

The Impacts of Tax Procedures Reform on Business Environment in Vietnam: Achievements and Further Reforms

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Tax procedures are factors that strongly affect the business environment. A simple and convenient tax procedures system will contribute to a good business environment by easing of tax returns preparation, reducing tax compliance costs, and preventing corruption. This paper examines the results and impacts of previous tax procedures reform on Vietnam's business environment, identifies challenges of tax procedures reform now and the coming years, and discusses areas where further reforms are needed to sustain tax revenue and reduce compliance costs including: (1) transparent and comprehensive guidance to all tax laws and other legal tax documents; (2) widening the application of risk management in tax administration; (3) continuing simplification of tax procedures; and (4) development of IT in tax administration.

Keywords: business environment, compliance costs, doing business, reform, tax procedures

Introduction

Tax procedures reform is a part of tax reform. As mentioned above, tax procedures reform affects considerably the business environment. Therefore, tax procedures reform has been discussed with various viewpoints of scholars all over the world for the last few decades. Governments have also paid much attention to tax procedures reform. Tax procedures reform has been conducted in many economies (both developed and developing economies).

Since November 2001, the World Bank (WB) has conducted its annual report "Doing Business" (DB) which shows its survey's result on business environment of around 190 countries in many aspects in which the time for paying taxes and payments to pay taxes are evaluated. In the annual DB, the indicators measure only the administrative burden associated with preparing, filing and paying three major types of taxes (profit taxes, consumption taxes, and labor taxes).

The Vietnam Chamber of Commerce and Industry (VCCI) has conducted a biennial survey on tax procedures reform in Vietnam since 2014. The survey evaluates the level of business satisfaction on five aspects including: (1) the access to tax regulations and tax administrative procedures; (2) the implementation of tax procedures; (3) tax audit and tax complaints resolve; (4) tax service provided by tax agencies; and (5) the results of tax agencies' work related to taxpayers. This survey is conducted by mail. Participants in the survey were enterprises operating in 63 provinces and cities, randomly selected, stratified according to the type of enterprise, establishment time, and field of operation. The survey's report 2016 shows that the ease in accessing to tax regulations, the implementation of tax procedures, tax audit procedures, and time for tax complaints

resolve has improved but there are still some drawbacks. However, the VCCI's survey reports the level of satisfaction of taxpayers on tax administration reform without analyzing clearly how the tax procedures reform has been done as well as the concrete contents of tax procedures reform in Vietnam. This survey also does not analyze the limitations of the tax procedures reform in Vietnam.

Many other researches related to tax procedures reform in Vietnam have been reported. Su, Bui, and Tran (2014) held that tax reform program of the 2000-2010 period is released successfully, putting in place a tax system that meets the requirements of a market economy and necessary legal conditions for accession to the World Trade Organization (WTO). World Bank (2011) recognized that tax policy was modernized taking into account regional and global trends and the need to facilitate tax compliance of the rapidly growing private sector. Norregaard, Matheson Mullins, Schatan (2016) briefly described Vietnam's tax reform in the period of 2011-2015 and suggested that Vietnam should introduce an exemption threshold for small and medium-sized enterprises and implement EITI accounting standards to ensure transparency.

This paper uses the DB's indicators to illustrate the impacts of tax procedures reform. At the same time, this paper describes in more detail the tax procedures reform of the above three major taxes in Vietnam and discusses other issues of the tax administration reform such as regulations on invoices, filing procedures and tax services provided by tax agencies. This paper also uses the results of VCCI's survey as one of the data to prove the impacts of tax procedures reform on business environment in Vietnam. This paper also sums up and points out clearly the main concrete reforms in tax procedures in Vietnam for over 20 years with more emphasis on three recent years. Moreover, this paper points out the limitations of tax procedures reform in Vietnam and suggests what should be done to improve the situation.

Overview

Vietnam has conducted tax reform for nearly three decades alongside the Vietnam's economic renovation "Doi Moi". The tax reform in Vietnam began in the 1990s and it has undergone three phases. The first phase (1991-1998) was a transitional step from the tax system applicable separately to the state-owned enterprises and the private sector in the centrally planned economy to the unified tax system to all economic sectors. The second phase (1999-2006) marked the beginning of Vietnam's international integration with the introduction of the law on value added tax, the corporate income tax law, and the excise tax law. This period also saw the unification of corporate income tax rates between foreign invested enterprises and domestic enterprises and the process of tariff cut to implement the CEPT/AFTA agreements. A trial phase for self-assessment system in tax filing was also conducted in this period. The third phase has been conducted since 2007 with outstanding changes as follows: The introduction of the first law on tax administration; three new laws on value added tax, corporate income tax, and excise tax to replace the old ones (2008); the law on personal income tax to replace the Ordinance on high income earners (2007); the law on severance tax to replace the Ordinance on severance tax (2009); the law on non-agriculture land use tax to replace the Ordinance on land and house tax (2010); and a new tax law - the law on environment tax (2010). Vietnam has officially become a member of the WTO since January 2007. Therefore, the following years have witnessed the cut of its tariff as commitment to WTO. At the same time, Vietnam's tax laws have been amended to meet WTO's requirements and to restructure the tax revenue in the context of the fall on import duties due to the tariff cut.

The tax reform of the 2011-2016 period got remarkable achievements contributing to the recovery of the economy which was affected by the world financial crisis. Concurrently, Vietnam's tax administration including tax procedures has improved substantially over the last decades. The tax procedures reform in Vietnam has so far been focused on the following issues: (1) simplifying the declaration forms; (2) reducing the documentations; (3) publicizing the procedures; (4) applying self-assessment system; and (5) developing e-filing and e-payment of taxes. Although many achievements have been yielded which have been shown in the improvement of the rank in the World Bank's DB report in the recent years, the tax procedures reform is still facing some challenges and there remain areas where further improvements would be done.

Achievements

According to Su et al. (2014), a milestone in the process of modernizing tax administration is the adoption of the new Tax Administration Law in 2006, which enhanced the transparency and integrity of the operation of the General Department of Taxation. Four remarkable features could be found in the Tax Administration Law. Firstly, the rights and obligation of taxpayers, tax agency, and other related organizations are clearly defined. Secondly, all taxpayers are provided a unique taxpayer identification number. Thirdly, the law emphasizes equitable treatment between tax payment and tax refund. Finally, it provides guidance for using the third-party information to enhance the audit and enforcement of tax laws (Su et al., 2014).

Moreover, with the application of the Tax Administration Law, the self-assessment system has officially been applied in Vietnam with the emphasis of the voluntary compliance of the taxpayers since July 1, 2007. At the same time, the administration philosophy changed. According to which, the tax authorities act as services supporting agencies for the taxpayers and supervising agencies instead of acting only as supervising agencies. Especially, under the Law No. 21/2012/QH13 on amendment supplement of the Tax Administration Law, the value added tax (VAT) quarterly declaration (applicable to businesses with annual sale VND 20 billion or less) has applied since July 1, 2013 instead of monthly declaration. The development of information technology (IT) in tax administration was set up in this period with the widespread application of the code technology in tax declaration and the commencement of e-filing. Thanks to the above changes, the annual time of tax compliance in the World Bank's DB reduces from 1,050 hours to 872 hours in the period of 2009-2013. Despite the reduction of the annual time of tax compliance and many changes in tax laws and tax administration, the ranking with regard to paying tax appears to be unchanged during the period of 2009-2013.

The period of 2014-2016 witnessed substantial changes in tax procedures as one of the actions of the Ministry of Finance to carry out the Government's Resolution 19/NQ-CP dated May 18, 2014 on key duties and solutions to improve business environment and national competitiveness. Table 1 below shows the major reforms in tax procedures and briefly discusses their impacts on business environment.

During the early months of 2017, changes in transfer pricing rules were made under the Decree 20/2017/ND-CP with the following notable provisions:

- (1) Clearer explanation of definitions, transfer pricing (TP) documentation requirements, and TP methods with attempt to be in line with the Organization for Economic Co-operation and Development (OECD) and Base Erosion and Profit Shifting (BEPS) recommendations;
- (2) Exemption from preparation of TP Report and Form applicable to: (a) Enterprises only transact with related parties which are subject to corporate income tax (CIT) in Vietnam; and (b) Both parties have the same tax rate and neither of them is entitled to tax incentives during the period (McClelland, 2017);

(3) Exemption from preparation of TP Report (However, the TP Form will need to be filed) applicable to: (a) businesses having related party transactions with sale revenue less than VND 50 billion and the total value of related transactions does not exceed VND 30 billion; (b) taxpayer who signed APA, submitted Annual Report in accordance with APA regulation; and (c) perform single business function deriving no revenue or expenses from exploration and usage of intangible assets, having sale under VND 200 billion applying the operating margin of 5% and above, 10% and above, 15% and above respectively to the following areas: distribution, manufacturing, and processing (McClelland, 2017).

Table 1

Major Reforms in Tax Procedures and Its Impacts on the Business Environment in Vietnam During 2014-2016

| Major reforms in tax procedures | Impacts |
|--|---|
| 2014 | |
| <ol style="list-style-type: none"> 1. Clarifying and simplifying invoice procedures. 2. Abolishment of: (1) four annexes in VAT filing; (2) the requirement of VND 1 billion for the voluntary application of deduction method; (3) requirement for notes of deadline of payment in the VAT annex of purchased list; (4) VAT invoice in refund filing in case of exportation; and (5) the declaration to reducing input VAT in case of overdue payment for purchased goods and services. 3. Simplification of annexes in VAT filing. 4. Abolishment of quarterly provisional filing of CIT but keeping quarterly provisional payment. 5. Publicizing all legal tax documents and tax procedures in the General Department of Taxation's website. 6. Developing e-filing with the participation of 94.8% enterprises and e-payment with the participation of 0.24% enterprises. | <p>Easier to comply. Saving time and money for the preparation of VAT and CIT filing. Reduction of tax compliance costs. Reducing unofficial costs for taxpayers and preventing corruption. The World Bank's DB: Time for paying taxes is 537 hours (WB, 2015).</p> |
| 2015 | |
| <ol style="list-style-type: none"> 1. Abolishment of: (1) list of purchased goods and services and list of selling goods and services in VAT filing; and (2) several documents related to deductible expenses for CIT. 2. Certain documents in tax filing will be abolished by the Government when applying e-procedures. 3. Simplifying personal income tax (PIT) computation to business individuals and households. 4. Giving more detailed guidance for some deductible expenses for CIT. 5. Time for tax agencies in resolving tax procedures was reduced considerably. 6. Widening of e-filing with the participation of 98.95% enterprises and e-payment with the participation of 95.3% enterprises. | <p>Saving time and money for the preparation of VAT, CIT, and other taxes' filing. Easier to comply. The World Bank's DB: Time for paying taxes is 537 hours; Rankings in ease of paying tax: 173/189 (WB, 2016).</p> |
| 2016 | |
| <ol style="list-style-type: none"> 1. Clarifying the way to determine VAT refund in case of exportation. 2. Widening the scope of the application of VAT refund before audit. 3. Abolishment of requirement of bank account registration as one of the conditions for VAT credit. 4. Making the provisions on the excisable price easier to apply. 5. Making the exemptions of customs duties easier to apply. 6. Clarifying and cutting several procedures in customs duties' filing. 7. Widening of e-filing with the participation of 99.7% enterprises and e-payment with the participation of 96.7% enterprises. | <p>Shortening the time to receive the VAT refund. Saving time and money for the preparation of filing. The World Bank's DB: Time for paying taxes is 351 hours; Rankings in ease of paying tax: 167/190 (WB, 2017). VCCI: The level of satisfaction of taxpayers on tax procedures reform 2016 is 75/100, up 4 points as compared to 2014 (Pham, 2017). VCCI: The percentage of taxpayers who have trouble in doing tax procedures reduced from 49% down to 41% (Pham, 2017).</p> |

Challenges

The challenges of tax procedures reform are further identified:

(1) How the tax procedures should be reformed in a way that could balance the strong demand for the prevention of tax fraud caused by high percentage of low compliant taxpayers and the need for favorable business environment;

(2) In the context of international integration, the tax system requires further strengthening to address newly emerging challenges, such as cross-border tax evasion, transfer pricing, and e-commerce transactions (KPMG, 2014);

(3) Despite great effort of the Vietnam Communist Party and the Government, corruption still remains one of the biggest obstacles to the economic reform as well as tax procedures reforms.

Recommendations for Further Reforms

Transparency

A transparent and comprehensive guidance to all tax laws and other legal tax documents will contribute to spurring the compliance of taxpayers and reducing unofficial costs. In order to get this demand, some important work should be done including:

(1) Checking “grey” areas in all tax laws and legal tax documents and replacing them by clear explanation. For example, a definition of what is considered to be “related to generating income” should be given on the Law on Corporate Income Tax; a clearer explanation on how to calculate the percentage of 51% value of minerals and energy expenses for exported products which are made from extracted minerals in order to be subject to VAT exemption should be given, etc.;

(2) Enhancing the ability of taxpayers to obtain clear and timely written guidance on areas where they may be uncertain on the application of the tax regulations;

(3) Supporting specific guidelines on the application of 0 rated of VAT for exported services, incentives for IT industry, filing and auditing of electronic commerce, etc.;

(4) Implementing EITI accounting standards to ensure transparency (Norregaard, Matheson Mullins, Schatan, 2016).

Development of Risk Management

By application of risk management in tax administration, the tax authorities apply simple procedures to high compliant taxpayers and thorough procedures to low compliant taxpayers. This is the key solution to overcome the challenge of how to balance the demand for the prevention of tax fraud and the need for favorable business environment. Risk management has been so far applied only in tax auditing and VAT refund in Vietnam. Risk management should be applicable to tax filing and payment, tax debts and enforcement of tax administration decisions; management and use of tax invoices; and other activities during implementation of tax administration tasks.

Procedure Simplification

Although many documents in tax filing have been cut, there remain several documents that could still be abolished especially documents related to tax refund, invoices, and incentives. Moreover, the tax filing should be reformed in a way that accounting data can be used at the same time for tax declaration in order to save time for tax filing preparation.

Development of IT in Tax Administration

IT has been increasingly applied in tax administration, especially in registration, filing and payment, but there are some areas that can be further improved including tax refund, invoice management, and other tax procedures. By application of e-procedures in these areas, all procedures will be done automatically and timely in accordance with the Tax Administration Law.

Conclusion

This research has two main contributions. First, it sums up and points out clearly the main concrete reforms in tax procedures in Vietnam for over 20 years. Especially, this paper shows more details of tax procedure reforms in the last three years. According to which, thanks to the changes in tax procedures, the business environment in Vietnam has considerably improved (easier in paying taxes, reduction in compliance cost and time for paying taxes). Although in the World Bank's DB 2017, the paying taxes indicators of Vietnam have much improved with considerably filing time reduction of 146 hours (from 497 hours down to 351 hours) and the move in rankings from 178/189 up to 167/190, much remains to be done to get the goals of ASEAN-4 set by the Vietnam Government under Resolution 19/NQ-CP dated February 6, 2017 with time for paying taxes of 119 hours because Vietnam's paying taxes indicators are now lowest in ASEAN region (World Bank's DB rankings 2017: Lao 146, Indonesia 104, Philippines 115, Thailand 109, Malaysia 61, Singapore 8). Second, this research points out the limitations of tax procedures reform in Vietnam and suggests what should be done to improve the situation, including: continuing to modify the tax laws to a more transparent tax legislation, enhancing the efficiency of the application of risk management in tax administration, setting a more efficient way to use accounting data for tax declaration in order to save time for tax filing preparation, and developing IT in tax administration in Vietnam. Moreover, in order to get the goals in tax procedures reform as well as in economic reform, both political will and technical solutions are badly needed among which corruption struggle, IT implementation, and modernization of tax administration count most.

The main limitation of this research is that it does not use an econometric model to measure the quantitative impacts of tax procedure reforms on the business environment. For example, how many hours have been saved by the application of quarterly VAT filing to replace the monthly VAT filing or what percentage of taxpayers are satisfied with the tax procedures reform, etc.. Future study should make clear the quantitative impacts of tax procedures reforms on the business environment by using an appropriate econometric model. A more detailed survey on the satisfaction of taxpayers on the tax procedures reform should also be done for the next study.

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