

# Compliance Challenges and Enforcement Trends

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## **Corporate Taxpayers Vietnam**

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# Compliance Challenges: Economic Environment

**Vietnam Economic Indicators 2012 (%)**

	<b>2011</b>	<b>2012</b>
<b>GDP Growth Rate</b>	<b>5.89</b>	<b>5.03</b>
<i>Agriculture &amp; Forestry</i>	4.01	2.72
<i>Industry &amp; Construction</i>	5.53	4.52
<i>Service</i>	6.99	6.42
<b>CPI</b>	<b>18.13</b>	<b>6.81</b>
<b>Investment</b>	<b>5.70</b>	<b>7.00</b>
<i>Goods Import</i>	8.70	13.00
<i>Goods Export</i>	18.00	15.00
<i>Service Import</i>	21.10	3.80
<i>Service Export</i>	19.00	6.30
<b>Tax Revenue</b>	<b>20.60</b>	<b>12.40</b>

# Compliance Challenges: Tax Population

**Number of Taxpayers in Vietnam 2012**

<b>Total Registered Taxpayers</b>	<b>30,748,407</b>	<b>100%</b>
<b>Filing Taxpayers</b>	<b>28,749,761</b>	<b>93.50%</b>
<i>Corporate Taxpayers</i>	<i>486,855</i>	<i>1.69%</i>
<i>Non-Corporate Organizations</i>	<i>125,290</i>	<i>0.44%</i>
<i>Household-Businesses</i>	<i>1,791,178</i>	<i>6.23%</i>
<i>Individual Taxpayers</i>	<i>26,346,393</i>	<i>91.64%</i>

# Compliance Challenges: Revenue Structure

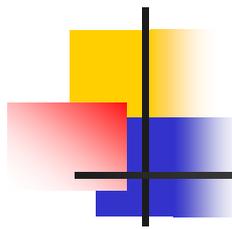
**Revenue Composition 2012**

	2012	Percentage of Domestic Revenue	Percentage of Total Revenue
<b>Total Revenue</b>	<b>607.5</b>		<b>100.0%</b>
<b>Crude Oil</b>	<b>140.1</b>		23.1%
<b>Domestic Revenue</b>	<b>467.4</b>	<b>100.0%</b>	<b>76.9%</b>
<b>Corporations Revenue</b>	<b>320.2</b>	<b>68.5%</b>	<b>52.7%</b>
<i>State-Owned Corporations</i>	144.1	30.8%	23.7%
<i>Foreign Corporations</i>	82.9	17.7%	13.6%
<i>Private Domestic Corporations</i>	93.2	19.9%	15.3%
<b>Personal Income Tax (Including Households)</b>	<b>46.3</b>	<b>9.9%</b>	7.6%
<b>Land-Related Revenue</b>	<b>53.9</b>	<b>11.5%</b>	8.9%
<b>Fuel Consumption, Environment Fees</b>	<b>12.7</b>	<b>2.7%</b>	<b>2.1%</b>
<b>Other Revenues</b>	<b>25.5</b>	<b>5.5%</b>	4.2%

# Compliance Challenges: Corporation Taxpayers

## Composition of Incorporation of Taxpayers 2012

Category	Form of Incorporations & Economic sectors	Number	Percentage
1	State-Owned Corporations	9,426	1.9%
2	Foreign Invested Corporations	10,446	2.1%
3	Foreign Joint Venture Enterprises	1,522	0.3%
4	Foreign Business Cooperation Contract	120	0.02%
5	Foreign Branches	13,211	2.7%
6	Private Shared Corporations	106,251	21.8%
7	Limited Liability Private Companies	269,328	55.3%
8	Proprietorship	76,435	15.7%
9	Partnership	116	0.02%
	<b>Total Corporations Legal Persons</b>	<b>486,855</b>	<b>100.0%</b>
10	Other Organizations	125,290	
	<b>Total Incorporations</b>	<b>612,145</b>	
11	<b>New Registered Corporations</b>	<b>69,300</b>	<b>14.2%</b>
12	<b>Temporarily Ceased Filing</b>	<b>30,800</b>	<b>6.3%</b>



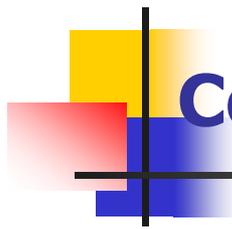
## Compliance Challenges: Performances

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- Total staff of the tax administration is 46,000 employees
  - But the auditing and examination works share only 19.5% of the staff
  - Compared with the figure of 25–30% in other countries
- The tax-to-debt ratio increases from 5% up to 8% of the total tax due (27.5% up from 2011 in absolute figures)

## Compliance Challenges: Performances

- Among 486,000 corporate taxpayers:
  - In 2012, the tax administration carried out only 78,000 cases of audit, accounting for only 1.6% of the total corporations, with an 11.4% ratio of examinations
  - The target for 2013 is to subject 1.8% of taxpayers to a formal audit and 13% of taxpayers to a normal examination
  - These objectives seem to be very modest compared to the strategic plan of 3% of taxpayers for audit and 25–30% of taxpayers for examination in 2015
- The efficiency of tax audits is low
  - The average result of tax collected per audit case ranges from US\$ 20,000–70,000
  - The total tax recovered from audit activities ranges from 0.8–1.2% of the total revenue collected



## Compliance Challenges: Administrative Risks

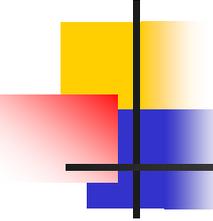
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- The VAT refund in the risk areas of export refunds
- Total VAT refunds account for 14% of the total tax collected (18.5% of the domestic revenue), 45.5% of which is for exports and 29.5% of which is for the 3-month excess input tax
- Incentives for new and expanded investments
- Transactions between related parties with continuing losses are making parties in Vietnam engaged in manufacturing and real estate businesses
- Banking bad debt provisions and deductible expenses
- Illegal invoicing for value-added tax and corporate income tax purposes

# Enforcement Trends: Legislation Amendments

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- Build in provisions under the tax law to restrict cash transactions to control VAT administration
- Revise the VAT law to disallow automatic refunds after 3 months of having a positive input tax
- Thin capitalization provisions to control related parties' loan transactions
- Introduction of APA Exchange of Information procedures under Tax Administration Laws to support Transfer Pricing Strategy
- Reduce VAT filing frequency from a monthly basis to a quarterly basis for small and medium taxpayers
- Introduce VAT threshold for small businesses



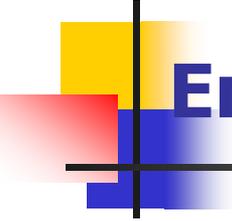
## Enforcement Trends: Taxpayer Education

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- Social awareness and voluntary compliance could be a cheaper method of tax enforcement in some tax administrations where material and human resources are scarce
- Taxpayer facilitation:
  - e-filing device: optical device, Internet filing infrastructure
  - e-invoicing, e-stamp for special excise, integrated database for invoicing and electronic stamps
  - Paying tax via the banking system: ATM, on-the-spot collecting machines from banking agents
- Taxpayer education: “listening to the taxpayers program”
- Training of tax accountants and financial officers

# Enforcement Trends: Audit and Examination

- Tax audit on the VAT refund for export and on incentives for new and expanded investments
- Transfer pricing audit:
  - Concentrate on transactions between related parties with persistent losses making parties in Vietnam engaged in manufacturing and real estate businesses
  - Enhance the enforcement of documentation, recording and filing transactions between related parties
  - Gather and build up reference database for the transfer pricing audits
- Risk assessment and industry analysis to identify cases for audit in banking, intra-regional corporations such as electric power companies, and telecommunication
- Examination and control of illegal invoicing for value-added tax purposes
- Training specialized professional auditors on industrial basis
- Invest material and human resources for efficient administration of large taxpayers to minimize revenue risks



## Enforcement Trends: Performance Indicators

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- Ratio of audit and examination cases in comparison with the number of taxpayers
- Ratio of tax debt in relation to the total tax collected
- Ratios of filing, non-filing, stop-filing, and cease-filing taxpayers
- Average amount of tax recovered per audit case

# Compliance Challenges and Enforcement Trends

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**THANK YOU!**