

# **Tax Reform in Vietnam**

## **Main accomplishments and lessons**

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**Nguyen Van Phung**  
**Tax Policy Department – MOF of Vietnam**

# Outline of tax reform in Vietnam

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- Vietnam has implemented three important phases of tax reforms and has been successful. Tax reform has been made an important contribution to socio-economic development.
- The main objectives of reforms depended on economic circumstances of each period, but generally, tax system should be State's important tool in macroeconomic adjustment, contributing to production promotion, encouraging investment and export, promoting changes in the economic structure and the tax revenue becomes the major revenue of state budget.

## First phase of tax reform (1990-1995)

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- It was implemented in earlier 1990s with a result of introduction of a unified tax system, including 9 important taxes to replace the different types of taxes applied for state-owned sector, private-owned industry and trade sector and the agriculture sector with over 70% of population nationwide.
- Turnover tax, profit tax and export-import tax were very important and played an important role in this reform stage.

## Second phase of tax reform (1997-2005)

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- It was implemented in late 1990s in the context that Vietnam signed ASEAN Trade Freedom Agreement (AFTA) and was preparing to negotiate access to World Trade Organization (WTO) with the introduction of modern taxes, which are value-added tax and corporate income tax. This reform period expressed a great effort of the Vietnamese government in implementing the reform direction, reflected the economy 's shift to market orientation.
- Introducing VAT and enterprise income tax; Amending the regulations on import and export duties and on special consumption tax (excise tax) ⇒ ensure consistency in the tax system.

# Overall achievements of the 2 phases of the reform

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- A tax system, which is considered to be relevant with the operation of a market-oriented economy, has been gradually established and applied uniformly to all economic sectors:
  - Export and import duties
  - Value added tax (VAT)
  - Special consumption tax (SCT)
  - Enterprise income tax (EIT)
  - Agricultural land use tax
  - Transfer of land use right tax
  - Personal income tax on high income earners
  - Housing tax
  - Natural resources tax
  - Fees and charges

## Overall achievements of the 2 phases of reform

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- Total revenue from taxes, fees and charges had increased substantially:
  - ✓ Tax revenue in 1996-2000 increased by 2.3 times in compared with the revenue collected in 1991-1995;
  - ✓ Tax revenue in 2001-2005 increased by 2.0 times in compared with revenue collected in 1996-2000
- However, tax system became more complicated (tax rates, tax incentives), was not comprehensive, non-synchronous, not including all taxable objectives and sources of revenue in market economy, not really transparent, unequal, thus not suitable to the international common practice.

# Third phase of tax reform (2006-2010)

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- Objectives
  - Being an importance role for macroeconomic management
  - Encourage domestic production, investment and export activities
  - Ensure adequate level of revenue collection for the State budget
  - In line with the process of international economic integration
  - Ensure fairness and equity
  - Contribute to the process of tax administration reform

# Third phase of tax reform (2006-2010) – Results

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- Amending VAT legislation (2008);
  - Opening tax base by reducing the number of goods and services which are VAT exempted;
  - Reforming tax rate structure (Expanding scope of 10%, narrowing scope of 5%); and calculation method (Set the requirement to input VAT deduction as to make payments through the banking system);
- Amending SCT (2005, 2008)
  - Reforming tax rates : Reduces taxes on beer and alcohol to open the market due to the commitment of joining WTO, ensure non-discrimination treatment between imported and domestic goods.
  - Expand the application of SCT for airplanes, yachts of personal use.
- Reforming CIT (2008): Reducing tax rate from 28% to 25% and Simplify tax incentives : Narrowing the scope of tax exemptions and reductions.

## Third phase of tax reform (2006-2010) – Results

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- Reforming PIT (2007) : Introducing Personal income tax Law (effected from 2009): Expanding tax base and taxpayers, and reassigning tax rates.
- Introducing Law on natural resource tax (2009): Changing regulations on dutiable and tax rates to increase revenue and help protect natural resources.
- Introducing Law on non-agricultural land use tax (2010): Set the tax calculation method according to the percentage of land's price, increases taxes on land used for residing in urban areas, decrease taxes on rural areas' resident land.
- Introducing environment protection tax (2010): A new Tax that targets products whose use is harmful to the environment. This will both create revenue and help change the behaviors of producers and consumers.

## Third phase of tax reform (2006-2010) – Results

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- Reforming tax administration
  - Modernization tax administration system
  - Organization
  - Personnel
  - Technology
- Applying self-assessment mechanism
- Tax education and dissemination of information

# Tax reform in Vietnam – Lessons

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- Vietnam has been successful in tax reform 2006 – 2010 period. New taxes may instead of tax reduction by WTO commitments. Tax reform has contributed significantly to the process of economic reform in Vietnam.
- Revenue from taxes and fees is an important source for the State budget: Increase investment from the State budget; Paying foreign debt; Meeting social expenditure requirements (health care, education, culture...)
- Tax reform always encounters a lot of obstacles from the real world as well as opinions of many interested groups in the society, even in the class of people who are policy makers.

# Tax reform in Vietnam – Lessons

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- The lessons learnt from the practical tax reform in Vietnam:
  - There were many initial objectives, but the main objectives needed to be prioritized during each development period in order to construct and implement tax reform strategies.
  - The political, social stability and the Government's determination are the most important factors to ensure the success of tax reform. Tax reform needed to be conducted in line with reforms in other fields of the economy such as law, management institution.
  - The support of financial, international monetary organizations, and donors were also very important in constructing a fair tax system in the common and long-term prospects.

**Thank you for attentions !**