]	593,971,749
Number	9,548	9,261	20,558	22,232	(2)	61,599
IV Unclassified ($VN)	3,291,776	24,962,853	94,516,774	98,512,094	117,540,603[1]	338,824,100
Number	(2)	(2)	(2)	(2)	(2)	(2)
V Dividends and Interest ($VN)	342,736,012	198,317,564	247,754,135	122,020,119	138,257,742	1,049,085,572
Number	(2)	(2)	(2)	(2)	(2)	(2)
Totals ($VN)	845,554,518	1,008,102,010	988,588,101	763,671,975	790,171,509[1]	4,396,088,113

Sources: General Directorate of Taxation and Ministry of Finance.

1. Incomplete -- 12 out of 17 months.
2. Not available.

Type of Tax	Total Assessment (Per cent)
Profits of individuals and corporations	52.9
Dividends and interest	23.9
General income tax	13.5
Unclassified	7.7
Salaries and wages	2.0
Total	100.0

These data may be refined further by making adjustments for the fact that wages and salaries are also taxed under the general income tax, and also to compensate for a proportion of the salary tax which is included in the category "unclassified." It is estimated that two-thirds of the general income tax is attributable to wages and salaries, and one-tenth of the unclassified category is assignable to the salary tax. Making adjustments for these two circumstances results in the estimate that approximately 12 per cent of all income tax assessments are borne by wages and salaries and the remaining 88 per cent by the sum of dividends, interest, rent, and profits.

(2) The system of taxing income in Viet Nam is particularly burdensome on the corporate form of business. Although there is no accurate breakdown available to show what proportion of the tax on profits is attributable to individuals as compared to corporations for all of Viet Nam, statistics for Saigon (where a separation is made) make possible the reasonably accurate estimate that 90 per cent of all profits tax assessments are borne by corporations. Combining this

estimate with the known percentage of total assessments attributable to the tax on dividends and interest paid by corporations, and making adjustments for assessments on corporate earnings which are included in the general income tax and the "Unclassified" category, results in the estimate that about 77 per cent of all income tax assessments are borne by corporate earnings. Since it has been determined previously that about 12 per cent of all assessments are attributable to salaries and wages, there remains a residual of some 11 per cent of all assessments which is borne by the sum of profits, rent, and interest earned by individuals.

Another important aspect of corporate taxation is that a relatively large proportion of total corporate tax assessments is borne by a few companies. Table 2 lists the 24 highest corporate income tax assessments processed by the Saigon Corporate Tax Bureau in financial year 1958. These 24 firms represent only 7 per cent of all taxable corporations reporting to the Saigon office, but they account for 65 per cent of total corporate assessments. The concentration is so great that the four firms in Table 2 with the highest assessments account for 34 per cent of total corporate assessments. Such dominance of the income tax by a few large (and principally foreign) corporations is an undesirable development, because it reflects a tendency to obtain tax revenues where they are easiest to assess and it results in instability of assessments.

Table 2

List of 24 Highest Corporate Income Tax Assesments in

Financial Year 1958 with Comparative Assessments for 1955.

	Name of Corporation	Corporate Income Tax Assessments. 1958	1955
		$VN	$VN
1.	Brassèries et Glacières de l'Indochine	56,382,480	63,092,400
2.	Sté des Plantations de Terres Rouges	30,742,560	12,381,100
3.	Cie des Eaux et d'Elect. Indochine	25,205,760	20,246,880
4.	Sté Indochinoise des Plantations d'Hévéas	21,606,240	14,281,440
5.	Sté Michelin de Production de Caoutchouc	15,240,000	(1)
6.	Banque Viet-Nam Thuong-Tin	13,052,400	(2)
7.	Banque Française de l'Asie	11,536,080	(3)
8.	Sté Frse des Distilleries de l'Indochine	10,525,240	7,964,400
9.	Sté Indochinoise des Tabacs J. Bastos	9,582,500	11,372,400
10.	Sté des Caoutchouc d'E. O.	8,857,920	7,958,800
11.	Banque Franco-Chinoise	7,236,480	9,677,760
12.	Sté Immobilière Hui Bon Hoa	6,312,320	4,068,960
13.	Crédit Foncier et Immobilier	5,944,560	3,804,204
14.	Cie Générale des Ets. Michelin	5,110,320	17,878,320
15.	Sté des Eaux Gazeuses d'Indochine	4,662,720	6,992,400
16.	Banque Nationale pr. le Commerce et de L'Ind.	3,935,760	6,450,000
17.	Sté Caoutchoucs du Donai	3,892,320	2,024,160
18.	Sté Caltex	3,691,680	2,959,920
19.	Chartered Bank of India	3,485,040	2,137,920
20.	Mitac	3,320,880	9,593,520
21.	Standard Vacuum Oil Company	3,062,640	19,065,600
22.	Bank of China	3,244,320	2,648,160
23.	Sté des Hévéas de Tây-Ninh	2,121,840	1,571,280
24.	Viet-Nam Ngân-Hàng	2,014,560	681,360
	Totals	258,752,060	226,850,984

Footnotes

(1) Not in operation in 1955; started in 1957
(2) Started operations in 1955.
(3) Operated under different name in 1955.

(3) Total income tax assessments in recent years have not kept pace with the trend of total tax revenues or with the level of general economic activity. Table 3 indicates an increase in income tax assessments from 1954 to 1955 of 845 million $VN to 1,008 million $VN. Then total assessments fell to 989 million $VN in 1956, and to 764 million $VN in 1957. Financial year 1958 represents a recovery, with 790 million $VN for 12 months, with this total likely to rise to about 840 million $VN by the end of the financial year. But even with this recovery, total income tax assessments in financial year 1958 will be lower than in either 1955 or 1956.

TABLE 3

Income Tax Assessments, Total Tax Revenues and Net Domestic Product

Financial Year	Total Income Tax Assesments (Millions of $VN)	Total Tax Revenues (Millions of $VN)	Percentage of Income Tax Assessments to Total Tax Revenues	Net Domestic Product (Millions of $VN)
1954	845	5,486	15.4	Not available
1955	1,008	5,252	19.0	Not available
1956	989	6,308	15.7	64,264
1957	764	8,138	9.4	69,419
1958	790[1]	7,334	10.8	69,200[2]

Source: General Directorate of Taxation for income tax assessments; total tax revenues from the Ministry of Finance, and net domestic product data from the National Bank of Viet Nam.

[1] Incomplete--12 out of 17 months.
[2] Estimated.

This decrease in income tax assessments is the opposite to what is to be expected in an expanding economy. It is a characteristic feature of the income tax for it to be elastic with respect to changes in the national income; in other words, a given increase in the national income will result in a more than proportionate increase in income tax receipts, other things being equal. Therefore, if the administration of the income tax is considered to be a constant, the decrease in income tax assessments in Table 3 would imply that a recession started after income year 1954 (financial year 1955) and that Viet Nam only started to recover from this recession in income year 1957, which is reflected in higher assessments in financial year 1958.

But other data in Table 3 contradict the hypothesis that decreased income tax assessments are attributable to depressed economic conditions. Although income tax assessments have decreased, total tax revenues have continued to rise each year since financial year 1958. Net domestic product data also show an increase from 64,264 million $VN in financial year 1956 to 69,419 million $VN in financial year 1957, while during the same two-year period income tax assessments decreased. The net domestic product data show that Viet Nam did have a recession, but this occurred during income year 1957 (financial year 1958).

<u>Collections</u>:

In the method of collecting income taxes in Viet Nam, the General Directorate of Taxation only has the responsibility to collect the tax on dividends and interest paid by partnerships and corporations. The other four taxes are assessed by the General Directorate of Taxation, but are collected by the General Treasury.

For the tax on dividends and interest, no formal assessment is needed. Instead, the tax is paid currently and in advance of actual dividend declarations, based on the amount of dividends paid in the previous year. Then the final tax (or refund) is made when corporations assess themselves at the time of filing their annual reports. Withholding at the source and prepayment of the tax on dividends and interest is accomplished by requiring corporations to pay the tax in advance in four equal installments. The four equal installments are computed on the annual amount of the revenue of securities for those securities whose income is fixed or predetermined. For variable income, the four equal installments are determined on the basis of four-fifths of the preceding year's income, or 8 per cent of the business capital for new corporations.

The four installments are payable within 65 days after the end of each quarter of the calendar year. Then, within two months following the end of the fiscal year, corporations are required to submit reports which make possible an assessment for the fiscal year. Previous quarterly installments are credited against the amount of tax found due, and any underpayment is payable immediately. Overpayments are credited against the provisional quarterly payments of the current year, or are refunded for corporations which cease operations.

In contrast, current payment and withholding for the other income taxes is very limited. The usual procedure is for taxpayers to submit a return by March 31, but this return only contains information on income received. Tax assessments are made by the General Directorate of Taxation, and the tax rolls are then forwarded to the General Treasury for collection. Article 29 of the General Code provides for withholding from wages and salary, but the article has only been implemented for members of the armed forces.

In view of the above, withholding and prepayment of income taxes in Viet Nam are presently confined to two rather limited areas -- on dividends and interest paid by corporations and on the salaries of members of the armed forces. As a result, the great bulk of collection is done through formal assessment, the preparation of tax rolls, and collection by the General Treasury. This process is slow and cumbersome. It is so slow that income earned during calendar year 1957 will not be assessed completely until May 31, 1959, and in the most part the tax will not be collected until 1959.

Table 4 has been prepared in order to compare income tax assessments and collections for each income tax except for the one on dividends and interest. The Table shows that the ratio of salary tax collections to assessments was low in 1954 and 1955, but that there was an improvement in 1956 and

Table 4

Type of Tax	1954	1955	1956	1957	1958[1]	Totals
I. Salary						
Assessments	10,925,486	18,196,975	19,160,949	20,747,118	18,060,989	87,091,517
Collections	1,553,244	1,668,832	13,186,124	19,568,296	11,450,926	47,427,422
Per cent collected	14.2	9.2	68.8	94.3	63.7	54.4
II. Individual and Corporate Profits						
Assessments	378,903,561	643,605,685	494,902,276	385,563,192	383,990,444	2,285,965,158
Collections	341,232,299	538,779,415	433,989,785	350,115,723	299,545,528	1,963,662,750
Per cent collected	90.0	83.8	87.7	90.8	78.0	85.9
III. General Income						
Assessments	109,670,683	124,018,933	131,702,020	124,130,360	95,038,702	584,560,698
Collections	85,507,128	88,893,797	85,924,071	97,355,179	52,833,870	410,514,045
Per cent collected	77.9	71.7	65.2	78.4	55.6	70.2

[1] Statistics for financial year 1958 are incomplete, as data only up to Oct. 31,1958 were available when the Table was assembled. However, later information obtained without a breakdown for specific taxes indicates that total assessments were 502,222,504 $VN and total collections were 409,314,376 $VN as of December 31, 1958. These totals represent a collection ratio of 81 per cent for the first 12 months of financial year 1958.

Table 4 (cont.)

Type of tax	1954	1955	1956	1957	1958	Totals
II. **Unclassified**						
Assessments	3,291,776	24,962,853	95,316,023	101,560,301	65,384,017	290,514,970
Collections	1,859,258	8,102,660	34,653,108	33,101,128	21,353,033	99,069,187
Per cent collected	56.5	32.5	36.2	32.6	32.7	34.1
Totals						
Assessments	502,791,506	809,784,446	741,081,268	632,000,971	562,474,152	3,248,132,343
Collections	430,151,929	637,444,704	567,753,088	500,140,326	385,183,357	2,520,673,404
Per cent collected	85.6	78.7	76.6	79.1	68.5	77.6

Source: General Directorate of Treasury

1957.[3/] For the over-all period from 1954 to 1958, the ratio of collections to assessments for the salary tax was 54.4 per cent. Similar ratios are 85.9 per cent for the profits tax, 70.2 per cent for the general income tax, and 34.1 per cent for unclassified assessments. At the bottom of the Table, it is possible to follow the ratio of collections to assessments for each year for all taxes. The ratio is seen to be high in 1954 and then lower in 1955 and 1956. The most important aggregate ratio is the one appearing in the lower right-hand corner of the table. This figure shows that for all taxes and for all years, the General Treasury collected 77.6 per cent of all assessments made by the General Directorate of Taxation.

Collections are made by the Service of Collection of the General Treasury. This Service collects the land tax, the patente, the various income taxes, as well as taxes on mines and forests. There is a total staff of 37 persons in the Service, but only 5 employees are available for actually approaching taxpayers at their residence or place of business. Within recent years, the total staff of the Service has been decreased.

The collection effort relative to those taxpayers who do not pay voluntarily appears to be anemic. Inspectors are

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3/ The Service of Collection of the General Treasury denies that it was possible during 1954 and 1955 to make an accurate distinction between salary and profits tax collections, since both of these taxes were on the same rolls. The Finance Department has accepted the breakdown in the table, however.

sent out to the residences of the taxpayers, but it is reported that the taxpayers are invariably not at home. The General Treasury has legal powers to attach property, but no cases are brought to court. Delinquent cases are declared uncollectible when taxpayers cannot be found.

Other reasons which may be advanced for the fact that for all years and for all income taxes the General Treasury only collects three-fourths of all assessments made by the General Directorate of Taxation are: (1) A corporation or individual taxpayer may be assessed for a three-year period, but the taxpayer cannot pay all of the taxes due in one year; (2) When assessments are delayed, collections are also delayed; (3) The taxpayer is often too poor to pay the tax by the time that collection is attempted; (4) The address or name of the taxpayer may be incorrect, making collection difficult, and (5) Some foreigners return to their own country before the tax can be collected.

Two policy conclusions emerge from this analysis. The first is that many of these problems could be avoided with withholding and current payment of the income tax. In other words, the delay between assessment and collection is so excessive that taxpayers have time to be able to become insolvent or otherwise avoid their liabilities. Secondly, it is a poor principle to separate the responsibilities for assessment and collection. This allows one agency to blame the other for its own shortcomings; the collection agency can rationalize its inefficiencies by blaming the assessment agency, and vice versa. Increased collections would likely result if the General Directorate were made responsible for collecting its own assessments.

2. Income Tax Deductions

Three of the five income taxes used in Viet Nam apply to individuals: the salary tax, the profits tax on individuals, and the general income tax. Each of these three taxes permit certain personal deductions in common. An attempt will be made in a subsequent section entitled "Comparative Income Tax Burdens" to illustrate that the amount of personal deductions which may be claimed depends considerably on the type of income received--whether salary or profit--and also on the way in which the salary is paid. As a prologue to this inquiry, brief enumeration is made of the various personal deductions allowable.

(1) Pensions: Taxpayers may deduct from their gross income any pension payments made up to a maximum of 6 per cent of their basic salary. In practice, this provision allows civil servants to deduct all contributions which they actually make toward their pensions.

(2) Professional Deductions: This deduction is for such expenditures as transportation, books, and entertainment, when no special allowances for these expenses are provided. The allowable deduction is 10 per cent

of the yearly gross income below 240,000 $VN plus 5 per cent of the yearly gross income over 240,000 $VN. Deductible amounts within these limits are permitted without proof, but amounts exceeding these limits must be supported with evidence.

(3) Previous Year's Tax: The salary tax permits deduction of the previous year's salary tax from gross salary earnings, and the same is true with respect to the deduction of the previous year's profit tax in arriving at the base of the profits tax. The general income tax permits the deduction of the previous year's general income tax, as well as any salary or profits tax paid during the previous year.

(4) Abatements: These deductions are comparable to personal exemptions. The schedule is: 30,000 $VN for the head of a family and for single persons; 15,000 $VN for a wife; 5,000 $VN for each child under 21 years or under 25 years if studying in a university; and 3,000 $VN for each parent or grandparent over 60 years of age or under 60 years if incapable of self-support. A married taxpayer cannot claim an abatement for his wife if her income exceeds 15,000 $VN.

(5) Entertainment Allowances: Certain governmental employees of high rank, such as province chiefs, ministers, and the Governor of the National Bank, are granted entertainment allowances, which are deductible in full.

(6) Living Allowances of Foreigners: Salary supplements paid to foreigners to cover the living expenses of wives and children are deductible.

(7) Servants: Some governmental employees of high rank are given a supplementary payment in order to hire servants at the rate of 14,400 $VN per annum per servant. There is no legal text concerning this deduction; authority is a verbal instruction on the part of the Minister of France. Deduction of allowances for servants is only partial, according to the following schedule:

1 servant provided:	1 deductible
2 " " :	1 "
3 " " :	2 "
4 " " :	3 "
5 " " :	3 "

(8) Cost of Living Allowance: All public employees are granted a cost of living adjustment of 1,200 $VN per month for the employee, 350 $VN per month for his wife, and 350 $VN per month for each child under 18 years of age, or over 18 years of age if attending school. Only the cost of living adjustments for wives and dependent children are allowable personal income tax deductions. Private employees generally do not receive a cost of living adjustment.

(9) Family Indemnity: All public employees and about 90 per cent of private employees receive family indemnity payments. Each public employee receives 350 $VN per month for his wife (4,200 $VN annually) and 350 $VN (4,200 $VN annually) for each dependent child. These payments are fully deductible. Private employees are paid family indemnity allowances from a fund financed by compulsory employer contributions. Compared to public employees, these payments (and deductions) are larger for wives (5,544 $VN but smaller for children (2,214.60 $VN per each dependent child).

Civil servants constitute the larger proportion (approximately five-sixths) of all taxpayers filing returns under the salary income tax. The illustration following shows how the various wage supplements are added to the basic wage of a civil servant, and then in turn how many of the supplements are deducted before determining taxable income. The level of income chosen is that for a Chief of Bureau, which, in general, represents earnings within the highest 10 per cent of civil service salaries. It may be noted that the total annual income received by this civil servant is more than double his basic salary, and that his taxable income is only about 5 per cent of his total annual income.

Calculation of Taxable Income of a Civil Servant (wife and four children):

Basic salary for position	58,165 $VN
Cost of living addition	35,400
Pension	3,965
Family indemnity	16,200
Supplement of function	9,600
Gross Income	123,330 $VN
Less:	
Pension	3,965
Professional deduction	8,216
Cost of living adjustment	21,000
Family indemnity	16,200
Abatements	68,000
Previous year's tax	100
	117,481 $VN

Gross Income	- Deductions	= Taxable Income
123,330 $VN	117,481 $VN	5,849 $VN

3. Comparative Income Tax Burdens

One of the basic shortcomings of the Vietnamese system of taxing income is unneutrality. It is conceived as a basic premise of the income tax that the receipt of income constitutes the principal measuring rod of the ability to pay the tax. For this reason, taxpayers who receive the same amounts of income should be treated in the same way,

. . while taxpayers receiving different amounts of income should be treated differently. When this results, the tax system is said to be neutral among taxpayers; when it does not, it is said to be unneutral. The Vietnamese system of taxing income is unneutral to a marked degree, however, because the tax burden borne by an individual is largely determined by the type rather than by the amount of income received. Because this unneutrality is so basic with respect to tax reform, a series of tables has been developed in order to bring factual evidence to bear on the resolution of the problem.

The salary tax is predominantly a tax on public employees, since approximately 12,500 returns out of 15,000 are received from civil servants and the military. Further, the tax is largely borne by those public servants with a high rank. In general, it can be said that only those with a rank of chief of bureau or above incur a tax liability. In a typical government office, this would mean that only about 11 per cent of all employees would be taxable. For example, the General Directorate of Taxation has 520 employees in Saigon, but only 58 have a rank of chief of bureau or above.

A characteristic feature of salary remuneration in the Vietnamese civil service is to start with a relatively low basic salary and add various and sundry increments, all of which add up to the total gross cash income received. These increments are important and have been documented in full in

TABLE 1

Basic Salary and Salary Increments for Four Civil Servant Positions[1]

Position	Basic salary	Personal cost of living addition	Pension	Supplement of function	Housing and utilities allowances	Servants	Entertainment allowances	Family indemnity	Family cost of living addition	Gross Income
Chief of Bureau	58,165	14,400	3,965	9,600	--	--	--	16,200	21,000	123,330
Director	82,723	14,400	5,640	24,000	8,400	--	--	16,200	21,000	172,363
General Director	129,264	14,400	8,803	37,200	12,000	28,800 (2 servants)	-	16,200	21,000	267,667
Minister of a department	242,658		--	--	27,600	72,000 (5 servants)	144,000	16,200	21,000	523,458

1. Calculations are based on the assumption that the taxpayer has a wife, four dependent children, and one dependent parent

Table 1 because most of them are also deductible from gross income before arriving at the taxable base of the salary and general income taxes. As it will be seen, these salary increments are largely responsible for eroding the base of the income tax so that there is very little left to tax. Table 1 indicates that the basic salary is less than 50 per cent of the total gross income for four high-level civil service positions.

Table 2 indicates that what represents rather substantial levels of gross income deteriorates into very reduced levels of taxable income. This is particularly true of gross income at the level of 123,330$VN, which is reduced by successive deductions to a taxable income for both the salary and general income taxes of only 5 per cent of this amount or 5,849$VN.4/ These reductions from gross to taxable income are not as extreme for higher levels of gross income, but they are still substantial. For the salary tax, the ratio of taxable income to gross income at the gross income level of 172,363$VN is 28 per cent, while the same ratio is 44 per cent for a gross income of 267,667$VN and 43 per cent for a gross income of 523,458$VN. Thus, not only is the gross income substantially eroded away by deductions, but it is eroded away in a manner which is relatively more favorable to lower taxable incomes.

4/ An even more favorably treated group may be the Vietnamese employees of United States agencies. It has been determined by United States agencies that 34 per cent of their gross salary constitutes family allowance, and thus 34 per cent of their income is deductible for this one item alone. However, this deduction of 34 per cent is at present being questioned by the Director General of Taxation.

TABLE 2

Determination of Taxable Income for Four Civil Servant Positions[1]

Gross Income	Pension	Professional deduction	Family cost of living	Family indemnity	Entertainment allowances	Abatements	Servants	Previous Year's salary income tax	Taxable Income for salary tax	Previous year's general Income tax
123,330	3,965	8,216	21,000	16,200	--	68,000	--	50	5,899	[illegible],50
172,363	5,640	12,952	21,000	16,200	--	68,000	--	480	48,091	1,400
267,667	8,802	19,434	21,000	16,200	--	68,000	14,400	2,350	117,481	7,750
523,458	--	--	21,000	16,200	144,000	68,000	43,200	8,050	223,008	25,100

1. Calculations are based on the assumption that the taxpayer has a wife, four dependent children, and one dependent parent.

Table 3 indicates the effect of generally low tax rates and the erosion of the taxable base on the effective rate, which is the ratio of tax paid to gross income received. The Table shows that a civil servant with an annual gross income of 123,330$VN (approximately $1,713 U.S. at the free market rate of exchange) would pay only 50$VN under the salary tax, which is less than $1.00 U.S. The effective rate of taxation is only .04 per cent for the salary tax and .08 per cent for both the salary and general income taxes, and his total tax burden for both taxes is only 100$VN, or approximately $1.50 U.S.

It could be argued that when an employee receives only the equivalent of $1,713 U.S., a tax of more than $1.50 is an undue burden. However, taxpaying capacity should be measured in the context of Vietnamese capacity to pay. An income of $1,713 constitutes a relatively high income in Viet Nam. It is within the highest decile of all salary incomes of civil servants, and civil servants, in turn, have relatively good incomes as compared to the Vietnamese employed in the private sector. An indication of the relative prosperity of a civil servant earning a gross income of $1,713 U.S. is the per capita income of Viet Nam of about $130 U.S., which is about $780 for a taxpayer with five dependents. The data in Table 3 indicate that even a Minister of a Department with a relatively high gross income of 523,458$VN has a combined effective tax rate for both the salary and general income taxes of only 5.29 per cent.

TABLE 3

Effective Rates of the Salary and General Income Taxes for Four

Civil Servant Positions

Gross Income	Amount of Salary Tax	Effective Rate of Salary Tax	Amount of general income Tax	Effective rate of General Income tax	Total Salary and general income taxes	Combined effective rate of salary and general income taxes.
123,330	50	.40	50	.04	100	.08
172,363	480	.27	1,300	.75	1,780	1.03
267,667	2,250	.84	6,550	2.46	8,800	3.35
523,458	7,650	1.46	20,050	3.83	27,700	5.29

Tables 4 and 5 have been prepared in order to compare the tax burdens of public and private employees. To do this, the same four levels of gross income are used in Tables 4 and 5 which were used previously for civil servants. The reason for this comparison is to demonstrate that the salary and general income taxes have a built-in bias in favor of public employees. As shown in Table 4, the reason for this bias is that private employees, by the nature of the way in which they are paid, are unable to claim as many income tax deductions. For example, private employees generally receive no cost of living allowance, and so cannot deduct this amount from their gross income. Consequently, the ratios of taxable to gross income for private employees are substantially higher than they are for public employees. Previously, it was shown that the ratio of taxable income to gross income for a public servant with a gross income of 123,320$VN was 5 per cent. For a taxpayer with the same gross income, but working in the private sector, the ratio of taxable income to gross income is 24 per cent, or nearly five times higher.

This tax discrimination in favor of public employees is shown best by comparing the combined effective rates of the salary and general income taxes for public employees in Table 3 with similar rates for private employees in Table 5. At the gross income level of 123,330$VN, private employees have an effective rate of .69 as compared to only .08 for public employees, while for the other three income levels, the effective rate for public employees is aboutone-half of that for private employees.

TABLE 4

Gross Income	Professional Deduction	Family Indemnity	Abatements	Previous Year's salary income tax	Taxable Income for salary tax	Previous Year's general income tax	Taxable Income for general income tax
123,330	10,890	14,414	68,000	300	29,726	570	29,156
172,363	15,794	14,414	68,000	980	73,175	3040	70,135
265,667	24,560	14,414	68,000	4,530	154,163	13, 615	140,548
523,458	38,170	14,414	68,000	16,640	386,234	62, 000	324,234

Table 5

Effective Rates of the Salary and General Income Taxes for Four Taxpayers in the Private Sector

Gross Income	Amount of Salary Tax	Effective rate of salary tax	Amount of General Income tax	Effective rate of general Income tax	Total salary and General Income Taxes	Combined effective rate of salary and General Income Taxes
123,330	290	0.23	570	.46	860	0.69
172,363	960	0.55	2,800	1.62	3,760	2.18
265,667	4,205	1.58	11,575	4.36	15,780	5.93
523,458	15,810	3.02	41,550	7.94	57,360	10.95

Attention is given next to the combination of the profits tax and general income tax, which is paid by self-employed professional people and individuals in receipt of income other than wages and salary. For comparative purposes, the same four levels of gross income used previously have been included in Table 6, but three other levels of gross income have been added -- one at 70,000$VN because businessmen become taxable at a lower level of gross income, and two at higher levels of gross income, because profit receipts often can exceed salary receipts.

Table 6 indicates that those in receipt of non-wage income are also discriminated against. The first reason for this discrimination is that there are generally only two deductions which they may claim -- abatements and the amount of previous year's tax paid. As a result, the ratio of taxable to gross income is relatively high under the profits tax as compared to the salary tax. For example, at the gross income level of 123,320$VN, it was previously shown that the ratio of taxable to gross income for the salary tax was only 5 per cent for a civil servant, while under the profits tax the same ratio at this level of gross income is 38 per cent. Because receivers of non-wage income have limited deductions, they become taxable at the level of about 70,000$VN gross income, whereas receivers of wage income only become taxable at about the level of 120,000$VN gross income.

TABLE 6

Determination of Taxable Income for Different Level of Profit Income[1]

Gross Income	Abatements	Previous Year's Individual Profit Tax	Taxable Income for Individual Profit Tax	Previous Year's General Income Tax	Taxable Income for General Income Tax
70,000	68,000	320	1,680	10	1,670
123,330	68,000	8,800	46,520	1,300	45,220
172,363	68,000	16,640	87,720	4,430	83,290
265,667	68,000	31,520	166,147	15,400	150,747
523,458	68,000	72,800	382,658	61,000	321,658
1000,000	68,000	149,120	782,880	207,400	575,480
2000,000	68,000	309,120	1,622,880	626,500	996,380

1 Calculations are based on the assumption that the taxpayer has a wife, four dependent children, and one dependent parent

The combination of limited deductions and a higher tax rate (16 per cent) under the profits tax results in a much higher effective rate for this levy than for the salary tax. Table 7 shows that a taxpayer with a profit of 123,330$VN would pay a combined effective rate for the profits and general income taxes of 6.98 per cent, while the combined effective rate for this level of income under the salary and general income tax for a public servant is only .08 per cent.

The discrimination against individual businessmen is particularly severe in the case of investors in rental property, because the land tax is in part a net income tax. Assume, for example, that a Saigon landlord receives 20,000$VN gross income per month or 240,000$VN per annum from the rental of a house. In a typical case, the tax on the land for this property would be .85 centimes per meter for 1,000 meters or 850$VN. The tax on the improvements would be 6 per cent of the gross rent after this amount is reduced by 25 per cent for expenses, which amounts to 10,800$VN. The combination of these two taxes, or 11,650$VN, is payable to the National Government, while the total land tax payable to the City of Saigon is double this amount, or 23,300$VN. Land taxes payable to both governments thus total 34,950$VN, which constitutes 14 per cent of the gross income from the property, or 19 per cent of the net income. In addition to land taxes, this landlord must pay the individual profits

TABLE 7

Gross Income	Amount of Profits Tax	Effective Rate of Profits Tax	Amount of General Income Tax	Effective Rate of General Income Tax	Total Profits and General Income Taxes	Combined Effective Rate of Profits and General Income Taxes
70,000	160	0.22	10	0.01	170	0.24
123,330	7,360	5.96	1, 250	1.01	8,610	6.98
172,363	13,920	8.07	3, 870	2.24	17,790	10.32
265,667	26,560	9.92	13, 000	4.89	39, 560	14.81
523,458	61,120	11.67	45, 750	8.73	106,870	20.41
1,000,000	125,120	12.51	121, 750	12.17	246,870	24.68
2,000,000	259, 520	12.97	273, 500	13.67	533,020	26.65

and general income taxes on his net rental income of approximately 180,000$VN, which has been shown in Table 7 to be about 10 per cent.

Attention is now given to an analysis of the income tax burdens borne by corporate investors. Before indicating the results, a few preliminary explanations to Table 8 are necessary: (1) The two types of corporations dealt with -- the S.A. (publicly held) and S.A.R.L. (privately held) -- are both assumed to be headquartered in Viet Nam. (2) The effective tax rates are calculated under two assumptions -- that 50 per cent of net profit is distributed in the ratio of 90 per cent dividends and 10 per cent interest, and that 100 per cent of net profit is distributed in the ratio of 90 per cent dividends and 10 per cent interest. (3) It is assumed that dividends and interest payments by corporations are received by individuals with gross incomes of 523,458$VN, 1,000,000$VN, and 2,000,000$VN, and that the marginal increments received bear effective general income tax rates respectively of 8.73 per cent, 12.17 per cent, and 13.67 per cent. These effective tax rates are taken from Table 7.

Data in Table 8 now make possible an important comparison between the combined effective tax burdens borne by corporate investors (shown in Table 8) with the effective tax rates borne by investors in non-corporate entities (shown in Table 7). This comparison shows that cor-

TABLE 8

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Type of Corporation	Distribution of Earnings %	Amount of Profit	Amount of corporate profits tax	Am. of dividends and interest tax	Distributed after Tax	Gen. income tax assuming eff. rate of 8.73%	Gen. income tax assuming ef. rate 12.17%	Gen. income tax assuming ef. r. 13.67%	Total tax (4)+(5) + (7)	Total tax (4)+(5)+ (8)	Total tax (4)+(5)+ (9)	Eff. rate $\frac{(10)}{(3)}$	Ef. rate $\frac{(11)}{(3)}$	Eff.rate $\frac{(12)}{(3)}$
S.A. (Public)	50	1,000,000	240,000	88,920	291,080	25,404	35,414	39,779	354,324	364,334	368,699	35.43	36.33	36.86
	100	1,000,000	240,000	177,840	583,000	50,895	70,951	79,696	468,735	488,791	497,536	46.87	48.87	49.75
S.A.R.L. (Family)	50	1,000,000	240,000	68,400	311,600	27,202	37,921	42,595	335,602	346,321	350,995	33.56	34.63	35.09
	100	1,000,000	240,000	146,600	613,200	53,532	74,626	83,824	440,332	461,426	469,824	44.03	46.14	46.98

porate investors bear an income tax burden which is 50 to 100 per cent higher than receivers of income from non-corporate entities.

It would be desirable at this stage of the analysis to include the effective tax rate borne by the owners of foreign corporations, which are headquartered outside of Viet Nam. There is a conceptual difficulty involved, however, which prevents any precise determination of the tax burden on foreign investors. The difficulty involves the tax levied on the interest and dividends paid by corporations. In the case of foreign corporations, this tax is based on the combination of "turnover" in Viet Nam and the amount of dividends declared in the home country of the corporation. As a result, there can actually be a tax collected in Viet Nam, even though the operations in this country may be unprofitable, or alternatively, the profits made in Viet Nam could be very high, but the tax paid might be nominal.

These circumstances can be explained best by an example. Assume that a large rubber company is headquartered in France, and that one-tenth of its physical production is attributable to Viet Nam and the other nine-tenths to other parts of the world. If one million francs were distributed by the parent company in France as dividends, Viet Nam would tax one-tenth of these dividends at the rate of 30 per cent regardless of whether the Vietnamese operations produced any of the profit making the distribution possible. Conversely, all of the profits could have been made in Viet Nam, but only one-tenth of the dividends would be taxed. The reason for this is that the base of the tax is the total dividends declared multiplied by the ratio of Vietnamese turnover to total turnover of the corporation, and in the case of rubber, turnover is defined as production.

Under these circumstances, it is not possible to calculate precisely the tax burden falling on foreign investors. All that can be said is that the law apparently intends to tax foreign investors heavier than Vietnamese, since the rate is 30 per cent for the tax on dividends and interest paid by foreign corporations as compared to 18 and 24 per cent for firms headquartered in Viet Nam. Whether this heavier burden works out in practice is indeterminate.

<u>Conclusion</u>

Table 9 summarizes all of the effective tax rates developed in the preceding analyses. Data in Table 9 really constitute "the case against the schedular income tax," for they show that the income tax burden borne in Viet Nam is determined as much by the type of income received as by the level of income. For example, if a civil servant receives a gross income of 123,330$VN, he will pay only .08 per cent of his gross income in income taxes, while if a second taxpayer is employed in the private sector at the same level of

TABLE 9

EFFECTIVE RATES OF THE SALARY, INDIVIDUALS PROFITS, CORPORATE PROFITS AND GENERAL INCOME TAXES

Gross Income	Effective Rate of Salary and General Income Taxes for a Civil Servant	Effective Rate of Salary and General Income Taxes for the Private Sector	Effective Rate of Individual Profits and General Income Taxes	Effective Rate of Corporate Taxes & General Income Tax Assuming 50% Distribution and S.A.R.L. Corp.	Effective Rate of Corporate Taxes & General Income Tax Assuming 100% Distribution and S.A.R.L. Corp.
70,000	-	-	.24	-	-
123,330	.08	.69	6.98	-	-
172,363	1.60	2.18	10.32	-	-
265,667	3.35	5.90	14.81	-	-
523,458	5.29	10.95	20.41	33.56	44.03
1,000,000	-	-	24.68	34.63	46.14
2,000,000	-	-	26.65	35.09	46.98

gross income, his tax burden will be .69 per cent of his gross income, or over 8 times higher. Then, if a third individual is self-employed, his tax rate at the same level of gross income will be 6.98 per cent, or 87 times the burden of the civil servant and 10 times the burden of the salary worker in the private sector. Another way of looking at this discrimination is to note that each of the following levels of gross income bear about the same income tax burden: (1) a civil servant with a gross income of 523,458$VN; (2) a privately-employed worker with a gross income of 265,667$VN; and (3) a self-employed person or businessman with a gross income of 123,330$VN. Finally, corporate investors bear the heaviest tax burden, which varies between 50 and 100 per cent higher than investors in non-corporate enterprises.

The brief conclusion to this analysis is that either by accident or by design the Vietnamese system of taxing income places differential burdens on different income receivers. Placed in order of the lightest to the heaviest burden, the sequence is: (1) civil servants, (2) private employees, (3) the self-employed, individual investors, and entrepreneurs, (4) investors in Vietnamese corporations, and (5) possibly owners of foreign corporations, although in this case no finite determination is possible. This is probably the reverse order of taxation for a country aspiring to encourage savings, investment, and the encouragement of foreign capital.

4. Income Tax Administration

Legal Provisions: When taxpayers forward declarations of their income, abatements, and other relevant circumstances of their tax status, the Director General of Taxation is empowered in the Fiscal Code to follow certain steps in order to verify the accuracy of the information. The taxpayer may be asked verbally or in writing for clarifications and justifications. If the verbal request is not complied with, or is tantamount to a refusal, a written request for clarification must be given the taxpayer. The latter, in turn, must reply to the written request within 15 days. Before proceeding with a correction of the tax return, the inspector must advise the taxpayer of the contentious items, and the taxpayer, in turn, must either approve or object to the changes within one month. If there is no reply from the taxpayer within one month, the General Directorate of Taxation has the authority to assess the tax; any later protest on the part of the taxpayer conveys upon him the burden of proof.

If the taxpayer protests the change within a period of one month, either the tax inspector or the taxpayer can submit the dispute to arbitration before a four-member commission, composed of the Secretary of State for Finance or his representative as chairman; two representatives of the profession of the taxpayer named by the professional groups concerned; and the Director General of Taxation or his deputy. This commission must meet within three months of the end of the month permitted for protest. In case of a tie vote on the part of the commission, the vote of the chairman prevails.

The burden of proof before the commission devolves on the taxpayer if: (1) his tax return was not filed by the required date; (2) if the taxpayer has not replied to the proposed new assessment within one month; and (3) if the commission has adopted the assessment proposed by the government. On the other hand, the government must bear the burden of proof if the commission decides in favor of the declaration of the taxpayer. The taxpayer must abide by the decision of the commission and pay the taxes due as determined by the commission but the taxpayer has the right to appeal the commission's decision to the administrative courts within three months.

Provisions for arbitrary assessment are also established for certain taxpayers; (1) those who have a tax to pay considering the amount of their income and deductions, but have not filed a return; (2) those who have refused to acknowledge a request for clarification or justification, or have refused to show their books; and (3) those whose expenditures clearly exceed reported income. For the purpose of arbitrary assessments, income is levied at a level commensurate with known expenditures.

The taxpayer must be advised of the amount of the arbitrary assessment, and is given 20 days to present his observations. Should the taxpayer disagree with the assessment, he bears the burden of proof that the assessment is in error. He must also bear all expenses involved in proving the excessiveness of the assessment.

Provision is made for three types of penalties, and they are unusually severe by United States standards: (1) there is a penalty of 25 per cent if tax declarations are not filed within three months after the end of the tax year; (2) the tax is increased by 20 per cent if the omission or inaccuracy does not exceed 10,000$VN; and (3) the tax is increased by three times if the omission or inaccuracy exceeds 50,000$VN.

Administrative Organization: The administration of the income tax in Viet Nam is undertaken on two levels: central administration and field administration. On the level of central administration, the income tax comes under the jurisdiction of the Directorate of Direct Taxes. This Directorate, in turn, has two services, and one of the services is divided into two bureaus.

In considering the resources available for the administration of the income tax, it is important to note that the Directorate of Direct Taxes is responsible for the central administration of not only the salary tax, the profits tax on individuals and corporations, and the general income tax for all of Viet Nam, but also the land tax and patente. The tax on the dividends and interest paid by corporations, however, is administered by a separate directorate -- the Direction of Registration.

For the field administration of the income tax, there are three bureaus in Saigon: one for the salary tax and the general income tax paid by employees, one for the profits tax and general income tax paid by the self-employed and individual proprietors, and one for the profits tax on corporations. Cholon has two bureaus, administering the income, land, and patente taxes. Field administration for the remainder of Viet Nam may be summarized as follows: large towns usually have two bureaus, one administering registration and direct taxes and the other excises and indirect taxes; while small towns usually have one bureau for all taxes. There are approximately 65 bureaus in the provinces.

The following analysis attempts to give a critical appraisal of the principal resources available for the administration of the various income taxes, starting at the field administration level in Saigon and working up to central administration.

Salary Tax Bureau (Saigon): The salary tax and the general income tax paid by persons receiving a salary and resident in Saigon are both administered by a bureau staffed with a bureau chief and nine employees. There has been no increase in the size of this staff since 1957; before that date, there were six employees.

The Salary Tax Bureau receives approximately 100,000 declarations, but the availability of excessive deductions reduces this number to only about 15,000 taxable returns. In turn, these 15,000 taxable returns are composed of about 12,500 from civil servants and the military and 2,500 from the private sector.

In practice, the principal function of the Salary Tax Bureau is to calculate the tax due based on information concerning income and deductions supplied by the taxpayer. This is a serious shortcoming, because it means that the greater part of the resources of the Bureau is spent on routine tax calculation rather than on verifying the accuracy of the information supplied and expanding the number of employees who should be paying the tax. The adoption of withholding alone would not help to release the bureau from routine calculation of the tax, because annual declarations would still be necessary. What is necessary, rather, is to place the onus of responsibility for tax calculation on the taxpayer. This seems entirely feasible; if a taxpayer is knowledgeable enough to declare his income and deductions, he should also be able to calculate his tax. Assistance in tax offices and instruction sheets can be provided to facilitate this objective.

The only verification presently undertaken to check the accuracy of declarations made by taxpayers is through information returns forwarded by employers. The Chief of the Salary Tax Bureau obtains lists of corporate and non-corporate employers from two other bureaus, and then forwards these employers two sets of forms -- one to be completed for each employee and the second a summary statement for all employees. Both forms contain the same information concerning income paid to the employee and eligible deductions. When the forms are returned to the General Directorate of Taxation, the individual information returns are matched with the income declarations of the employees. The summary statements should be matched with the income declarations of the employers themselves, but are not.

The claim was made that 95 per cent of all income declarations by employees have an accompanying information return forwarded by employers. This represents a very high ratio of matching. An actual sample of 100 taxpayer files proved that this claim was substantially correct. Out of these 100 files, it was found that there were only six instances in which there was an information return forwarded by the employer and no income declaration by the employee, and only two instances in which there was an income declaration by the employee and no information return. If information returns are not received from a corporation, after the initial request has been made, the Director of the Corporate Tax Direction is advised, who is then authorized to levy a penalty of 25 per cent of the tax payable by the corporation. If an information return is received for an employee but no income declaration, the tax is based on the data in the information return plus a penalty of 25 per cent.

Although the matching of information returns and income declarations by taxpayers is very well done, this still does not prove that compliance with the salary tax is at a high level; it only proves good compliance on the part of those employees for which information returns are available. An obvious source of evasion is the number of employers who themselves do not make income declarations, and therefore are not requested to file information returns. For example, it is known that United States agencies do not file information returns, and it is also known that, in general, the Vietnamese employees of these agencies do not file income declarations.

Also, not all employers requested to forward information returns comply with the request. In 1958, 576 corporations were requested to forward information returns, but only 448 complied with the request, while only 820 individual employers forwarded information returns out of 1156 employers requested to do so. Even government departments do not comply fully. Only 130 out of 168 government departments forwarded information returns. As an example, the National Institute of Administration forwarded no information returns. This means that the Salary Tax Bureau has no means of verifying the salaries received by the staff of the National Institute of Administration, or even more serious, has no way of determining who is employed in this government department.

Obviously, what is needed in Viet Nam is an expansion of the number of employers filing information returns, which in turn depends on expanding the number of employers making income declarations themselves. Also, there should be a follow-up of those employers who do not comply with a request to file information returns. Finally, there is a need to cross-check the information returns forwarded by employers with the wage expense items claimed by the employers. All of these efforts would consume more resources in personnel, however, than are presently available in the Salary Tax Bureau.

The need for withholding of the salary tax is seen in the fact that the Salary Tax Bureau in March of 1959 is still calculating the tax due on 1957 income declarations. This means that for some taxpayers the tax on 1957 income will not be paid until late 1959.

In summary form, the principal administrative improvements that could be made in the Salary Tax Bureau are: (1) the adoption of withholding, (2) expansion of the number of information returns received, which requires the development of more complete employer lists, and (3) placing the responsibility for tax calculation on the taxpayer rather than on the General Directorate of Taxation. These changes should be combined with a reduction of the number of allowable deductions in order to increase the number of taxable returns. With the acceptance of these recommendations, there would be a need for at least double the present number of personnel.

Individual Profits Tax Bureau in Saigon: This Bureau administers the profits tax and the general income tax paid by individual businessmen and the self-employed for the City of Saigon. The Bureau is staffed with a bureau chief and 14 employees. Four of the employees are recent graduates (within two weeks) of the National Institute of Administration. The staff at the present time is long in numbers, but short in ability and experience. Out of the 14 employees, only 3 are fully experienced and capable of calculating taxes.

The present Chief of the Bureau has held this position only since August 1, 1958. He claims that this Bureau is the most difficult one to administer in the General Directorate of Taxation, and that no one, including himself, wants to be responsible for the operations of the unit.

There is almost a complete lack of statistics. The Chief of the Bureau does not know how many taxpayers file declarations of income, how many exempt returns there are as compared to taxable, or the breakdown between business returns and those from the self-employed. Previous research has indicated, however, that there were 11,609 taxable declarations in 1957 for both the individual and corporate profits tax. Allowing for about 600 corporate returns, this would mean that there are approximately 11,000 taxable individual profits tax returns.

Compliance with the profits tax and the general income tax paid by individual businessmen and the self-employed is virtually on a voluntary basis, at least with respect to the operations of this Bureau. These taxpayers are expected to forward declarations of their income, expenses, and deductions, but practically no effort is made either to increase the number of declarations or to verify the information received. For example, if an individual owner of a drug store reports a net income of 100,000$VN, no effort is made to verify this information by visiting the drug store and by auditing the books. There is a complete absence of field auditing on the plea that no staff is available for this type of work. Nor is the taxpayer required to report to the tax office.

In the event that the Chief of the Bureau should disagree with the information supplied by the taxpayers, he will write a letter to the taxpayer to this effect. The exchange of letters between the taxpayer and the Chief of the Bureau may continue for months and even for years. There are instances in which letters are still being exchanged over disagreements dating back to 1954 and 1955. The reason for these long extended debates is that the Chief of the Bureau claims that he has no authority to press a case unless he has proof, and he cannot obtain proof without having enough staff to examine the taxpayers' books. For the same reason -- lack of proof -- penalties are never assessed.

Are all businessmen in Saigon forwarding declarations of income? An indication of the degree of non-compliance is obtained from the bureau administering the patente (business license) tax. This bureau levies a patente on 21,000 businesses in Saigon alone, while there are about 11,000 individual profits tax declarations for all of Viet Nam. The Patente Bureau does not sit back and wait for voluntary compliance. Instead, a team of inspectors covers each street in Saigon every year, checking to ensure that every business establishment is paying the patente tax. Obviously, this information obtained by the Patente Bureau should be exploited by the Profits Tax Bureau, but it is not. And again, the reason why this information is not used is a lack of personnel resources. An effort was made last year to place patente information on punch cards, so it could be used for income tax purposes. The experiment broke down for technical reasons. Another effort will be made this year, but it is likely to fail because the Profits Tax Bureau does not have the personnel to make use of the information.

Considering the way that the profits tax on individuals is administered, it is really remarkable that there are 11,000 declarations. However, there is no doubt that these declarations generally understate real income. It could not be otherwise when it is known by the public that there is little likelihood of an audit or prosecution for understatement of income.

The only way out of this dilemma is to employ more and better resources. At the same time, the work load in the office should be reduced so that personnel are available for field auditing. Reduction of the work load can be accomplished by placing the burden of tax calculation (tax assessment) on the taxpayer. Businessmen should also be placed on current payment at the same time that employees are subjected to withholding. It must be emphasized that without field auditing -- the actual examination of a taxpayer's books, and if need be, what lies behind the books -- there is no real tax enforcement. Instead, there is only a legal and arithmetic check of what the taxpayer wishes to pay.

<u>Corporate Profits Tax Bureau in Saigon</u>: This Bureau is staffed with a Bureau Chief and seven employees. Since one of the five employees is a typist, and another is a clerk, only five remain for the assessment of corporate taxes. None of the employees have had formal training in accounting; all have obtained their accounting experience by on-the-job training.

Again, it is found in this Bureau that the greater amount of time is spent in calculating the tax due on the basis of the balance sheets and profit and loss statements forwarded by corporations. Certainly, with corporations there is no justification for this procedure; corporate accountants would be quite capable of calculating the tax due.

The work load in 1958 consisted of 375 taxable corporations. Sufficient effort appears to be expended to assure that all new corporations render declarations of income and expenses. Information on new corporations is obtained from the Registration Division, the Patente Bureau, and official bulletins of the Government.

Unlike other field bureaus administering the income tax, the Corporate Profits Tax Bureau expends some effort to obtain additional assessments over and above what would be possible on the basis of the original declarations of the corporations. Efforts to gain additional assessments take three forms: (1) About 6 or 7 of the bigger corporations are field audited each year. (2) About 30 corporations each year are asked to bring their books into the Bureau for checking. (3) Many of the remaining corporations are written letters which ask for explanations of particular irregularities. If these letters are not answered by the firms within a month, a second letter is sent indicating what the Bureau considers to be the correct taxable profit. If this letter is not answered, the tax is levied on the basis of the profit determined by the Bureau.

All of these efforts to produce additional assessments have an appreciable effect on assessments. It is found that these activities raised assessments from 361,498,060$VN to 380,933,700$VN in 1957, or by 19,435,640$VN. These statistics demonstrate the desirability of using resources to raise assessments. In all likelihood, if more resources were used, still higher assessments would eventuate. The point of diminishing returns probably has not been reached.

Bureau of Legislation: This Bureau only has one employee (in addition to the Chief of the Bureau) who is involved with the administration of the income tax, but if he does one-half of the work that he is supposed to, he is the busiest man in Viet Nam. His responsibility is to review all assessments for all income taxpayers in Viet Nam. This would involve reviewing approximately 45,000 to 50,000 assessments each year. After this review of the tax rolls, the latter are sent to the Director of Direct Taxes for approval, and thence to the General Treasury for collection. Obviously, tax assessments do not suffer in Viet Nam from too much review. Review under such circumstances could only amount to an arithmetic check.

An interesting sidelight is that this one employee with the burdensome job of reviewing all income tax assessments for Viet Nam is not entrusted with the identity of the taxpayers. Before the tax rolls are forwarded to this employee for review, the names of the taxpayers are removed. Then the names are again associated with the tax rolls when the latter are forwarded to the General Treasury for collection. When asked for the reason for this confidential treatment of the tax rolls, the reply was given "that the law requires the anonymity of taxpayers to be preserved."

This one employee also receives lists of goods and services sold by business concerns to government departments, and it is his responsibility to channel these lists to the proper field bureaus as an aid in enforcement. For example, a typical item will indicate that a particular firm sold five automobile tires to the Defense Department, and this item of information will be forwarded to the bureau responsible for assessing the profits tax on this particular firm. This information, however, is of practically no use to the bureau responsible for assessing the profits tax because no field auditing of the books of business concerns is undertaken.

This Bureau is referred to as a "Bureau of Legislation" because it is responsible for recommending changes in legislation. In practice, most of the work load of the Bureau is concerned with the review of the tax roll. However, the Bureau Chief lists the following proposals for changing the income tax law which have been adopted since 1954: (1) removal of double abatements for those taxpayers who support dependents abroad; (2) an increase in the individual profits tax rate from 12 to 16 per cent and the corporate tax rate from 18 to 24 per cent; (3) the taxation of military personnel; and (4) the removal of a special tax rate applying to army pilots.

It is commendable to have tax departments take the initiative in proposing desirable changes in legislation. More properly, however, this is a function that should be handled closer to the center of responsibility of all taxation -- in the office of the Director General of Taxation -- rather than by a chief of a rather unimportant bureau.

Bureau of Contested Cases: This Bureau is staffed with a Bureau Chief and five employees, but only the Chief and one employee is actually involved with income tax cases.

The essential function of the Bureau is to operate as an appeals agency when income tax cases are contested by taxpayers. For example, in a typical case, the Salary Tax Bureau will reduce certain deductions claimed by a taxpayer, with the result that he will receive a higher assessment than he anticipated. If the taxpayer objects to the higher assessment, and writes a letter of protest, the letter will be forwarded to this "Bureau of Contested Cases."

After receiving these letters of protest, the procedure is for the Bureau of Contested Cases to forward them to the relevant field bureaus for investigation and for recommendation. The field bureaus, in turn, "propose" what they consider to be the correct assessment, while the Bureau of Contested Cases "decides" what the assessment should be.

In the course of a year, the Bureau of Contested Cases handles 300 to 400 disputed salary tax cases and about 350 to 500 disputed individual and corporate profits tax cases. In about 80 per cent of the cases, the decision of the Bureau of Contested Cases takes action which is favorable to the General Directorate of Taxation; in about 2 per cent of the cases, the decision of the Bureau is favorable to the taxpayer; while the remaining 18 per cent of the cases are compromised. There are four or five instances each year in which taxpayers will appeal higher assessments to the courts. These are usually cases involving French citizens rather than Vietnamese because of the relatively high cost of appealing cases to the courts.

If taxpayers are dissatisfied with the informal appeal provided by the Bureau of Contested Cases, they may appeal to the special four-man appeal committee provided for in the Fiscal Code. In practice, however, all protests are resolved informally.

No recommendations are advanced for improving the work of this Bureau. Some appeal machinery is desirable for contested cases, and the utilization of one employee plus the assistance of a Bureau Chief certainly does not represent an undue utilization of resources for this purpose. It also appears desirable to centralize the decision-making for all appeals in one bureau so that appeal cases can be decided uniformly and with an even hand.

<u>The Direction of Central Inspection</u>: There is some doubt whether this unit is a separate direction; formally, it is not, but the man in charge of the unit has the privileges and status of a director. The unit has seven employees, one in Saigon, and the other six assigned throughout Viet Nam.

The formal responsibility of Central Inspection is to ensure that the tax laws are being properly applied and that the various tax bureaus are being effectively administered. The inspectors report directly to the General Director of Taxation.

The work of this staff emphasizes the administrative rather than the technical aspects of enforcement; for example, they inquire into instances of bribery between employees and taxpayers, rather than to ensure that a particular levy on a taxpayer is correct. An auxiliary responsibility of the inspectors is to investigate anonymous letters and to report the results of these investigations to the Director General.

The Direction of Inspection illustrates a rather general problem in the Directorate of Taxation. This problem is an excess of administrative overhead or a tendency to have to many "Mexican Generals." These are people with technical competence but who are engaged in essentially nebulous and redundant administrative jobs. This causes an imbalance between those on the firing line and those behind the lines. Proof that the Direction of General Inspection is essentially vestigial is the nebulous nature of the work assignment and the ease with which the work assignment could be absorbed by other units. The various directors of particular taxes could be made responsible for the administrative as well as technical aspects of tax assessment, while anonymous letters could be handled by the field bureaus. These seven inspectors could then be employed in field auditing, which constitutes the essence of income tax enforcement.

The Service of Control: Technically, this Service has two bureaus, but in practice the work of the two bureaus is combined into one operation. The two bureaus are named "research" and "verification." Research, however, merely involves obtaining various documents from other government departments which are useful for enforcement purposes. Thus, the principal function of the Service is to obtain relevant information for verifying purposes and to use this information in the course of auditing firms. In the lexicon of tax administration, this Service would be referred to as a field auditing unit. It is the only real field auditing unit for the income tax in all of Viet Nam.

The personnel of the Service of Control consists of 10 persons, the Chief of Service, and one typist. The 10 inspectors represent, in general, the best resources available for income tax enforcement. Most of them have had the benefit of a two-year tax course in Paris.

Although the work of the Service encompasses a verification of the income, land, and patente taxes, most of the time of the inspectors is spent on the various income taxes. The inspectors always work in teams of two in order to assist each other.

The average work load of the Service is the completion of 50 audits per year. These audits are roughly broken down between 70 per cent corporations and 30 per cent individual proprietorships. Each audit involves the determination of the taxpayer's net income for a four-year period. The actual calculation of the tax on this income is undertaken by the appropriate field bureau responsible for assessments. Cases investigated are also usually referred by the field bureaus responsible for assessments.

The accomplishments of the Service of Control relative to determining additional income subject to tax are impressive, and offer dramatic proof that the income tax can be enforced effectively (or at least to a much better degree) if good personnel resources are utilized in the right place. During financial year 1958, this Service, in the process of auditing only 50 firms, obtained additional income subject to tax of 180,000,000$VN. Assuming that the average tax rate applicable to this income is 20 per cent, the net effort of the Service was to obtain 36,000,000$VN in additional tax assessments. In turn, this means that each of the 10 inspectors, on the average, obtained 3,600,000$VN in additional tax assessments, or an amount for each of them equal to about 24 times their salary.

Field auditing work in the provinces is undertaken by "mobile units." Viet Nam is divided into six areas, and there is one mobile unit in each area. Each mobile unit has three controllers and three revenue agents and this group operates as a team, undertaking a package audit of all taxes. One controller in the team audits for all direct taxes -- the patente, land, and income taxes. This means that the present field-auditing staff for the income tax outside of the Saigon-Cholon area is approximately the equivalent of three employees -- or one-half the time of six controllers.

This analysis results in two policy conclusions: (1) Whenever an inspector can be employed in such a way that he earns 24 times his salary, it is a patently wise use of public funds. (2) The evidence goes a long way to explode the myth that the income tax cannot be administered in an underdeveloped country. It obviously can be if a determined effort is made. There is little question that Viet Nam could have a relatively efficient enforcement effort if 100 inspectors were employed in field auditing instead of 15. Stated bluntly, no country could ever hope to enforce an income tax effectively with 15 inspectors. The Federal Government in the United States would have this number of Internal Revenue agents in a rather small city like Lansing, Michigan, with a population of only 100,000.

Summary of Personnel Engaged in Income Tax Administration: Only a rough approximation can be made of the total personnel employed in income tax administration in Viet Nam. It is possible to add up the personnel employed in the various bureaus described above, but some of these bureaus administer more than one tax. Some particular people, like a bureau chief, also have divided responsibilities. Another complication is that in the provinces a particular bureau will undertake all functions with respect to all central government tax assessments. However, bearing in mind that rather accurate information is available for the use of personnel in Saigon, and that Saigon probably represents 90 per cent of all income tax assessments, there is some value in adding up the total personnel resources available for income tax administration described in the preceding sections. This total amounts to 48 persons. At least 6 of these persons are administrators and another sizeable proportion is made up of typists, messengers, and low-ranking clerks. There are probably no more than 15 professionally capable income tax inspectors. With such limited resources, it is surprising that Viet Nam accomplishes as much as it does.

A Special Note on Mechanization: Within recent months, interest has developed in Viet Nam for the introduction of an IBM 650 computer. It is claimed by enthusiasts for this type of mechanization that it will revolutionize income tax administration. This enthusiasm is not shared by those who are actually knowledgeable about income tax administration, like the Director and Deputy Director of the General Directorate of Taxation. Nor is there any basis to be enthusiastic from United States experience with the mechanization of tax administration.

Despite a relatively conscientious and enlightened effort of administering the income tax in the United States, mechanization of administration remains quite unimportant. Only about 10 out of 30 states, plus the federal government, have installed conventional IBM equipment, and in general, this equipment is limited in its usefulness. The essential reason for this is that the nub of enforcement is auditing, and a person or firm cannot be audited by a machine. Unfortunately, there is no black magic in income tax administration; it is slow, laborious, and painful, and remains essentially an art rather than a science. True, mechanical equipment can afford information which is valuable for auditing purposes. In Viet Nam, for example, it would be possible to obtain data on imports and exports for particular firms. But in the last analysis, an inspector must be made available to use this information and apply it in a given case. In Viet Nam, on the other hand, there is much information, easily available without mechanical equipment, which is not being used in auditing. Mechanical equipment would only make available a vast amount of statistics which could not be assimilated. It should be borne in mind that there are only about 15 professionally capable inspectors. The policy conclusion is that little improvement can be expected by the introduction of an IBM 650 unless the personnel resources were also expanded drastically, because this information must be used by inspectors, while more resources must be employed on review, appeals, prosecution of cases in court, etc.

In assessing the desirability of an IBM computer, the basic nature of its contribution must be kept in mind. A computer will not assess or collect taxes; it will only provide helpful information for these purposes. This information could also be obtained by hand operation rather than through mechanization. Thus, there are two principal issues: (1) To what degree could the General Directorate of Taxation presently utilize the information? (2) Would it not be cheaper in a country like Viet Nam, where labor is relatively low cost, to obtain the information by hand operation rather than through expensive machinery? For example, the New York Tax Department has actually determined that a work load of up to 200,000 returns can be processed cheaper by hand.

There is nowhere in the United States where mechanical equipment as elaborate or as expensive as an IBM 650 is used for income tax administration. It seems the better part of prudence, therefore, for Viet Nam, where even scotch tape and staplers are in scarce supply, to aspire to the levels of income tax administration in the United States, rather than to try to be in the vanguard of tax administration for the world. If a computer is to be justified in Viet Nam, it should be rationalized in areas where there is a proven need, rather than in areas where the evidence and experience indicates that there is no need. Viet Nam needs more resources in the administration of the income tax, but the real limiting factor is the quantity and quality of auditing personnel rather than information that can be used by the very limited number of personnel.

PART III - RECOMMENDATIONS

1. Toward a Frame of Reference

A brief statement of basic principles should precede recommendations for any type of tax reform, for it is desirable to begin with a certain philosophical rationale of what constitutes a desirable tax system, and then assess a given tax system vis-a-vis the ideal principles.

The first basic principle is that the taxation of income should be strengthened in Viet Nam because this tax is the embodiment of equity. Equity deserves to take precedence over any other issue in proposing the development of income taxation. Other objectives, such as revenue productivity, convenience, stability of yield, etc., can be accomplished through other types of taxes. The personal income tax stands out as the most equitable tax because income is the principal source of tax payments, and is, therefore, the best measure of ability to pay. It may be argued that equity seems like a slender reed to justify a particular tax. On the other hand, without equity, a tax system would have little justification for its existence. Revenue productivity, for example, could be accomplished by printing money.

The progressive rate feature of the income tax, which requires the rate of taxation to increase as the amount of income received increases, is an attempt to equalize the tax burden among individuals. Progressive rates are based on the principle of diminishing marginal utility of income --

the idea that the last dollar received by a person with a high income has less utility (individually and socially) than the last dollar received by person with a low income, and for this reason, the higher income should be taxed at a higher rate. In addition, the personal income tax takes into account differences in family responsibilities by allowing deductions for dependents and for certain extraordinary personal expenses. By comparison, indirect taxes, which dominate the Vietnamese system of taxation, are regressive; that is, the percentage of tax to income for a low income person is higher than it is for an upper income taxpayer. There has never been an incidence study in Viet Nam, but there is no question that the present tax system places a relatively heavier burden on low rather than on middle and higher income groups. It could not be otherwise. The net result of this type of tax system is that after taxes, the rich are richer, and the poor are poorer.

Is there a base for exploitation of the income tax in Viet Nam? The answer to this is that most taxes in the last analysis must come out of the actual or potential income of individuals. Therefore, if there is taxpaying ability for any tax, there is taxpaying ability for an income tax. Since all taxes are eventually paid out of the income of individuals, only administrative difficulties or expediency can be used as arguments for not taxing income directly, which is the source of all taxes.

Although equity considerations dominate in the justification of developing income taxation, there are several other considerations which support an income tax. These may be summarized briefly as follows:

(1) A net income tax is relatively certain and measurable with respect to tracing out the final burden of the tax, thus making it easier to evaluate the tax in terms of ideals of tax justice. Indirect taxes, on the other hand, are shifted in prices so that this final impact is largely indeterminable.

(2) The progressive income tax is an instrument for leveling inequalities in the distribution of wealth and income, which in turn checks the tendency toward cumulative economic inequality, and so assures more nearly equal opportunity.

(3) The income tax is more consistent with optimum patterns of consumption and factor allocation than indirect taxes, because the latter tend to direct purchases from taxed to untaxed goods and services.

(4) The yield of income taxes fluctuates more than the level of economic activity, which means that a given increase in national income results in a more than proportionate increase in income tax receipts, and vice versa. This feature is an advantage in both inflationary and deflationary periods. In inflationary periods, excessive purchasing power is removed, while in deflationary periods, individuals are given automatic tax relief.

Administrative Feasibility

Admittedly, the income tax is not easy to administer, even under the best of circumstances. Experience has shown, however, that income can be determined precisely and that most taxpayers will pay the tax voluntarily. In other words, the income tax can be effectively and efficiently administered given a conscientious and enlightened effort. There is no doubt that an income tax is more difficult to administer in most underdeveloped countries because of the dominant agricultural base, the underdeveloped nature of accounting techniques, and the lower level of social consciousness. But this does not mean that the income tax is only adapted for use in industrialized and developed societies. Countries like Japan, India, the Philippines and Puerto Rico have demonstrated that the income tax can be developed into an important part of the tax system even in less-developed economies. The real fault lies in not wanting to spend the resources to administer an income tax in an underdeveloped economy.

The Taxation of Corporate Income

It is difficult to justify the taxing of corporate income in principle. Frequently, the tax is supported on the theory that the net income of a corporation is a measure of its ability to pay. But this thesis is weak, because there is only one stream of income flowing from the spendings made on the output of industry back to those responsible for the production -- owners, creditors, managers, and workers. This stream of income can be tapped for taxation at the corporate level in the form of a business tax and without integration with the personal tax, as it is done in Viet Nam, or it can be taxed when distributed to participants in the productive process. But if the aggregate of the income is taxed at the corporate level, and without integration with the personal income tax, no longer can it be said that the tax measures personal tax-paying capacity. The reason for this is that a corporate income tax is shifted to workers in lower wages, to stockholders in lower dividends or retained earnings, and to consumers in higher prices. When this shifting takes place, the tax falls on persons with little or no reference to their personal ability to pay. Also, to the degree that a tax is borne by stockholders, it results in discriminatory double taxation of corporate profits -- once at the corporate level and again at the personal level. Moreover, even as a measure of corporate ability to pay, the tax has shortcomings, because the volume of income of a corporation is not as good an indication of ability to pay as the rate of return on capital.

This does not mean, however, that there is no rationale for taxing corporate income. A corporation should make some payment for the privileges associated with the corporate form of business and for the provision of public services. A corporate income tax is also one means of taxing retained corporate profits, which increase the wealth of individuals, but which are not taxed under a personal income tax. Therefore, a corporate income tax may be justified as a companion measure to a personal income tax. There is also some justification for a corporate income tax on the basis of personal ability to pay, since the greater proportion of corporate wealth is held by middle and supper income groups. Special justification for taxing corporate income in Viet Nam is found in that the tax permits the taxation of profits distributed to foreign shareholders, who benefit from the natural resources and public services provided by Viet Nam, but who could not be taxed under a personal income tax.

However, it must be borne in mind that corporate taxes have deleterious economic effects unless kept at low levels. To the degree that corporate income taxes are shifted to corporate owners, either dividends or retained profits or both are reduced because of the tax. This reduction impairs the incentive to invest. The burden of the tax is also greater on new or small firms because they typically experience difficulty in securing outside capital and must therefore depend largely upon retained earnings. If Viet Nam aspires to obtain an increase in private foreign capital, one of the best ways to assure that this will not come about is to overburden corporations with taxation.

The Schedular Issue

A basic characteristic of the Vietnamese taxation of income is the application of varying tax rates to different types of income. This is known as a schedular type of income tax, which was introduced originally by the French and is still retained. The alternative practice, which is followed in the United States and most western countries, is to tax all income, regardless of its type, at the same rate. Whether to continue with a schedular income tax or to apply the same rate of taxation to all income is the most basic policy issue to be faced in income tax reform in Viet Nam. Previous analysis has shown that the net effect of the schedular income tax is to result in gross unneutralities among individuals.

The arguments most often heard in Viet Nam to justify the taxation of different types of income at varying rates are: (1) Because of the underdeveloped character of the economy, profits are easier to obtain than wages and salaries. (2) Most business profits are obtained through speculation rather than through real production. (3) Corporations enjoy monopoly positions. (4) Salary and wage earners work harder for their income than profit receivers. (5) The salaries of public servants are low, so they should be taxed at a low rate. (6) The taxation of salaries at a low rate encourages the political support of the government by civil servants. (7) Schedular rates provide more flexibility for the manipulation of rates on different types of income. (8) There is more income tax evasion among the receivers of profit than among the receivers of wages and salaries.

Even in the aggregate, these arguments are not impressive. They reflect a general bias against the self-employed and businessmen, which may be good politics but is bad economics. There is no economic substance to the belief that one type of income is fundamentally more productive or more socially desirable than another. On the contrary, probably the most important objective for Viet Nam is to encourage savings and investment on the part of entrepreneurs. Furthermore, the arguments manifest a belief that the tax system is the proper or best vehicle for adjusting all varieties of social, political, and economic imbalances. Experience has demonstrated, however, that there are more direct and expeditious ways of correcting social ills than through the tax system.

Schedular income taxes also violate the basic objective of tax equity, which is that the ability to pay taxes is based on the aggregate receipt of income by an individual, regardless of the type of income received. If "X" and "Y" receive the same amount of income, they have the same ability to pay taxes, regardless of the source of that income. And if "X" receives double the income of "Y", other things remaining the same, he has more ability to pay taxes, even if the income of "X" is in the form of salary and the income of "Y" is in the form of profits.

One only needs to cite an illustration to show the basic type of inconsistency found in a schedular income tax when types of income are the basis of taxation rather than individual capacity to pay. A medical doctor working for a Vietnamese agricultural company would be taxed under the salary tax at rates ranging from one to five per cent, while another doctor with the same income, but self-employed, would pay the profits tax at a flat rate of 16 per cent.

The essence of equity in taxation is the similar tax treatment of individuals in like circumstances, and the dissimilar tax treatment of individuals in unlike circumstances. This objective cannot be attained under a schedular income tax. As a result, any fundamental reform of the income tax system must begin with the adoption of a single rate structure for application to all types of income.

2. Tax Policy Recommendations

The previous analysis has disclosed that the Vietnamese system of taxing income is in need of fundamental reform if it is to be equitable, productive, and conducive to economic development. There are four basic structural faults: (1) There is an undue burden of taxation placed on corporations. This burden should be shifted, in part, to individuals, in order to provide a more desirable tax climate for investment. (2) The burden of taxation is unneutral among individuals, which detracts from equity. (3) The use of five separate income taxes is unduly complex, causing problems in both compliance and enforcement. (4) The base of the individual income tax needs to be broadened so that it will be more productive of revenue. These shortcomings of the Vietnamese system of taxing income may be corrected by the adoption of the following tax policy recommendations:

(1) Three of the five income taxes used by Viet Nam should be abandoned. This action would require elimination of the tax on wages and salaries, the tax on profits received by individuals, and the tax levied on the dividends and interest paid by corporations. The two takes which should be retained are the general income tax and the tax on corporate profits. The general income tax should be expanded so that it is applicable to all individuals and encompasses the receipt of all income, while the corporate profits tax should be similarly general and uniform among all corporations.

(2) The present rate structure of the general income tax should be retained (rates from 1 to 50 per cent), but the allowable deductions from gross income should be reduced in order to increase the tax liability of present taxpayers and to raise the number of taxable declarations. The following deductions should be eliminated entirely: (1) family indemnities (2) cost of living allowances, (3) supplements of function, and (4) allowances for servants and entertainment. In addition, abatements (personal exemptions) should be reduced from the present 30,000$VN for single taxpayers and 45,000$VN for married couples to 15,000$VN for single and 30,000$VN for married. Professional deductions should only be allowed to the extent that the expenses can be supported with evidence.

(3) The corporate profits tax of 24 per cent should be retained and should be made applicable to all types of corporations. Resident recipients of corporate dividend payments

should be given credit under the individual income tax for taxes paid on corporate profits.

(4) Capital gains arising from the sale of tangible assets and securities, as well as lottery winnings, should be taxed like other income.

(5) Regardless of the extent of income tax reform undertaken, new laws and regulations should be written for the whole system of income taxation. The reason for this is that the present fiscal code was adopted in 1953 and is basically inconsistent with the new political status of Viet Nam.

3. Tax Administration Recommendations

Recommendations for improving income tax administration may be divided into a relatively small number which are capable of producing immediate and appreciable improvements and a larger number of secondary importance. The latter will not be discussed in this report in order to focus attention on a few limited but very strategic reforms. Without the adoption of these few basic reforms, there can be no real improvement in tax administration.

The fundamental fault with the administration of the income tax in Viet Nam is that the Government does not fully realize that it must spend money in order to collect money. Personnel resources are seriously inadequate. A general indication of this inadequacy may be obtained by comparing the resources available for enforcing all taxes in Japan with those in Viet Nam. In Japan, there are 65,000 employees engaged in general tax enforcement for a population of approximately 90 million people. If the same proportion of enforcement personnel were used in Viet Nam, there would be 8,333 employees instead of the present staff of 1,150.

The principal correction for this inadequacy of staff must come as a result of a net addition to the work force. However, some improvement may be obtained by reducing the work load imposed on the present staff. The most important recommendation in this respect is to impose on all taxpayers, both corporate and individual, the obligation to calculate their own tax liabilities. To this end, instructional material should be prepared and taxpayer assistance be made available.

Collection of income tax assessments may be improved in two ways: (1) by transferring the responsibility for collecting all income taxes from the General Treasury to the General Directorate of Taxation, and (2) by adopting withholding for the tax on wages and salaries and current payment of the tax on all other types of income. No "forgiveness" of the additional tax arising in the transition to current payment is recommended. Instead, this "windfall" revenue should be used for developmental purposes.

4. Effect of Recommendations

Adoption of the preceding tax policy recommendations, together with vigorous and imaginative administration, would give Viet Nam one of the best systems of taxing income in the world. It would be superior to many similar systems presently used in the more industrialized countries, because the latter often have serious weaknesses like the special treatment of capital gains and the double taxation of corporate earnings.

Equity would be improved because all individual recipients of income would be taxed according to the amount of income received regardless of its type. Despite the elimination of many deductions, the effective rate schedule would still be moderate. Table 10 shows that the effective rate of taxation would rise from 1.65 per cent on a gross income of 123,330$VN to 10.79 per cent on a gross income of 523,458$VN. These rates represent an increase over those presently imposed on civil servants, but they are, nevertheless, well within the capacity to pay of Vietnamese taxpayers.

Table 10

Comparison of Proposed and Present Effective Tax Rates[1]

Gross Income ($VN)	Proposed Effective Rates (Per Cent)	Present Effective Rates: Civil Servants (Per Cent)	Present Effective Rates: Private Employees (Per Cent)	Present Effective Rates: Businessmen (Per Cent)
123,330	1.65	.08	.69	6.98
172,363	3.36	1.03	2.18	10.32
267,667	6.46	3.35	5.93	14.81
523,458	10.79	5.29	10.95	20.41

[1] Calculated on the assumption that the taxpayer has a wife, four dependent children, and one dependent parent.

At the same time, investment would be encouraged by the reduction of the burden of taxes on corporate entities. Again, by comparison to other countries, a corporate tax of 24 per cent is moderate. This level of taxation is desirable because

Viet Nam needs an increase in investment, and this increase will come about largely through the aegis of corporations.

The Government of Viet Nam also needs higher tax revenues. In view of the likelihood that this need for higher revenues will be a more important motivation for tax reform than considerations of equity and economic development, it would be desirable to conclude with a specific revenue projection that would ensure an appreciable increase in governmental revenues. Unfortunately, a calculation of this type is beyond technical feasibility. The reason for this is that the adoption of the recommendations would represent a rather sharp break with the past, while revenue estimating is based essentially on an extrapolation of known experience.

There is, however, a good presumptive case for believing that the recommendations would result in higher income tax revenues. There are, first, counterbalancing features in the tax policy recommendations. The tax on the dividends and interest paid by corporations is the only major source of revenue foregone. To offset this loss, there would be higher effective tax rates under the general income tax, an expansion of the number of taxable individual returns because of reduced deductions, and a broader tax base because of the inclusion of capital gains. Moreover, all of the administrative reforms, such as withholding, current payment, and an expansion of field auditing, are designed to raise the level of income tax collections.

Two specific objections to the recommendations may be anticipated. Civil servants may be expected to object to higher income tax burdens on the grounds that they are already underpaid. This may be true, but if it is, the problem should be resolved by a direct adjustment of wage levels by the Fonction Publique rather than by an indirect subsidy through the tax system. A related objection is that businessmen should be taxed at a higher rate than civil servants because of the ease with which they are able to evade their tax liabilities. Acceptance of this argument would mean, however, that tax rates should be adjusted to the incidence of evasion. It would mean passive acceptance of the belief that the income tax cannot be enforced in the business sector. Such an admission is not warranted in Viet Nam, however, for the reason that tax enforcement in the business sector has never really been tried. Until an effort has been made, it is too early to admit defeat.