

THE SYSTEM OF INDIRECT TAXES

IN

VIET-NAM

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## INTRODUCTION

This report on the system of indirect taxes is the fourth in a series, following previous studies of the income, real property, and the patente taxes. Subsequent research will be concerned with excise taxes.

The indirect tax system in Viet-Nam is composed of nine taxes, which as a group have few characteristics in common. Heading the list in revenue importance is the production tax -- a combination producer's sales tax and import duty. Emphasis in this report has been given to the internal application of the production tax, because it is a superior tax and there is possibly no other levy in the Vietnamese tax system that fails so much to live up to its real revenue potential. Of next importance from a revenue point of view is an excise tax on gasoline. Four of the remaining taxes are also special excises, but with a sumptuary bias of varying degree. These include taxes on entertainment, meat, precious metals, and restaurant meals. Bearing little relationship to any of the above are the three remaining taxes: a tax on the transformation of paddy into rice, an annual motor vehicle license tax, and a producer's tax on ice.

Sophisticated fiscal planners will have little enthusiasm for several of these indirect taxes. Many of them are of the "bread and butter" variety -- the kind that experts usually do not recommend, but invariably every country retains because of

their revenue productivity. This report takes a different view. Despite the fact that many of these taxes do not rate a high score as measured by some of the canons of taxation, they are precisely the kind of taxes which can and must provide additional revenues until such time as the direct tax system can be strengthened in Viet-Nam. For this reason, considerable attention has been given in the report to the revenue expansion of the various indirect taxes.

Adoption of the recommendations in this report, together with an increase in the inspection force in Saigon-Cholon from 8 to 25 controllers, would provide approximately 903 million \$VN in additional revenues, or raise collections from 1,003,673,000 \$VN in 1959 to about 1,906,673,000 \$VN. This increase in revenue would go a long way toward resolving Viet-Nam's need for more revenue. The summary noted below indicates the recommended sources of additional revenues:

	1959 Collections (\$VN)	Projected Increase in Revenues (\$VN)
Production tax on internally-produced goods	281,269,000	240,000,000
Gasoline (new taxes on gasoline, diesel, and lubricating oils)	500,270,000	468,000,000
Entertainment tax	49,691,000	8,000,000
Consumption tax on meat	69,545,000	13,000,000
Motor Vehicle circulation tax	47,291,000	125,000,000
Paddy Transformation tax	33,631,000	40,000,000
Precious metals luxury tax	7,310,212	3,000,000
Increase in customs duty on refrigerators		<u>15,000,000</u>
Loss of revenue from elimination of the ice consumption tax		<u>9,000,000</u>
Total projected increase in revenue		<u>903,000,000</u>

Part I An Overview of the System of Indirect Taxes

1. Relationship to Total Revenue

By way of introducing the subject of indirect taxes in Viet-Nam, it is helpful to obtain some perspective with respect to the role played by this group of taxes in the provision of total revenues for the central government. A series of tables has been developed for this purpose. Table 1, assembled from statistics obtained at the General Directorate of the Treasury, shows total budget receipts for 1958 of 14,034 million \$VN. However, because of differences in concepts and procedures, the data obtained from the General Treasury on budgetary receipts do not agree either in individual categories of revenue or in over-all amount with similar statistics available from the General Directorate of the Budget and Foreign Aid. Table 2, presenting data obtained from the Budget Directorate, shows total revenues for 1958 (line 14) of 13,929 million \$VN. This total is actually quite close to the General Treasury's total receipts of 14,034 million \$VN, but there are rather wide variations in the reporting of particular categories of revenue between the two sets of statistics. For example, the General Treasury reports receipts of 476,951,746 \$VN from registration taxes and fees, while the Budget Directorate indicates receipts of 626,782,805 \$VN for the same category.

In interpreting Table 2, care should be taken to distinguish between estimated revenues and expenditures as indicated on line 18 and actual revenues and expenditures as shown on line 14. Referring to line 14, it may be seen that the Central government regular budget actually had a surplus in 1958 of about 350 million \$VN, although a balanced budget was anticipated.

Table 1 indicates that tax revenues in Viet-Nam in 1958 totaled a little over 8 billion \$VN out of total revenue receipts of about 14 billion \$VN, with the difference between the two totals largely being covered by American aid. However, an important qualification should be made with respect to the receipts of approximately 8 billion \$VN in tax revenues. A considerable proportion of these receipts is derived from various types of duties and taxes on imports, and these in turn are largely assessed on goods introduced under the American aid program. For example, in addition to customs duties of 1,953 million \$VN appearing in Table 1, 2,179 million \$VN out of total indirect tax receipts of 2,985 million \$VN were accounted for by the production tax on imports. In addition, 476 million \$VN out of the total amount collected in excises of 1,322 million \$VN are attributable to excise taxes levied on the importation of goods. It is apparent, therefore, that more than one-half of the 8 billion \$VN attributed to tax revenues in Table 1 is accounted for by various import taxes and that this source of revenue is greatly dependent on American aid.

Table 1

Source of Revenues for the  
Central Government, 1958

Revenue Source	Collections During 1958 on 1958 Assessments (\$VN)	Collections During 1958 on 1957 Assessments (\$VN)	Total Receipts (\$VN)
(1) Direct taxes	842,934,584	51,393,527	894,328,111
(2) Indirect taxes	2,984,562,977	1,399,615	2,985,962,592
(3) Customs and other taxes on imports and exports	1,953,379,620	12,661,480	1,966,041,100
(4) Excise taxes	1,321,992,809	1,204,373	1,323,197,182
(5) Registration taxes and fees	476,951,746	775	476,952,521
(6) Other taxes	130,354,147	--	130,354,147
(7) Direct tax assessments for years previous to 1957			<u>349,808,183</u>
	<u>Sub-total for tax revenues</u>		8,126,643,836
(8) Non-tax revenues	671,216,423	39,086,063	710,302,486
(9) American aid			5,127,388,900
(10) Other revenue sources			<u>70,138,866</u>
	<u>Total</u>		<u>14,034,474,088</u>

Source: General Directorate of the Treasury.

Table 2

Budget Receipts and Expenditures  
for 1958

<u>Revenue</u>		<u>Expenditures</u>	
<u>Item</u>	<u>Amount</u> (\$VN)	<u>Item</u>	<u>Amount</u> (\$VN)
(1) Direct taxes	753,131,943	Department and agency	11,923,955,023
(2) Indirect taxes	2,983,033,895	Sundry expense	51,567,707
(3) Customs and other Import and export duties	2,066,250,933	Subsidiaries, contributions, and pensions	1,330,642,198
(4) Excise taxes	1,297,748,232	Debt payment	21,409,163
(5) Registration Taxes and fees	626,782,805	Reimbursements, etc.	1,612,938
(6) Other taxes assessed by other offices	---	Purchase and construction of real property	8,907,504
(7) Public works license fees and other adm. fees	466,809,610	Unexpected expense	274,655,011
(8) Previous fiscal year direct taxes	---	Outside the budget (for civilians)	290,696,105
(9) Non-tax revenues	1,171,963,466	Total	13,903,466,549
(10) American aid	5,127,388,900	Less outside the budget for military and civilian expenditures	(323,722,047)
(11) Other sources of collection	---	Actual budget expenditures	13,579,744,502
(12) Total	14,493,109,784	---	---
(13) Less repayment of short-term loans	(563,583,988)	---	---
(14) Actual revenue	13,929,525,796	Estimated expenditures	14,133,809,000
(15) Assessments for fiscal year	15,768,063,221		
(16) Less Item 13	(563,583,988)		
(17) Total	15,204,479,233		
(18) Estimated revenues	14,133,809,000		

Source: General Directorate of the Budget and Foreign Aid.

In 1958, the Vietnamese Government financed approximately 40 per cent of its budgetary expenditures through its own internal tax system and collections on self-financed imports, while the remaining 60 per cent was covered by U. S. aid. If U. S. project aid is included in total government expenditures, the Vietnamese Government covered approximately 35 per cent of public expenditures. This degree of financial dependence on U. S. aid constitutes the focal point of Viet-Nam's fiscal problem.

Table 3 has been prepared to continue this broad view of Vietnamese Government revenue resources. In this Table, all internally collected taxes have been listed in their order of revenue importance for 1958. It should be noted in interpreting the data that many of the collection statistics for particular taxes are deflated because only collections made from 1958 assessments are listed. This shortcoming, however, does not affect the reliability of the data appreciably.

With respect to revenue productivity, the group of nine indirect taxes has two principal revenue producers and seven taxes of lesser importance. Heading the list in collections is the tax on internally-produced goods<sup>1</sup>, followed by the indirect tax on gasoline. The remaining seven taxes in the aggregate do not produce as much revenue as the tax on gasoline.

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<sup>1</sup>As explained later, the production tax is actually two distinct taxes, being a tax on imports as well as a levy on goods produced internally. The present discussion refers only to collections on internally-produced goods.

Table 3

Central Government Collections from Individual Taxes Administered  
by the General Directorate of Taxation in  
Calendar Year 1958<sup>1</sup>

Tax	Collections (\$VN)	Percentage of Total Tax Collections
1. Income Salary	17,503,685	
(direct) Profits	405,236,992	
General	91,767,604	
Interest and dividend	125,457,522	
	639,965,803	21.5
2. Cigarettes (excise)	513,596,463	17.3
3. Transference of property (registration)	362,963,930	12.2
Internal production (indirect)	334,683,672	11.3
5. Gasoline (indirect)	252,409,692	8.5
6. Miscellaneous excises (surtaxes on cigarettes, wine, etc...)	147,088,281	4.9
7. Land Rice	52,266,018	
(direct) Mixed	31,690,762	
Urban	23,348,083	
	107,304,863	3.6
8. Patente (direct)	92,166,566	3.4
9. Entertainment (indirect)	78,683,654	2.6
10. Beer (excise)	74,051,424	2.5
11. Stamps, etc. (registration)	59,878,276	2.0
12. Meat (indirect)	57,958,130	1.9
13. Vehicles (indirect)	45,290,625	1.5
14. Vietnamese wine (excise)	37,026,636	1.2
15. Insurance (registration)	25,988,355	.8
16. Paddy transformation (indirect)	25,221,104	.8
17. Tobacco leaves (excise)	20,370,891	.7
18. Matches (excise)	15,879,150	.5
19. Salt (excise)	15,363,859	.5
20. Tax on trustees (registration)	10,706,758	.4
21. Brown sugar (excise)	10,647,173	.4
22. Precious metal (indirect)	8,717,407	.3
23. Ice (indirect)	8,667,441	.3
24. Inheritance (registration)	8,154,990	.3
25. French wine (excise)	6,835,093	.2
26. Restaurant (indirect)	6,770,845	.2
27. White sugar (excise)	3,824,760	.1
28. Transference of shares (registration)	1,542,206	.05
Total	2,971,658,047	99.95
29. All other taxes	12,684,767	
Total	2,984,442,814	

<sup>1</sup>Collections are based only on 1958 assessments.

Source: General Directorate of Taxation.

Several important implications for tax policy may be derived from Table 3:

(1) Although income taxes as a group constitute the largest percentage of internally collected taxes, the salary tax is particularly weak, actually ranking in 18th place below the excise tax on tobacco leaves.

(2) Land taxation as a category of revenue represents only 3.6 per cent of total collections, with the urban land tax producing less revenue than some special excises like the one on Vietnamese wine.

(3) The single tax on cigarettes produces more revenue than the production tax on internally-produced goods.

(4) As a general business tax, the patente shows relatively poor revenue productivity.

(5) In an agricultural country largely characterized by rice production, the paddy transformation tax is unusually unproductive of revenue.

The individual taxes in Table 3 may now be grouped into the conventional four categories of taxes -- direct, indirect, excise, and registration -- which are used in Viet-Nam for classification purposes. This procedure gives the results presented in Table 4. Probably more by accident than by design, direct, indirect, and excise taxes each contribute about 28 per cent of total collections for those taxes administered by the General Directorate of Taxation, with

registration taxes and fees being about one-half as important as each of the other three categories.

This classification of taxes into four categories has little logical justification. One conventional procedure of classifying taxes is between direct taxes, which are difficult to shift from the person or object bearing the immediate impact of the tax, and indirect taxes, which are relatively easier to shift. If this classification is used in Viet-Nam, nearly all indirect, excise, and registration taxes would fall into the indirect tax category. The conclusion is warranted, therefore, that direct taxes represent less than 30 per cent of total collections for those taxes administered by the General Directorate of Taxation.

Table 4

Central Government Collections from Four Categories  
of Taxes Administered by the General Directorate  
of Taxation in 1958

Category of Taxes	Amount of Collections (\$VN)	Percentage of Total Tax Collections
Direct	839,437,232	28.3
Indirect	818,302,570	27.5
Excise	844,683,730	28.4
Registration	<u>469,234,515</u>	15.8
Total	2,971,658,047	100.0

2. Administration

The General Directorate of Taxation is responsible for both the collection and enforcement of indirect taxes. For an understanding of how these two functions are performed, it is helpful to view operations in Saigon-Cholon separately from those in the remainder of Viet-Nam.

In Saigon-Cholon, collections are undertaken by four field offices, two each in Saigon and in Cholon. Enforcement activities, on the other hand, are undertaken by the Direction of Indirect Taxes, which is physically located in the central offices of the General Directorate of Taxation. This Direction is organized into two units, the Verification Service and the Legislation Service, with the Verification Service having all auditing responsibility for indirect taxes, and the Legislation Service undertaking all continuing activities arising from the auditing, principally the prosecution of cases in the courts.

Administrative facilities available in the rest of Viet-Nam may be summarized as follows: Large provinces usually have separate indirect and direct tax offices located in the principal towns, while these two offices are often combined into one in the smaller provinces. Indirect tax administration at the district level is undertaken by the Chief of District or by indirect tax bureaus operating under the jurisdiction of the General Directorate of Taxation. Most of the

administrative effort outside of Saigon-Cholon is confined to collection; to the degree that there is any auditing of indirect taxpayers, it is undertaken under the supervision of district inspectors who report directly to the General Director of Taxation. There are six of these district inspectors -- three in the South, two in the Center, and one in the Highlands -- and since they represent the General Director of Taxation in all the affairs of the Tax Directorate, the time that they have available for either auditing themselves or for the supervision of auditing is limited.

There was available during 1959 a total staff of eight auditors in the Verification Service for the auditing of all indirect taxpayers in Saigon-Cholon. This number of employees represents a reduction from ten persons available during 1957 and 1958. It should be emphasized that the eight persons on the staff in 1959 were responsible for verifying the tax returns of not only the production tax on internally-produced goods, but also the returns of all payers of indirect taxes. Moreover, it is not unusual for these eight persons to work part time on the control of direct taxes or on special assignments. The effectiveness of these eight persons is reduced further by grouping them into four teams of two persons each. This procedure is followed for two reasons: to reduce the likelihood of bribes being offered and to train new employees.

Associating the auditors in teams appears to be a wasteful practice, because in most cases auditing is a one-man operation. As a result, it is likely that the eight auditors working in four teams actually results in accomplishing no more work than could be done by four or five auditors. At the same time, it is doubtful whether this practice contributes much toward preventing dishonesty or facilitating training. Assuming that every auditor is potentially dishonest does not appear to be a good personnel policy. On the other hand, combining the personnel into teams of two employees each contributes little unless experienced and inexperienced employees work together, while it so happens that the eight persons now serving as auditors are all experienced. It would appear that the best utilization of this team device in the future would be to convert it into a training program by associating experienced personnel with new recruits.

To say that these persons are "experienced" needs some qualification. Although the basic requirement for auditing work is competency in accounting, only two out of the eight auditors have had the benefit of a formal training course in accounting. These two persons spent a period of two years in the National Tax School in Paris. The other six auditors have gained their knowledge of accounting from "on-the-job" training.

Auditing results support the view that the employment of more resources in the verification of taxpayer accounts would

be an intelligent use of public resources. The tabulation presented below indicates that eight auditors are capable of obtaining approximately 26 million \$VN annually in additional assessments. These results mean that each auditor on the average is capable of assessing in excess of 20 times the amount of his salary.

	Number of Violation Cases	Amount of Additional Tax
1957	104	6,192,969 \$VN
1958	247	25,734,940 \$VN
1959	233	21,898,934 \$VN

Part II Analysis of Individual Indirect Taxes

1. The Production Tax

(a) Description: The production tax is conspicuous as the single new major tax which has been introduced into the revenue system of Viet-Nam since the Geneva Agreement. This new levy, effective on March 4, 1957, replaced three former taxes: the general interior tax, the turnover tax, and the surcharge for armament. The general interior tax was collected on imported goods as well as on goods produced internally at rates of 4, 6, and 10 per cent depending on the kind of goods imported and produced. In addition, these imported products, as well as goods produced in Viet-Nam, were subject to a turnover tax of 1 per cent plus a surcharge for armament of 3 per cent computed on the sale price at each intermediate level of trade.

The production tax is levied on both the importation of products into Viet-Nam and on the internal production of goods, and is thus really two distinct taxes. Three different tax rates are levied on imported goods: 15 per cent on necessities, 35 per cent on luxuries, and 25 per cent on all goods designated as neither necessities nor luxuries.<sup>2</sup> The

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<sup>2</sup>Appendices A and B respectively list the goods classified as necessities and luxuries for the application of the production tax on imports. Apparently, the basic principle in developing these lists was to select a relatively small number of necessities and luxuries (57 and 67 items respectively) and to tax the vast number of remaining products at a rate of 25 per cent. Also, there are some conspicuous omissions from the list of necessities, such as most food and clothing products.

tax rate on internally produced goods is a uniform 6 per cent of the producer's selling price and is applied only at the producer's level.

Responsibility for the administration of the production tax is divided between the General Directorate of Customs and the General Directorate of Taxation. The production tax on imported goods is administered by the General Directorate of Customs. Basis of the tax is the declared value of the imported goods plus the customs duty itself, while the tax is collected at the same time that the customs duty is paid. Responsibility for collection and enforcement of the production tax on imports is also formally lodged by explicit provision in the Indirect Tax Code with the General Directorate of Customs rather than with the General Directorate of Taxation. On the other hand, the Tax Directorate has full responsibility for administering the production tax on internally-produced goods.

Despite this distinction in administrative responsibilities between the two directorates, however, the production tax is looked upon as a single tax and is treated as such in the Indirect Tax Code. Moreover, production tax collections on imports are forwarded by the General Directorate of Customs to the General Treasury and are then listed as indirect tax collections in the central government budget. Also, the General Directorate of Taxation is given over-all supervisory

responsibility in both administration and policy for both the tax on imports as well as for the levy on internally-produced goods. Because of these considerations, there is justification for giving some attention in this report to the production tax on imports, although a more comprehensive study of this facet of the tax should be delayed until the whole field of duties and taxes on imports is reviewed.

Basis of the production tax on internally-produced goods is the producer's selling price, including any sales expenses, transportation costs, and other taxes on sales. Legal responsibility for payment of the tax is borne by the producer, and all producers must register for payment of the tax, even those who are legally exempt. Payment of the tax is due on the 15th day of each month for deliveries (not sales) made during the previous month. The fine for failure to register is from 500 to 50,000 \$VN, and the penalty for late payment of the tax is three per cent per month for each month of delinquency. There are also provisions for levying penalties of 500 \$VN to 50,000 \$VN plus five times the amount of additional tax levied as a result of auditing activities, but in practice these penalties are compromised at lower amounts. Tax pyramiding is partially alleviated by permitting a tax credit (but not a refund) for any previous production tax paid on goods purchased and to be used as raw material in the productive process. This credit applies to either the production tax previously paid on imported goods

or previously levied on goods produced in Viet-Nam, except that the credit in the case of imported goods is limited to 6 per cent of the declared price of the goods plus customs duties. The credit may be carried forward from one month to another indefinitely until it is fully utilized.

The tax base of the production tax is broader than a manufacturer's sales tax, but at the same time it is much narrower than a general gross income tax. Tax liability under the production tax is largely determined on the basis of whether or not "form utility" is created by the business undertaking. This is evident by the broad categories of industries which are taxable: (1) agricultural, fishing, and forest products, with the exception of output used for home consumption; (2) the improvement, modification, embellishment, and manufacture of goods; (3) mineral exploitation; and (4) construction. Two conspicuous areas excluded from the tax are service industries and businesses which do not result in the physical transformation of products. Because service industries are excluded, the tax is not paid by such businesses as commercial banks, insurance companies, travel agencies, the professions, private schools, and transportation companies. Since the physical transformation of goods is a principal criterion determining tax liability, most commercial businesses at the wholesale and retail levels are exempt.

A rather extensive number of exemptions, some provided

in the original act and others added since 1957, has served to contribute to the narrowing of the tax base. Small producers in any industry are exempted from the tax if three conditions are fulfilled: (1) no more than six employees (including family workers) are employed; (2) the use of machinery is subordinate to hand labor in the productive process;<sup>3</sup> and (3) gross annual sales do not exceed 500,000 \$VN.<sup>4</sup> However, both taxable and exempt production are included in the determination of the 500,000 \$VN exemption limit. For example, a firm would be taxable if it had 300,000 \$VN in sales of taxable goods and 300,000 \$VN in sales of exempt goods.

Other exemptions from the internal production tax specifically provided for in the original drafting of the production tax law are: (1) rice and paddy (because there is a special paddy transformation tax); (2) government monopolies, such as the sale of postage and registration stamps; (3) products bearing special consumption taxes, which applies in the case of ice, restaurant meals over 100 \$VN each, meat, and precious metals; (4) the production of books, magazines, and newspapers; and (5) any production for export. These

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<sup>3</sup>As examples, the use of a manually-operated sewing machine is considered to be subordinate to the skill of the operator, and the use of a camera is considered to be subordinate to the skill of the photographer.

<sup>4</sup>Enforcement officials believe that the exemption of firms with gross sales below 500,000 \$VN results in some businesses dividing their activities into two or more units in order to avoid the payment of the tax.

exemptions were then expanded in 1958 to include: (1) rice husks, broken rice, and rice bran; (2) sugar refining (but not the production of sugar cane); (3) raw cotton, thread, and cotton textiles; and (4) occidental or oriental drugs and medicines (but not containers for these products).

Another decree in 1958 provided for a number of exemptions from the production tax levied on imports: (1) books, newspapers, and magazines; (2) fuel used in Vietnamese planes which fly to foreign countries; (3) personal effects in the possession of travelers; (4) samples of goods; and (5) currency, stamps, and credit instruments.

In addition, exemption from the production tax on internally-produced goods has been used recently as a device to encourage the development of certain industries. On June 3, 1959, the National Assembly under Law No. 13 exempted the manufacture of the following products from the 6 per cent production tax for a period of two years starting from June 3, 1959: (1) natural silks and rayon and products made from these materials; (2) insecticides; (3) chalk, pencils, and ink to be used by students; (4) agricultural and fishing equipment; (5) machines and spare parts used for industrial and craft purposes; and (6) moving pictures.

Still further exemptions have been added by administrative order. The more important of these, together with certain unique applications of the tax, are noted below:

(1) Although construction in general is taxable, individual residences and business establishments are exempt if the owners

or proprietors build the improvements themselves and occupy them for a period of five years. This means that tax liability is determined in part by whether or not a contractor has been employed for the construction.

(2) All repair work is exempt, including that to real estate, if the cost involved in the repair is less than one-half of the market value of the repaired property. However, in the case of a building contractor, there is a tax on the products used in the repair work if the contractor himself has manufactured the products.

(3) Construction is exempt from the tax if undertaken by regular government departments and if the facilities are to be used for a public purpose. Not covered by this exemption is government housing supplied for civil servants because such housing is not construed to be for a public purpose.

(4) Diplomatic exemptions include the construction of an embassy if reciprocal treatment is given to Viet-Nam by the particular government concerned. Goods purchased by American firms engaged in the United States aid program are also exempt.

(5) Because services are exempt, the output of tailors and printers is excluded from the tax if the customers' materials are used, but the output is taxable if the businessmen use their own materials.

(6) Restaurant meals is a product with unusual tax complexity. The meals are taxable under the production tax.

provided that: (a) the meal does not consist of meat (because there is a special indirect tax on meat); (b) the price of the meal does not exceed 100 \$VN (because there is a special tax on restaurant meals exceeding 100 \$VN each); and (c) the preparation of the meal involves an actual transformation of the food.

(7) Bars serving alcoholic drinks are excluded from the tax on the grounds that the serving and mixing of drinks does not transform the ingredients used.

(8) The provision of electric power and water is construed to be taxable.

(9) Normally, there is no production tax levied on the sales of importers on the grounds that no change in the form of the products is involved as a result of this type of business activity, although there is a production tax on the point of entry. However, an exception to this general rule is made in the case of importing firms which are sales subsidiaries of foreign corporations. An internal production tax is levied on the sales of these importers because it is believed that these firms tend to avoid import duties by introducing goods from their parent firms at prices below normal market levels. The production tax on the sales of these importers is thus viewed as a means of compensating for import duties which are allegedly avoided in part.

(10) The Presidential Declaration of March 5, 1957, which provides for exemption from the income, land, and

registration taxes for certain industrial investments, does not specifically mention the production tax on internally-produced goods. However, the provisions in the Declaration appear to be sufficiently broad so that inclusion of the production tax within the sphere of exemption would be possible. For this reason, the new projected paper, cement, and glass plants may be given exemption from the production tax under the authority of the Declaration. It should be noted, however, that all future textile and sugar factories will be exempt from the production tax by virtue of other provisions of the law.

In the light of the above description of the production tax levied on internally-produced goods, what is the basic nature of the tax? The production tax is essentially a selective gross receipts tax levied principally on large manufacturing and construction firms. This is true because nearly all commercial businesses are excluded from the tax, while the exemption given to exports and small producers in effect exempts the agricultural industry. Moreover, generous exemptions to several products have excluded a considerable number of manufacturing firms. The net result is that a rather wide potential tax base has become quite narrow. There appears to be some belief in Viet-Nam that the production tax resembles a value-added tax, but this is a misconception because there is no deduction allowed from gross sales for

materials, supplies, and services purchased. The only deduction permitted is for the previous production tax paid on raw materials used, and the rationale for this deduction is to prevent pyramiding of the tax.

(b) Policy Analysis: The replacement of the general interior, turnover, and armament taxes by the production tax in 1957 has had both desirable and undesirable effects. A desirable feature was the elimination of the turnover tax on internal sales in order to avoid pyramiding of the tax at each level of sales and to circumvent a very difficult enforcement problem with small-scale commercial business. Also desirable was the over-all increase in tax revenues by nearly 100 per cent. Table 5 indicates that total tax revenues in 1958, the first full year in which the production tax was in effect, were 2,500 million \$VN, while collections from the general interior, turnover, and armament taxes in 1956 were 1,310 million \$VN.

At the same time, however, the net effect of the change in taxes was an absolute and relative shift from taxes raised internally to taxes collected on imports. Revenues from internally collected taxes declined from 1,031 million \$VN in 1956 (turnover and armament taxes) to 322 million \$VN in 1958 (production tax on internally produced goods). Meanwhile, the tax burden on imports rose from 278 million \$VN in 1956 (general interior tax) to 2,178 million \$VN in 1958 (production tax on imports). As a result, the percentage of indirect

taxes levied on goods sold and produced internally to indirect taxes on imports changed sharply from 370.7 per cent in 1956 to 14.7 per cent in 1958.

While there was undoubtedly a shift in emphasis from internal to import taxes, it is also true that the statistics quoted in the above paragraph exaggerate the degree of the shift. This is due to the fact that the turnover tax was collected on the sales of importers, and this facet of the tax was, in effect, a tax on imports.

Thus, while the introduction of the production tax brought a very welcome and needed increase in over-all tax collections, it also increased Viet-Nam's dependence on revenue collected from imports and weakened the internal tax system. This development points up the need in any tax reform program to emphasize the strengthening of internally-collected taxes.

As in the case of most other taxes in Viet-Nam, the Saigon-Cholon area dominates tax collections from the production tax levied on internally-produced goods. Realization of this fact is important with respect to the distribution of tax enforcement resources. Table 6 indicates that 78.9 per cent of all production tax collections in 1958 was made from the Prefecture of Saigon-Cholon. Much the same concentration of the tax base was true when the turnover and armament taxes were in effect.

Another facet of concentration is that a relatively large part of the total tax burden is borne by a small number of large firms. For the purpose of investigating the tax burden

Table 5

General Interior, Turnover, Armament,  
and Production Tax Collections, Calendar Years 1956 to 1959

	1956	1957	1958	1959 <sup>3</sup>
(1) General interior and production taxes on imports <sup>1</sup>	278,333,950\$VN	2,185,523,081\$VN	2,178,562,018\$VN	1,391,695,769\$VN
(2) Turnover, armament, and production taxes on goods internally produced and sold <sup>2</sup>	1,031,539,233\$VN	570,859,726\$VN	321,597,776\$VN	219,755,626\$VN
(3) Total of general interior, turnover, armament, and production taxes (1)+(2)	1,309,873,183\$VN	2,756,382,807\$VN	2,500,159,794\$VN	1,611,451,395\$VN
(4) Percentage of taxes levied on goods sold and produced internally to taxes on imports	370.7	26.1	14.7	15.8

<sup>1</sup>The general interior tax on imports of 4, 6, and 10 per cent was replaced by the production tax on imports of 15, 25, and 35 per cent effective March 4, 1957.

<sup>2</sup>The turnover tax of 1 per cent and the armament tax of 3 per cent on general sales was replaced by the production tax of 6 per cent effective March 4, 1957.

<sup>3</sup>Data available to September 30, 1959.

Source: General Directorate of Taxation.

Table 6

Turnover, Armament, and Production Tax Collections  
on Goods Internally Sold and Produced in Viet-Nam and  
Saigon - Cholon, Calendar Years 1956 to 1959

	1956	1957	1958	1959 <sup>3</sup>
(1) Turnover, armament, and production tax collections in Viet-Nam <sup>1</sup> .	1,031,539,233\$VN	570,859,726\$VN	321,597,776\$VN	219,755,626\$VN
(2) Turnover, armament, and production tax collections in Saigon-Cholon <sup>2</sup> .	769,694,651\$VN	419,041,199\$VN	253,908,085\$VN	169,080,602\$VN
(3) Percentage of collections in Saigon-Cholon to Viet-Nam	74.4	73.4	78.9	76.9

<sup>1</sup>The general interior tax on imports of 4, 6, and 10 per cent was replaced by the production tax on imports of 15, 25, and 35 per cent effective March 4, 1957.

<sup>2</sup>The turnover tax of 3 per cent and the armament tax of 1 per cent on general sales was replaced by the production tax of 6 per cent effective March 4, 1957.

<sup>3</sup>Data available to September 30, 1959.

Source: General Directorate of Taxation.

Table 7

Thirteen Largest Production Taxpayers in Saigon, 1958<sup>1</sup>

<u>Type of Firm</u>	<u>Sales</u> (\$VN)	<u>Production Tax</u> (\$VN)	<u>Deduction</u> (\$VN)	<u>Tax Payments</u> (\$VN)
1. Beer and Soft Drinks	647,430,079	38,845,797	7,000,509	32,444,671
2. Electricity	516,301,258	30,978,069	6,805,843	24,172,233
3. Cigarettes	358,062,078	21,483,719	2,770,114	18,751,082
4. Cigarettes	352,467,181	21,148,025	2,770,407	18,377,618
5. Soft Drinks	45,086,564	2,705,189	195,297	2,509,892
6. Matches	42,183,415	2,531,000	244,456	2,286,540
7. Assembly of Scooters	66,774,751	4,006,486	2,050,468	1,956,018
8. Electricity	28,446,279	1,706,779	153,599	1,553,173
9. Construction	42,778,425	2,546,190	1,036,654	1,508,026
10. Construction	33,309,200	1,998,551	522,404	1,476,147
11. Electricity	22,992,569	1,379,582	184,740	1,194,839
12. Shoes	16,725,100	1,003,508	237,003	766,505
13. Printing	16,240,497	941,844	215,134	726,712
Totals	2,188,797,396	131,274,739	24,186,628	107,723,456

<sup>1</sup>There are internal inconsistencies in the Table due to clerical mistakes in recording production tax data in the indirect tax office. These errors, however, do not affect the accuracy of the data materially.

Source: General Directorate of Taxation.

falling on large firms, all tax declarations were reviewed in one of the four indirect tax offices in Saigon-Cholon. The results of this survey are presented in Table 7. Even this partial investigation indicates that 13 large firms paid 107,723,456 \$VN in production taxes in 1958, which represents approximately 42 per cent of the total production tax collections in Saigon-Cholon for the same year or about one-third of production tax collections in all Viet-Nam. The firm with the largest payment represented approximately 10 per cent of all production tax collections in Viet-Nam during 1958. Furthermore, 3 of the 13 firms in Table 7 are related companies supplying electricity, while 2 each are engaged in construction and the manufacture of cigarettes and soft drinks.<sup>5</sup> The conclusion appears warranted from this survey that the production tax is borne to a marked degree by large manufacturing firms in a limited number of industries.

Table 7 also provides useful information with respect to the importance of the tax deduction which is given for previous production taxes paid on raw material used in manufacturing. The total value of this deduction for the 13 firms in the Table is 24,186,628 \$VN. Since these firms represent about one-third

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<sup>5</sup>When the analysis is extended to include a larger number of firms, there is a representation from more industries. For example, the business activity of the next largest 10 taxpayers are designated as: foundry, rubber products, nuoc mam, iron furniture, rubber and plastic, watches, motorcycle assembly, printing, repair of ships, and agricultural equipment.

of all production tax payments in Viet-Nam, the elimination of the deduction would probably result in about 72 million \$VN more in revenue annually. Because of the deduction, the effective tax rate (the percentage of total tax payments to total sales) for the 13 firms in Table 7 is 4.92 per cent as compared to the statutory rate of 6 per cent. In other words, the tax deduction lowers the statutory rate by about one per cent.

Besides resulting in a loss of revenue, the tax deduction has other shortcomings: (1) The deduction does not eliminate all tax pyramiding because no credit is allowed on purchases of other materials used in production, such as machinery, equipment, and fuel. (2) The intervention of a middleman between the importer and the producer causes a disallowance of the deduction. (3) The deduction results in difficult problems of compliance and enforcement; for example, a printer is allowed a tax deduction on paper which is used in advertising, but no deduction is allowed on paper which is used in newspapers and magazines. This distinction is made because advertising materials are taxable under the production tax while newspapers and magazines are exempt. All of these weaknesses of the tax deduction would appear to constitute ample justification for eliminating this feature of the tax.

Considering that the base of the production tax on internally produced goods is gross income, which is character-

istically a broad base for a tax, the yield of 322 million \$VN in 1958 is disappointingly small. There are three reasons which account for this reduced yield: (1) the original statute in 1957 excluded large areas of business activity, such as service industries and the commercial sector; (2) a policy of liberal exemptions has been followed since 1957; and (3) some revenue has been lost through weak enforcement. This failure to exploit a potentially productive tax is considered to be the major shortcoming of the production tax on internally produced goods. It follows that the production tax is capable of playing an important role in raising more revenue for the central government budget if certain policy and administrative reforms are instituted.

An indication of the extent to which the production tax has been eroded by exemptions is the number of registered firms which are not taxable. Table 8 presents a classification of all production taxpayers in Saigon-Cholon by industrial categories and taxable status in 1958. The Indirect Tax Code requires all potential taxpayers to register for payment of the production tax even though they are legally exempt. Table 8 indicates that 1,494 firms were exempt out of 2,891 registered taxpayers (51 per cent) in Saigon-Cholon in 1958. Similar provisional totals for 1959 are 1,096 exempt firms out of 2,535 registered taxpayers. Thus, the actual number of firms paying a production tax in Saigon-Cholon was 1,397 in 1958 and

Table 8

Classification of Production Taxpayers by Industrial Categories  
and Tax Status in Saigon - Cholon, 1958

Industrial Category	S a i g o n			C h o l o n			Total for Saigon - Cholon		
	Registered	Exempt	Taxable	Registered	Exempt	Taxable	Registered	Exempt	Taxable
Food	417	263	154	512	145	367	929	408	521
Chemical pharmaceutical, and rubber	236	145	91	278	121	157	514	266	248
Wooden furniture	187	111	76	322	151	171	509	262	247
Metal products	119	61	58	211	121	90	330	182	148
Construction materials	83	45	38	40	20	20	123	65	58
Textile, weaving, and clothing	169	117	52	89	47	42	258	164	94
Electrical products	20	12	8	-	-	-	20	12	8
Mineral products	6	1	5	11	2	9	17	3	14
Miscellaneous products	125	94	31	66	38	28	191	132	59
Totals	1362	849	513	1529	645	884	2891	1494	1397

Source: General Directorate of Taxation.

1,439 in 1959. Table 8 also shows that a significant number of exempt firms is characteristic of every industrial group.

There are several possible reasons which may be advanced for the relatively high percentage of exempt returns: (1) Some firms may register in error in the sense that they are not actually potential taxpayers. This may be true, to some extent, of low-income taxpayers. (2) There are some that register but evade their tax liabilities, either deliberately or because they believe innocently that they are exempt. (3) The remaining firms are legally exempt, and this type probably represents the larger part of the total. Furthermore, there is the additional possibility that a number of firms evade their tax liabilities by not even bothering to register and file declarations. Whatever the reason for non-payment of the tax, therefore, it is apparent that a principal problem with the production tax is the relatively large number of firms that evade or legally avoid tax liabilities.

The increase in the number of exempt firms probably explains in part the decrease in collections in 1959 as compared to 1958. Table 9 compares collections during the first eleven months of 1958 and 1959. During these eleven months, 1959 as compared to 1958 monthly collections have been lower in seven months and higher in only four months. The net decrease in revenue for the eleven month period in 1959 as compared to the same period in 1958 has been 16,580,664 \$VN, or a decrease of approximately

Table 9

Monthly Collections for the Internal  
Production Tax for the First Eleven  
Months of 1958 and 1959

<u>Month</u>	<u>Collections for the Internal Production Tax</u>		<u>Absolute Change from 1958 to 1959</u>	
	<u>1958</u> (\$VN)	<u>1959</u> (\$VN)	<u>Increase</u> (\$VN)	<u>Decrease</u> (\$VN)
January	25,961,455	24,997,477		963,978
February	23,228,429	23,339,472	111,043	
March	29,830,843	24,273,822		5,557,021
April	30,032,366	25,218,669		4,813,697
May	26,297,060	23,669,533		2,627,527
June	24,625,163	21,632,922		2,992,241
July	23,446,501	25,801,549	2,355,048	
August	22,391,769	19,815,877		2,575,892
September	24,047,516	22,185,613		1,861,903
October	21,095,436	22,760,854	1,665,418	
November	23,176,578	23,856,664	680,086	
Totals	274,133,116	257,552,452	4,811,595	21,392,259

Source: General Directorate of Taxation. Statistics are not consistent with others reported from the General Directorate of the Treasury because the latter agency includes collections for previous years.

7 per cent.<sup>7</sup> The importance of this decrease in revenue may be appreciated more fully when it is realized that this loss of revenue is greater than individual annual collections from the indirect taxes on precious metals, ice, and restaurant meals.

The General Directorate of Taxation has shown some concern for the erosion of the production tax base by estimating that the annual loss of revenue from presently existing exemptions totals approximately 190 million \$VN. To arrive at this total, tax officials made the following estimates of revenue loss: (1) 100 million \$VN from the exemption granted to low-income producers and to the six industrial products exempted on June 3, 1959 for a period of two years; (2) 52 million \$VN from the exemption of paddy, rice, and sugar; (3) 20 million \$VN from the exemption of cotton textiles; (4) 10 million \$VN from drugs and medicines; and (5) 8 million \$VN from books, magazines, and newspapers.

However, this estimated annual loss of revenue from exemptions of 190 million \$VN is obviously incomplete. Absent from the estimate is the loss of revenue resulting from the exemption of all exports, which would approach 100 million \$VN in 1958. Also not included, but of less importance, are exemptions granted to certain construction activities, government monopolies, and products bearing special consumption taxes.

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<sup>7</sup>Of more importance from a revenue point of view, the decrease in revenue from the production tax levied on imports for the first 11 months of 1959 as compared to the comparable period in 1958 has been 293,298,840 \$VN, which represents a drop in revenue from this source of approximately 30 per cent.

Inquiry into the methodology used at the General Directorate of Taxation to make the above estimates provoked considerable doubt as to their reliability. Accordingly, an attempt was made to develop independent estimates of revenue loss resulting from certain exemptions from the internal production tax. It should be emphasized, however, that although considerable time and effort were expended on this research, the estimates of revenue loss obtained still leave much to be desired in terms of completeness and reliability. Production statistics for some industries could not be obtained, and in other industries the data are incomplete because only the output of the larger firms could be obtained.

Attention was first directed to the six industries exempted for a two-year period beginning June 3, 1959. The results of this investigation, summarized in Table 10, indicate an annual estimated revenue loss of 2,094,985 \$VN. This amount of revenue loss, of course, is rather minor.

Table 10

Loss of Production Tax Revenue from Six Exempt Industries <sup>(1)</sup>

Product	Value of Annual Output (\$VN)	Annual Loss of Production Tax Revenue <sup>(2)</sup> (\$VN)
Natural silks & rayon	15,000,000	750,000
Insecticides	840,000	42,000
Chalk, pencils, ink	(Not available)	- - - -
Agricultural, fishing, and industrial equipment <sup>(3)</sup>	10,059,700	502,985
Moving Pictures	16,000,000	800,000
Totals	41,899,700	2,094,985

(1) Revenue estimates are based on 1958 production.

(2) A tax rate of 5 per cent instead of the statutory rate of 6 per cent has been used in calculating the loss of revenue in order to allow for the tax deduction.

(3) Category includes two industries: (a) agricultural and fishing equipment; and (b) machines and spare parts used for industrial and craft purposes.

Source: National Institute of Statistics and various industrial syndicates.

Attention may now be given to four exempt industries, which are of particular interest because they are the most likely prospects for inclusion within the scope of the production tax. These industries are sugar refining, raw cotton and cotton textiles, oriental and occidental drugs and medicines, and books, magazines, and newspapers. Table 11 summarizes the production data and revenue loss estimates for these industries. The cost of exempting these four industries is at least 70 million \$VN annually, and probably somewhat higher than this total.

Table 11

Loss of Production Tax Revenue from Four Exempt Industries <sup>(1)</sup>

<u>Product</u>	<u>Value of Annual Output (\$VN)</u>	<u>Annual Loss of Production Tax Revenue <sup>(2)</sup> (\$VN)</u>
Sugar refining: white	73,080,000	3,654,000
brown	276,861,000	13,843,050
Cotton: raw	8,160,000	408,000
textiles	613,760,000	30,688,000
Drugs & medicines: oriental	(Not available)	- - - - -
occidental	160,000,000	8,000,000
Publications: books	(Not available)	- - - - -
magazines, etc.	56,724,000	2,836,200
newspapers	224,055,600	11,202,780
Totals	1,412,640,600	70,632,030

(1) Revenue estimates are based on 1958 production.

(2) A tax of 5 per cent instead of the statutory rate of 6 per cent has been used in calculating the loss of revenue in order to allow for the tax deduction.

Source: National Institute of Statistics.

This estimated revenue loss of 70 million \$VN from four industries may now be compared to the estimate of 90 million \$VN made by the General Directorate of Taxation for these same four industries as well as for the exemption given to the conversion of paddy into rice. As a result, in the estimate of the Tax Directorate there remains only 20 million \$VN as a provision for the loss of production tax revenue from the exemption of paddy milling, which is obviously insufficient. From this and other evidence mentioned previously, it appears that the total annual cost of all exemptions from the production tax exceeds 190 million \$VN by some considerable amount.

- (c) Administration: Auditing activities for the production tax in Saigon-Cholon are tabulated below in Table 12. This summary indicates that approximately 12 million \$VN is obtained as a result of verifying the returns of nearly 100 firms each year. Since there are approximately 1,400 taxable firms in Saigon-Cholon, about seven per cent of all taxable returns are audited each year. Recommendations for the auditing of firms are made by the four indirect tax offices in Saigon-Cholon, while the selection for the actual audits is made principally by the Director of Indirect Taxes. Both large and small firms are audited.

Table 12

Summary of Auditing Activities for the Production Tax

<u>Year</u>	<u>Number of Firms Audited</u>	<u>Additional Tax Assessments</u>
1957 <sup>1</sup>	19	1,871,822 \$VN
1958 <sup>2</sup>	96	12,259,766 \$VN
1959 <sup>2</sup>	83	11,423,640 \$VN

<sup>1</sup>For five months, from August 1 to December 31, 1957. The production tax was introduced on March 4, 1957, but auditing activities were not instituted until August 1, 1957.

<sup>2</sup>Statistics available to November 30, 1959.

Source: General Directorate of Taxation.

The additional production tax revenues raised by auditing again demonstrates the degree to which the General Directorate of Taxation is understaffed. During most of 1959, there were only eight inspectors available for the auditing of all indirect taxpayers. No more than 5 man-years of auditor time were available for the auditing of production tax returns, and yet this use of resources will result in about 12 million \$VN in additional assessments by the end of 1959. This means that each inspector is collecting in excess of 20 times the amount of his salary.

The production tax, unlike the direct taxes, is self-assessed and voluntarily paid by the taxpayers. Thus, there is no collection problem with respect to original payments of the tax in the sense that there is a disparity between the amounts that are voluntarily assessed and collected. Instead, enforcement problems arise in two areas: the collection of additional taxes arising out of enforcement activities, and the exacting of a tax payment from nonpayers of the tax.

There are virtually no statistics available on the collection of additional taxes levied as a result of enforcement activities and it would be too onerous to develop this type of data. However, some rough insights into the problems involved were gained by interviewing the Director of Indirect Taxes:

- (1) Most taxpayers liable for the payment of additional taxes appeal the assessments to the courts. The courts invariably

uphold the assessments, however, so the principal reason for the appeals is to delay payments of the tax for one or two years until court decisions have been rendered. (2) When the court decisions have been rendered, the General Directorate of Taxation attempts to make collection of the assessments, and one device used is to notify the police so that the latter may prevent the taxpayers from traveling abroad. (3) Penalties up to five times the amount of the additional taxes may be levied, but in practice the total amount of penalties is about 25 per cent of the total additional tax. In other words, penalties will raise additional production tax assessments from about 12 million \$VN annually to about 15 million \$VN annually.

With respect to nonpayers of the production tax, an attempt was made to gain some insight into the compliance score of the production tax by selecting a sample of the 30 printing establishments which paid the highest patente tax assessments in Saigon in 1959. The total number of printing establishments in Saigon paying a patente tax in 1959 was 132, so the sample of 30 patente taxpayers represents a group of relatively large firms; at least for this type of business.

Liability for payment of the production tax depends on the fulfillment of three conditions: (1) gross sales must be over 500,000 \$VN annually; (2) six or more employees (including family workers) must be employed; and (3) machine operations must pre-

dominate over hand operations in the productive process. Since printing is construed as a machine operation by the General Directorate of Taxation, production tax liability for printers is determined by the level of sales and size of work force.

Considering first the whole universe of 132 printers in Saigon, it was found that only 41 firms paid a production tax in 1959. There were 65 firms which had neither registered nor paid the tax, while 26 firms had registered but had not paid the tax.

Analysis of the 30 large firms in the sample was initiated by an investigation of their income tax declarations in order to gain information on the level of reported gross sales.

Table 13, which summarizes the research data for the 30 firms, indicates that 1958 income tax declarations were not filed by 12 businesses. With respect to the 18 firms filing an income tax declaration, it is important to note in Table 13 that seven firms reported sales for income tax purposes in excess of 500,000\$VN for 1958, but did not pay a production tax in 1958.

In both 1958 and 1959, 14 out of the 30 firms in the sample did not pay a production tax. There is a presumption established that the greater proportion of these 14 nonpayers of the production tax are illegal evaders on the grounds that it appears likely that nearly all firms in the sample have annual gross sales in excess of 500,000\$VN. It may be seen in Table 13 that 17 out

of 18 firms filing income tax declarations reported gross sales in excess of 500,000\$VN. Moreover, 7 of the 14 nonpayers of the production tax admitted in their income tax declarations that they had sales in excess of 500,000\$VN.

Visits were made to the business establishments of the 14 nonpayers of the production tax for the purpose of bringing more evidence to bear on the problem of noncompliance, but this procedure was signally unsuccessful. The purpose of these visits was to investigate the accounts of these firms in order to determine the levels of gross sales and to find out if there were any mitigating circumstances which would explain nonpayment of the tax. Out of 14 firms visited, the managers or owners of only two firms could be contacted. These two persons claimed that they had never heard of a production tax. Three of the 14 firms were found to be legally exempt because they were printers of newspapers. Making allowance for these three firms, and also for a few more that may have gross sales below 500,000\$VN annually, results in the conclusion that there appears to be about 10 firms in the sample of 30 which evade a legal liability to pay a production tax.

- (d) Recommendations: Viet-Nam probably will not find an easier or better way of obtaining a sizeable increase in revenue than by expanding the base of the tax on internally-produced goods. To make appreciable progress in raising revenues will require the

development of one or more broad-based taxes like those on income, land, and general sales rather than relying on taxes with narrow bases like selective excises. At the same time, among the broad-based taxes presently used in Viet-Nam, the internal production tax stands out as the one with a revenue potential which has been least exploited. Alternative broad taxes like the income, real property, and patente have already been given general application; now there are compliance and enforcement barriers which prevent further revenue gains without considerable administrative effort. The internal production tax, on the other hand, is a levy which is potentially wide in its application but has been restricted to a rather narrow base since its inception; revenue gains may be made simply by broadening the base, which should not prove to be too much of an administrative burden.

It is possible to argue that there are better bases for a business tax than gross sales, but this issue is not controlling. No tax on business has a compelling rationale; the quality differences among business taxes, instead, are rather minor. Thus, given the need for business taxes for revenue purposes if not for other fiscal goals, there is justification in accepting a form of business taxation which is already accepted by taxpayers and has become part of the administrative ritual.

A more serious criticism of the internal production tax is its coverage rather than its base. It may be argued that it is basically inconsistent with economic development policy to have

a tax which is borne in part by the manufacturing and construction industries in Viet-Nam, while less important business areas from a developmental point of view, such as retail trade, the service industries, and the professions, escape with a lighter tax burden. What resolves this issue is the severity of Viet-Nam's revenue problem. When a country can raise only about 40 per cent of its budgetary needs, potential inflationary forces are explosive. Moreover, should run-away inflation come to Viet-Nam, it is likely that it would do much more to inhibit the development of manufacturing and construction than the imposition of a tax burden of moderate impact. Thus, the problem of unequal tax burdens on various segments of the economy should be resolved by equalizing the tax burdens at higher rather than at lower levels of taxation. In other words, the way to resolve the problem of unequal tax burdens between sectors of business is not to lighten the burden of taxation on manufacturing and construction but to increase the tax burden on other areas of business.

Extending the scope of the production tax will require the removal of exemptions presently extended to certain industries. There should be no reluctance to take this action in view of Viet-Nam's need for more revenue. An additional reason, moreover, is that there is real doubt whether tax exemption is the most effective and economical way to assist and promote particular industries. In principle, a substantial case can be made in favor

The Team asked about the cost of money for business and general borrowings. We were advised that although the legal maximum rate of interest is 1% per month, taxes and administration are approximately an additional 4%. Thus, a monthly rate of 5% - compounded - will approximate 90% per year.

At noon, the Team met the press in a conference which had been arranged by the State people. A member of reporters and photographers had assembled and asked constructive questions.

In the early afternoon we visited the site of a proposed state COHAB housing development. The site is within the city limits of Porto Alegre and adjacent to the new industries located on the Guaiba River. The land has been owned by the State for some time and training school is to be established on a major portion with remainder for housing for the relocation of nearby favela families. Approximately 1000 families are to be served on the new site.

Detailed and apparently very competent socio-economic surveys have been made of the characteristics of the slum families who are intended for relocation to this new site. One such analysis concerns some 97 to 128 families from the nearest slum area. Certain selected characteristics of the head of the household in the 97 families may be noted:

1. Father headed the household .....	66
2. White.....	65
3. Common-law husband.....	29
4. Laborers.....	47
Odd-jobs.....	8
Domestic Service.....	22
5. Less than minimum wage.....	42
More than minimum wage.....	13
6. In same job for more than 1 year.....	35
7. Resided locally less than 1 year.....	54
8. Resided in Capital less than 1 year.....	22
9. Originated out of state (none out of country)	16

out of a total of 463 persons represented in the 97 families; some 177 or approximately 38% are less than 14 years of age.

A similar survey had been conducted in a number of other slum areas in and around Porto Alegre, and in other urban centers of the State. Typically, it is hoped that new housing projects may be sited approximate to industrial locations and similar employment centers to reduce the problem and cost of transportation.

Upon leaving the site of the proposed housing development, we visited the favela which was the locale of the socio-economic survey cited above. The improvised dwellings are the result of simple squatting upon public land, the land of absentee owners, or land in diverse and disputed estates.

We surveyed the general terrain from a vista of a bridge which had been constructed over the Guaiba River in 1958. A number of new industrial installations and warehouses were evident on the Porto Alegre side of the river. The new bridge also gave access to a large island in the river which was uninhabited and to the open hinterland across the river. The secretary stated that he hoped to "urbanize" the island which is in the public domain.

of direct subsidies over tax exemption, mainly on the grounds that direct subsidies are more selective and are subject to budgetary review and control.<sup>8</sup> However, the granting of tax exemptions is politically more palatable.

The caveat should be offered, however, that administrative reform is probably just as important, if not more so, than changing the scope of the production tax. There is a strong presumption that a meager staff prevents more than a partial exploitation of the present base of the internal production tax. To expand the base without increasing the number of personnel, therefore, would only result in a process of skimming the cream from more milk. It is very important for the General Directorate of Taxation to obtain more staff in order that the real revenue potential of the production tax, whatever the width of its base, may be realized.

Given acceptance of the foregoing arguments, the rationalization and development of the tax on internal production may be accomplished by the adoption of the following specific recommendations:

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<sup>8</sup>Readers who wish to pursue the issue of tax exemption versus direct subsidies are referred to Milton C. Taylor, Industrial Tax Exemption in Puerto Rico (Madison, University of Wisconsin Press, 1957.)

- (1) Production for export should continue to be exempt from the production tax in order to encourage exports.
- (2) Production for internal sales should be taxable. This applies specifically to the six industries presently exempt for two years under Law No. 13 of June 3, 1959 as well as to the four industries enjoying unlimited exemption.
- (3) The exemption limit on the gross sales of low-income producers should be reduced from 500,000 \$VN to 100,000 \$VN annually, and the provisions with respect to number of employees and method of production should be eliminated.
- (4) The deduction allowed for previous production taxes paid on raw materials used in production should be discontinued and replaced by a deduction for production taxes paid on the purchase of new plant and equipment.
- (5) Withholding of the production tax on government suppliers and contractors should be instituted.
- (6) The administrative regulation allowing exemption for all repair work provided that the cost involved is less than one-half the market value of the repaired property should be amended so that exclusion is given only if the cost of the repair is less than 10,000 \$VN.
- (7) The use of customers' materials by such businesses as jewelers, tailors, and printers should not be a qualifying condition for exemption.
- (8) All of the above reforms will require a sharp increase

in the number of personnel available for adding new taxpayers to the rolls and for auditing the accounts of taxpayers. It would be conservative to expand the present staff of eight auditors available in Saigon-Cholon for indirect taxes by three times. The staff available at the provincial level should also be increased. Training of the new staff may be accomplished by assigning a new recruit to each experienced inspector.

No precise estimate may be made of the additional revenue which could be expected if the above recommendations were implemented. Much of the data developed in this report on the cost of exempting certain industries is of doubtful reliability, and the revenue which may be expected from other specific recommendations is not susceptible to even a guess. The best conjecture possible on the basis of the available data is a revenue increase of at least 240 million \$VN, which is a substantial increase over 1958 collections of 322 million \$VN.

Indicated below is the way in which the total of 240 million \$VN has been determined:

Recommendation (2): Removal of exemption to 6 industries:	2,000,000 \$VN
Recommendation (3): Removal of exemption to 4 industries:	71,000,000 \$VN
Recommendation (4): Reduction of exemption limit on sales:	50,000,000 \$VN
Recommendation (9): Better enforcement (assumed doubling of staff):	<u>16,000,000 \$VN</u>
	139,000,000 \$VN
Increase of about 22 per cent on base of 139 million \$VN to allow for Recommendation (5):	30,000,000 \$VN
Increase of about 22 per cent on present base of 322 million \$VN to allow for Recommendation (5)	<u>71,000,000 \$VN</u>
	240,000,000 \$VN

## 2. The Indirect Tax on Gasoline

(a) Description: Gasoline is imported into Viet-Nam by three companies. These firms, with their initial operating dates are: Caltex (Asia) Ltd. (1932), Shell Viet-Nam (1911), and the Standard Vacuum Oil Company (1939). All gasoline is introduced from Indonesia and at the very low cost of .9830\$VN per liter because of Viet-Nam's proximity to the source of supply. In 1959, Shell imported approximately 75 per cent of the gasoline introduced into Viet-Nam, with Standard in second place with 15 per cent and Caltex third with 10 per cent. The retail outlets are invariably owned by these three companies, with the qualification that land for new outlets must be leased rather than purchased since 1955. Retail prices and profit margins are both subject to government control. Gasoline is subject to several import taxes as well as an indirect tax levied on sales made within Viet-Nam. The historical evolution of these two sets of taxes may be classified into four time periods:

- (1) Before March 14, 1956: import taxes plus an internal turnover tax of 4 per cent of gross sales.
- (2) March 14, 1956 to March 10, 1957: import taxes plus an internal turnover tax of 4 per cent of gross sales plus an internal indirect tax of 1.24 \$VN for each liter sold.
- (3) March 10, 1957 to January 4, 1959: import taxes plus an internal indirect tax of 1.24\$VN for each liter sold.

- (4) Since January 5, 1959: import taxes plus an internal indirect tax of 2.5 \$VN for each liter sold.

As indicated in this outline, the indirect tax on gasoline was introduced on March 14, 1956 at the rate of 1.24\$VN for each liter of gasoline sold internally. For nearly a year, this tax was collected together with a turnover tax, until the latter was eliminated on March 10, 1957. At this point, the over-all tax burden on gasoline only decreased slightly, however, as import taxes were raised to compensate in the most part for the elimination of the turnover tax. The most recent change in the taxation of gasoline was the increase in the indirect tax from 1.24\$VN to 2.5\$VN on January 5, 1959.

Lubricating and diesel oils bear no internally-levied indirect tax similar to the one on gasoline. As a result, the fuel used by motor bikes, motorcycles, and scooters, which is 94 per cent gasoline and 6 per cent motor oil, bears a lighter internal tax burden per liter than gasoline. The present indirect tax on gasoline is 2.5\$VN per liter, so the indirect tax per liter of fuel used by motor bikes, etc., is 94 per cent of 2.5\$VN, or 2.35\$VN per liter. However, because the per liter cost of oil is higher than gasoline, the retail price of the gasoline-oil mixture is 8.0\$VN per liter as compared to the present retail price of regular gasoline of 7.24\$VN per liter.

The several taxes levied on the importation of gasoline are paid by the three importing and distributing firms. When the

turnover tax was in effect, it was collected at the point of sale to the final consumer, which was at the level of retail outlets except in those instances when the three distributors made direct sales to consumers. This same collection procedure was followed for the indirect tax on gasoline when this levy was introduced on March 14, 1956. Since February 28, 1958, however, all indirect tax collections are made from the three importers and distributors.

The liability for payment of the indirect tax is based on the delivery of the product by the three distributors to retailers or final consumers. Within the first 15 days of each month, the distributors are required to file a declaration and pay the indirect tax on all gasoline delivered during the preceding month. Enforcement and verification of the indirect tax on gasoline is undertaken by the Directorate of Indirect Taxes, which has, as indicated previously, a total of eight auditors available for the control of all nine indirect taxes. Penalties provided for "infringement and fraud" are 500\$VN to 5,000\$VN and five times the amount of additional tax.

(b) Analysis: An historical summary of gasoline prices and tax burdens is presented in Table 14. This Table shows that the tax burden per liter of gasoline has more than doubled since 1955, rising from 2.3487VN per liter in 1955 to 4.7286\$VN per liter in 1959.<sup>9</sup>

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<sup>9</sup> A similar calculation made by one of the oil companies results in the determination that the total tax burden is slightly higher at 4.8082\$VN per liter. This calculation, however, construes certain service fees as taxes, such as for the use of the dock and harbor and for insurance.

At the same time, the retail price of gasoline has risen by 55.3 per cent, from 4.66\$VN per liter to 7.24\$VN. The result of these two circumstances is that the percentage of total tax to retail price has risen from 50.4 per cent to 65.3 per cent. By comparison, similar percentages are 31.2 per cent in Bangkok and 50.8 per cent in Manila. There is some considerable variation in the retail price of regular gasoline in Southeast Asia. In Bangkok, the price is 32.0 U.S. cents per American gallon, while in Saigon the price is 38.5 cents per gallon and in Manila 46.2 cents per gallon.

The increase in the indirect tax on gasoline from 1.24\$VN to 2.5\$VN in January of 1959 has doubled the collections from this tax. Historical collection figures from the indirect tax since it was introduced in 1956 are: 1956: 132,970,107\$VN; 1957: 220,339,978\$VN; 1958: 253,478,032\$VN; and 1959 (to November 30): 456,528,453\$VN.

There is no internally levied tax on diesel and motor oils comparable to the indirect tax on gasoline, and in addition, these two products have lighter import duties than gasoline. Details on the comparative tax burdens of these three products are presented in the following schedule:

<u>Tax</u>	<u>Gasoline</u>	<u>Diesel Oil</u>	<u>Motor Oil</u>
Customs	30%	20%	30%
Production	35%	25%	25%
Excise	108.80\$VN per 100 kilos	None	None
Surtax on excise	93.50\$VN per 100 kilos	None	None
Indirect	2.50\$VN per liter	None	None

Because diesel oil is under-taxed relative to gasoline, it is reported that there is a pronounced tendency at the present time to convert trucks from gasoline consumption to diesel oil. Also, there is a trend toward the importation of diesel trucks.

Two tax adjustments may be made in order to raise additional revenues and to make more uniform the unequal tax burdens indicated above: (1) the indirect tax on gasoline may be raised to 5\$VN per liter; and (2) the excise, surtax on excise, and indirect taxes presently applied to gasoline may be extended to both diesel and motor oils.

Assuming an inelasticity of demand for petroleum products, which is a relatively safe assumption in Viet-Nam, these tax adjustments would result in approximately 468 million \$VN in additional tax revenues annually. Approximately 250 million \$VN of this total would be derived from gasoline, 156 million \$VN from diesel oil, and 62 million \$VN from lubricating oil.

(c) Administration: The most important administrative improvement which has been made with respect to the gasoline tax was in March, 1958, when the liability for the payment of the tax was imposed on the three distributors of gasoline rather than on the retail outlets. This change was desirable because there was undoubtedly considerable evasion on the part of the retailers. One general survey in 1957 disclosed that 45 out of 135 retailers under-reported the amount of tax due. Another general investigation in 1959 of all retail outlets operating in Saigon-Cholon during 1956 and 1957 determined that the indirect tax on gasoline

Table 14

Prices and Tax Burdens  
Per Liter of Gasoline, 1955 to 1959  
(\$VN per liter)

	<u>1955</u>	<u>1956</u>	<u>1957</u> <sup>(1)</sup>	<u>1958</u>	<u>1959</u> <sup>(2)</sup>
CIF	1.0046	1.0046	1.0227	.9830	.9830
Import taxes <sup>(3)</sup>	2.0902	2.0902	2.2594	2.2286	2.2286
Turnover tax	.3467	.3467			
Indirect tax		1.24	1.24	1.24	2.50
Total tax	2.3487	3.6769	3.4994	3.4686	4.7286
Retail price	4.66	5.90	5.98	5.98	7.24
Percentage of total tax to retail price	50.4	62.3	58.5	58.0	65.3

(1) From March 10, 1957.

(2) From January 5, 1959.

(3) Import taxes include a customs duty of 30 per cent on CIF from 1955 to 1959; a general interior tax of 6 per cent on CIF plus customs from 1955 to March 9, 1957; a production tax of 35 per cent on CIF plus customs from March 10, 1957; an excise tax on imports of 108.80\$VN per 100 kilos from 1955 to 1959; a surtax on the excise tax of 93.50\$VN per 100 kilos from 1955 to 1959; a supervision tax of 08\$VN per 100 kilos from 1955 to 1959; and a statistics tax of 2\$VN per 1,000 kilos from 1955 to March 29, 1959 and 6\$VN per 1,000 kilos thereafter.

Source: General Directorate of Customs.

had not been paid on 11,592,986 liters of gasoline, which was approximately 8 per cent of the amount sold. This latter general audit resulted in additional indirect tax assessments of 14,375,302 \$VN.

Since there are only three gasoline distributors in Viet-Nam, it was possible to review all audits undertaken of these three firms within recent years by the Indirect Tax Directorate. The record of enforcement summarized in Table 15 is not impressive. One firm was audited in 1956 and the other two in 1957, but no audits were undertaken in 1958 and 1959. Only one of the three firms has actually been audited for the indirect tax on gasoline, as the other two firms were audited for the turnover tax. Thus, despite the fact that the indirect tax on gasoline was introduced in 1956, there has only been one audit made of this tax as of February 1, 1960.

There is evidence of a tendency to audit the accounts of the three distributors for only one tax during each audit, although the firms are liable for two indirect taxes. It was found, for example, that one firm was audited in 1959 for the production tax (with additional tax plus penalties of 1,002,504 \$VN); but no audit was undertaken at the same time for the indirect tax on gasoline.

The question may be raised whether enforcement activities are necessary on large corporations in view of the fact that in general they have good accounting systems and have a reputation

for responsibility and cooperation with governments. The answer to this question is shown in Table 15 in the amount of additional tax and penalties that result from auditing the three large gasoline distributors. This evidence bears out the experience in the United States, where it has been found out that corporate auditing is generally more productive per man hour of auditing time than the inspection of smaller unincorporated businesses. The reason for this is not so much deliberate evasion as misinterpretations of the law, and when these mistakes occur, they are of considerable revenue importance because of the size of the businesses.

The fact that there is a need to audit the three distributors for the indirect tax on gasoline suggests the possibility of converting this tax into an import duty. Since the tax is shifted to the consumer in its entirety, it might just as well be imposed at the import level. If this were done, it would more nearly ensure correct compliance on the part of the distributors and lighten the enforcement burden of the Indirect Tax Directorate, whose very meager enforcement staff is urgently needed for the control of other taxes.

(d) Recommendations: There is no settled theory of highway finance. Some authorities maintain that all of the costs of roads and streets should be borne by motor vehicle taxes, while others maintain that non-highway users should also contribute to the cost of highways. Still other public finance scholars

Table 15

Summary of Indirect Tax Audits  
on Three Gasoline Distributors

Name of Firm	Inclusive Dates of Audit Period	Time Required to Complete Audit	Taxes Verified	Additional Tax Plus Penalties (\$VN)
Caltex	Calendar years 1954, 1955, and 1956	15 July, 1957 to 21 August, 1957	Turnover tax	32,71
Shell	Calendar years 1954 and 1955	6 June, 1957 to 12 June, 1957	Turnover tax	3,323,87
Standard	(1) 20 March, 1956 to 31 August, 1956	11 Sept., 1956 to 3 Dec., 1956	Turnover and Indirect tax on Gasoline	353,85
	(2) 10 March, 1957 to 30 Sept., 1959	12 Nov., 1959 to 26 Nov., 1959	Production tax	1,002,501

Source: General Directorate of Taxation.

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maintain that owners of vehicles should make a substantial contribution to general government over and above payments made for the provision of highways. In Viet-Nam, motor vehicle taxation is used as a source of general government revenues rather than as a means of exacting a benefit-received payment from highway users. Although no finite proof can be offered, it appears likely that Vietnamese highway users make a contribution to general government exceeding the cost of providing facilities for vehicles.

Without a settled theory of highway finance, it is difficult to reach a rational and certain conclusion as to the desirable level of gasoline taxes in Viet-Nam. All that can be done, instead, is to offer certain subjective considerations which are relevant in reaching a conclusion. In favor of raising the tax on gasoline, it may be said that this product is relatively inelastic in demand and that compliance is quite certain, with the result that additional governmental revenues could be obtained rather easily and quickly. On the other hand, there are several reasons which may be advanced in opposition to an increase in gasoline tax rates: (1) There is the likelihood that highway users in Viet-Nam already contribute to general government in excess of the amount needed to provide facilities for vehicles. (2) As compared to raising taxes on gasoline, there are other ways of raising governmental revenue which are less regressive, such as the further exploi-

tation of income, land, and internal production taxes.

(3) Recent increases in gasoline taxes, which have raised rates precipitously within a short period of time, have placed an undue burden on one form of consumption expenditure.

(4) A superior way of exacting a higher tax burden from motor vehicle users, if this is desirable, would be higher taxes on motor vehicles. These reasons, however, do not appear to be as important or as controlling as Viet-Nam's need for additional governmental revenues.

A stronger case can be made for raising the level of taxation on lubricating oil and diesel fuel used for transportation purposes. Both of these products are under-taxed in Viet-Nam as compared to gasoline because of lower import duties and the absence of a specific internal sales tax. It is recommended, therefore, that both diesel oil used for motor vehicle transportation purposes and lubricating oil be made subject to the same excise and indirect taxes which are levied on gasoline.

Administration of the indirect tax on gasoline would be improved if this tax were converted into an import duty. If this recommendation is not adopted, annual audits of the three distributors should be instituted.

3. The Entertainment Tax

(a) Description: The entertainment tax is of recent origin in Viet-Nam, being adopted in South Viet-Nam on November 11, 1946 and in Central Viet-Nam on December 8, 1950. On January 1, 1955, the tax became a central government rather than a regional government source of revenue. Responsibility for assessment and collection was assumed by the General Directorate of Taxation on May 1, 1955.

A principal feature of the entertainment tax is that there is both a basic tax and a surcharge. The basic tax has two different statutory rates, depending on the type of entertainment, while the surcharge rate is established by decree and varies by regions of Viet-Nam. Revenues from both the basic tax and the surcharge are received by the central government, with the receipts from the surcharge being earmarked for indigent relief at the local government level.

For application of the two basic tax rates, all taxable forms of entertainment are divided into two groups. A rate of 5 per cent of gross receipts is levied on theatrical performances, shows, musical presentations, concerts, exhibitions, athletic events, and circuses. The second group, taxed at 20 per cent of gross receipts, includes cafe and tea room entertainment, horse races, motion picture theatres, night clubs, and other forms of entertainment not specifically mentioned in the first group.

Previous to March 4, 1957, when the entertainment tax was revised, all forms of taxable entertainment were taxed at the same basic rate of 20 per cent of gross receipts. Difficulty was experienced, however, in collecting the tax from small theatrical groups, shows, and musical presentations, with the result that the rate was reduced to 5 per cent on these types of entertainment in order to encourage an improvement in compliance.

No specific rate is established in the Indirect Tax Code for the surcharge. Instead, provision is made for the rates of the surcharge to be established by decrees issued by the Minister of Finance, with the only limitation being on these decrees that the surcharge rates cannot exceed the amount of the basic tax. Previous to March 4, 1957, the surcharge was 100 per cent of the basic tax in Central Viet-Nam and the Highlands and South Viet-Nam, but since March 4, 1957 the surcharge has been reduced to 50 per cent of the basic tax in Central Viet-Nam and the Highlands. This means, in other words, that there is at present a 40 per cent entertainment tax levied on the cost of an entrance ticket to a motion picture theater in South Viet-Nam, 20 per cent of which is a basic tax and 20 per cent a surcharge, while the total tax is 30 per cent in Central Viet-Nam and the Highlands.

Exempt from both the basic tax and the surcharge are certain

types of entertainment which are organized without a commercial purpose: (1) all entertainment organized in villages which are not classified as municipalities; (2) theatrical performances held on occasions of religious worship; (3) entertainment organized for the benefit of government agencies; (4) entertainment for the support of charitable or relief organizations which are considered to serve a public interest; and (5) performances for the benefit of non-professional sporting clubs, provided that the performances do not involve professional or foreign athletes and that the collections are used to improve athletic or military training. Also exempt from the entertainment tax and surcharge are tickets distributed free to: (1) groups of students from schools sponsored by charitable associations; (2) hospitalized wounded soldiers or invalids; and (3) government employees required by the nature of their work to witness performances.

Procedures for paying the entertainment tax have been established by decree, and there are two alternative methods, by forfeiture and on a declaration basis. The forfeiture method is used only at the district level of government and involves a process of negotiating an agreed base for the tax between the district chief and the promoter of the entertainment. This means that the tax is based on estimated receipts before the performance takes place rather than on the actual number of tickets sold at a given price.

Assessment of the entertainment tax in all towns and municipalities is based on declarations on the part of the owner or organizer of the entertainment. For all entertainment requiring tickets for admission, the promoter must bring the entrance tickets to the indirect tax office, have the tickets perforated, and pay the tax before the sale of the tickets to the public. It is the taxpayer's obligation to be kept supplied with perforated and pretaxed tickets.

The entertainment tax has particular complications with respect to night clubs and tea rooms. Night clubs invariably charge an entry ticket which has a rather nominal price of about 8 piasters. The entertainment tax must be prepaid on this ticket, as in the case of motion picture theaters. The actual cost of food and drinks is then subject to either the 10 per cent luxury tax on restaurant meals if the charge is over 100\$VN per person or to the 6 per cent production tax for charges below 100\$VN per person if the articles consumed have been changed in form. No tax is levied on charges of less than 100\$VN per person if there has been no change in the form of the products consumed.

Tea rooms, on the other hand, have a minimum service charge instead of an entry ticket, and the entertainment tax is levied on this minimum charge. The luxury tax or production tax is then levied on the total bill per person after deduction of the minimum service charge.

(b) Analysis: As shown in Table 16, entertainment tax collections have shown steady improvement, with an increase of more than 100 per cent during the period from 1955 to 1959, Collections for 1959 are likely to be about 90 million \$VN, which represents an increase of about 15 per cent over 1958. The largest percentage increase in collections occurred in 1957. This improvement is attributable to several factors: (1) an increase in security; (2) better enforcement; (3) an increase in the popularity of other forms of entertainment as gambling was prohibited; and (4) the institution of continuous-run movies.

Table 16

Entertainment Tax Collections,

1955 to 1959

(all amounts in \$VN)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959<sup>(1)</sup></u>
Basic Tax	18,625,331	21,766,378	38,043,313	40,351,043	41,654,705
Surcharge	<u>18,625,331</u>	<u>21,766,378</u>	<u>36,486,145</u>	<u>38,387,338</u>	<u>39,702,423</u>
Total	37,250,662	43,532,756	74,529,458	78,738,381	81,357,128

(1) To November 30, 1959

Source: General Directorate of Taxation

There are two important characteristics with respect to entertainment tax collections. The first is that the contribution of motion picture theaters is the dominant element. In Saigon

during 1959, motion picture theaters contributed 91.15 per cent of all entertainment tax collections, with night clubs producing 1.21 per cent and all other forms of entertainment 7.64 per cent. The second characteristic of collections is the high proportion of revenue raised in the Saigon-Cholon area. Out of the total collections of 78,738,381 \$VN in 1958, 986,973 \$VN were obtained from the Highlands, 4,903,980 \$VN from Central Viet-Nam, 5,694,596 \$VN from South Viet-Nam excluding Saigon-Cholon, and 67,152,832 \$VN from Saigon-Cholon. This means that 85.3 per cent of all entertainment tax collections for Viet-Nam in 1958 was attributable to Saigon-Cholon.

A tabulation and classification of all entertainment taxpayers in Saigon-Cholon indicates that there are a limited number of taxpayers, dominated by owners of motion picture theaters. During 1959, there were 59 motion picture theaters, 8 other theaters, 13 night clubs, 7 tea rooms, 1 horse racing track, and 1 football stadium. The number of motion picture theaters in the Prefecture has increased from 45 in 1956 to 59 in 1959.

The 8 operating night clubs in Saigon during 1959 made entertainment tax payments ranging from 109,726 \$VN by the Kim Son to 23,945 \$VN by the Tour d'Ivoire. On the basis of an entry charge of 8 \$VN for the Kim Son, the average number of customers per night is only 40 persons.

Inspection activities for the entertainment tax are notably unproductive of revenue. During 1959, the number of inspection

reports written in Saigon-Cholon was 79 for motion picture theaters, 11 for other theaters, and 2 for all other forms of taxable entertainment. These 92 reports resulted in only 61,258 \$VN in additional revenue. On the average, each report for a motion picture theater resulted in only 765 \$VN in additional revenue. This evidence appears to suggest that inspection resources should be channeled from motion picture theaters to tea rooms and night clubs.

There are trenchant arguments both in favor and in criticism of consumption taxes. Proponents of consumption taxes argue that they are easy to pay and hence are productive of revenue. Moreover, it is argued that no positive harm results to the consumer when nonessentials are taxed, such as liquor, tobacco, and entertainment. On the other hand, critics rejoin that consumption taxes are irrational in design and unfair in incidence. Exception is taken to society imposing on individuals a system of priorities on consumption. It is also pointed out that many so-called luxuries actually have an inelastic demand, and for this reason, higher luxury taxes actually mean less food consumption or medical expenditures.

In the particular context of Viet-Nam, the balance appears to be tipped in favor of developing and strengthening consumption taxes like the entertainment tax. One reason is the relative ineffectiveness of the income tax as a means of taxing the greater proportion of the population which has a certain ability to pay taxes. A second reason is the need to provide an increase in revenue in order to forestall possible inflationary forces.

in the future. Finally, the entertainment tax has a proven history of revenue productivity and enforceability; it is a tax which is accepted by the taxpaying public.

(c) Recommendations: The entertainment tax, however, is not a crucial area of tax reform. Tax rates are at present relatively high and compliance is tolerably good, except for night clubs and tea rooms. Some improvement in revenue and administration could be obtained by adoption of the following recommendations:

- (1) Eliminate the surcharge and establish a single tax rate of 40 per cent for all taxable entertainment in Viet-Nam. This recommendation has several advantages: 1. It would establish a uniform entertainment tax rate throughout Viet-Nam. 2. It would provide more budget flexibility by eliminating a form of earmarked revenue. 3. It would tax all forms of entertainment uniformly.
- (2) Extend the principle of pre-taxed entry tickets to tea rooms by requiring these establishments to levy a charge on admission rather than a minimum cover charge.
- (3) Simplify the tax liability of night clubs and tea rooms by eliminating the application of the production tax.
- (4) Allocate auditing resources so that more attention is given to night clubs and tea rooms and less to motion picture theaters. In this connection, night clubs and tea rooms should be inspected during their evening operating hours.

#### 4. The Consumption Tax on Meat

(a) Description: It will be recalled from an earlier section of this report that all internally-sold goods before March 4, 1957 were subject to a turnover tax of 1 per cent plus a surcharge for armament of 3 per cent computed on the sale price at each intermediate level of trade. These two taxes were then replaced by the 6 per cent production tax on internally-produced goods on March 4, 1957. In this changeover, meat products were relieved from the burden of the turnover tax and surcharge for armament, but became subject immediately (on March 4, 1957) to a new tax -- the consumption tax on meat -- rather than to the production tax. In a sense, therefore, the meat consumption tax may be viewed as a unique extension of the internal production tax.

Tax rates for the meat consumption tax vary with the type of animal slaughtered: beef cattle: 120\$VN per head; buffalo: 100\$VN per head; hogs: 50\$VN per head; and sheep and goats: 25\$VN per head.

Responsibility for collecting the meat consumption tax is assigned by the central government to the agent collecting the local-level slaughter tax.<sup>10</sup> Animals destined for meat consumption are required to be brought to slaughterhouses for veterinary

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<sup>10</sup>The rates for the prefectural slaughter tax in Saigon-Cholon are: young beef cow: 33\$VN; beef bull: 65\$VN; beef cow: 85\$VN; young buffalo: 38\$VN; buffalo: 90\$VN; small hog: 38\$VN; hog: 65\$VN; sheep: 28\$VN; and goat: 13\$VN.

examination. Owners of the animals must then pay both the meat consumption tax and the slaughter tax if the animals are certified as suitable for consumption purposes. In some provinces, the collection of the slaughter tax is let out on bid to private individuals. In these cases, and also in instances where there are no slaughterhouses, the meat consumption tax is collected either by provincial indirect tax offices, chiefs of districts, or village financial officers.

(b) Analysis: As mentioned earlier, before the meat consumption tax was introduced on March 4, 1957, meat products were subject to the turnover tax of 1 per cent and the surcharge for armament of 3 per cent. However, in actual practice these two taxes were so difficult to collect from small retailers that a procedure of taxation by forfeiture had been established in 1951, with taxes being collected from the sellers of animals at the slaughterhouse according to the following tax rate schedule:

Beef cattle:	68\$VN per head
Buffalo	64\$VN per head
Hogs:	44\$VN per head
Sheep and goats:	20\$VN per head

A dilemma was then posed when the turnover tax and surcharge for armament were replaced by the 6 per cent production tax on March 4, 1957, for the application of this new tax to the wholesale price of meat would have resulted in a precipitous increase

in the tax burden. To illustrate, based on average prices of animals during February, 1960, the application of a 6 per cent tax at the wholesale level would result in the following tax burdens per head:

Type of Animal	Average Price Per Head	Tax Burden At 6 per cent Per Head
Beef cattle	5,000\$VN	300\$VN
Buffalo	3,600\$VN	216\$VN
Hogs	2,350\$VN	141\$VN
Sheep	1,350\$VN	81\$VN
Goats	800\$VN	48\$VN

To resolve this dilemma, the meat consumption tax was introduced. This new tax resulted in appreciably higher tax burdens on meat products than previously, but avoided the full impact of the production tax. As shown in Table 17, the effective rates of the meat consumption tax vary from 1.85 to 3.12 per cent depending on the type of animal as compared to the production tax rate of 6 per cent.

Table 17

Effective Tax Rates of Meat Consumption Tax

Type of Animal	Present Tax Rate Per Head (\$VN)	Average Wholesale Price Per Head <sup>(1)</sup> (\$VN)	Tax Burden Per Head as a Percentage of Price
Beef cattle	120	5,000	2.40
Buffalo	100	3,600	2.77
Hogs	50	2,350	2.13
Sheep	25	1,350	1.85
Goats	25	800	3.12

(1) As of February 8, 1960

(c) Recommendations: It is apparent that some improvement may be made to the meat consumption tax by establishing tax rates per head which would result in a uniform effective tax rate for each type of animal rather than in a variation of tax rates between 1.85 to 3.12 per cent. What should this uniform tax rate be? It will be recalled that most agricultural products are exempt from the 6 per cent production tax by virtue of the exemption given to each producer with annual sales of less than 500,000\$VN. As a result, meat products already bear a tax burden which exceeds that which falls on other food products. This tax on meat is probably justified on the grounds that meat is a semi-luxury product. On the other hand, raising the tax to 5 or 6 per cent would probably penalize meat consumption unduly as compared to other food products. Therefore, a uniform effective rate of 3 per cent is recommended. Based on the wholesale market prices of animals in February 1960, a uniform effective rate of 3 per cent would require the following tax rates per head as compared to present rates indicated in parentheses:

Beef cattle	150\$VN	(120\$VN)
Buffalo	108\$VN	(100\$VN)
Hogs	70\$VN	( 50\$VN)
Sheep	40\$VN	( 25\$VN)
Goats	24\$VN	( 25\$VN)

Collections from the meat consumption tax have improved appreciably in the three years in which the tax has been in

existence: 1957 (from March 10): 38,743,935\$VN; 1958: 58,077,399\$VN; and 1959: 69,461,085\$VN.<sup>11</sup> For 1959, the distribution of collections was 2,870,805\$VN from the Highlands, 12,103,543\$VN from Central Viet-Nam, 22,919,555 from Saigon-Cholon, and 31,567,182\$VN from the remainder of South Vietnam. Adoption of a new tax schedule representing a uniform tax rate of 3 per cent would increase revenues from 10 to 15 million \$VN annually. A more precise estimate is not possible.

There is unquestionably considerable evasion of the meat consumption tax, although the degree of non-compliance is indeterminate. The incidence of evasion is probably higher in rural areas where there are no slaughterhouses, but even in Saigon-Cholon there is known to be some by-passing of the slaughterhouse in order to evade taxes: Despite this, the principle of assigning to local authorities the responsibility to collect the tax is a good one given the present onerous workload assumed by the Indirect Tax Directorate.

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<sup>11</sup> Collections for 1959 are complete except for approximately 60,000\$VN for the month of December, 1959 from the Province of Darlac.

5. The Tax on the Circulation of Motor Vehicles

(a) Description: An annual motor vehicle license tax has been in existence throughout Viet-Nam only since March 4, 1957. Before this date, there was no recurrent vehicle tax in the region of South Viet-Nam, while vehicles in Central Viet-Nam were subject to an annual property tax. However, preceding 1947 and until the present time the sale of motor vehicles has been subject to a rather high registration tax.<sup>12</sup>

There are two principal features of the rate schedule for the license tax: low flat rates for light vehicles such as scooters and vehicles for public transportation of passengers and freight; and (2) progressive rates for privately-owned vehicles based on the number of cubic centimeters per cylinder. Annual tax rates were raised effective January 1, 1959. From March 4, 1957, to December 31, 1958, the following annual tax rates were in effect:

<sup>12</sup>The registration tax is based on value and varies with the type and age of the vehicles according to the following schedule:

	<u>New Cars</u>	<u>First Year</u>	<u>Second Year</u>	<u>Third Year</u>	<u>Over Three Years</u>
Private vehicles with cylinders over 1,000 c. c.'s.	25%	20%	15%	10%	5%
Private vehicles with cylinders less than 1,000 c. c.'s.	15%	12%	9%	6%	3%
All other taxable vehicles	10%	8%	6%	4%	2%

- 300\$VN: Two or three-wheeled vehicles registered with the Public Works Department.
- 500\$VN: Vehicles used for the public transportation of passengers and all trucks.
- 1500\$VN: Privately-owned vehicles with cylinders of less than 1,000 c. c.'s.
- 2000\$VN: Privately-owned vehicles with cylinders of over 1,000 c. c.'s.

The increase in tax rates effective January 1, 1959 reduced the tax burden on some of the lighter vehicles but increased the burden on heavier vehicles. The new rates are:

- 300\$VN: Two or three-wheeled vehicles registered with the Public Works Department.
- 500\$VN: Vehicles used for the public transportation of passengers and all trucks.
- 1000\$VN: Privately-owned passenger vehicles with cylinders of 1,200 c. c.'s or less.
- 2000\$VN: Privately-owned passenger vehicles with cylinders of 1,201 to 2,000 c. c.'s.
- 3000\$VN: Privately-owned passenger vehicles with cylinders of 2,001 to 4,000 c. c.'s.
- 4000\$VN: Privately-owned passenger vehicles with cylinders over 4,000 c. c.'s.

Some clarification is necessary with respect to the application of the tax rate of 300\$VN. Vehicles subject to this tax rate must be motorized, have two or three wheels, and be registered with the Public Works Department. In practice, these conditions mean that scooters, motorcycles, and motorized cyclos are

taxed, while bicycles, motorbikes, and non-motorized cyclós are exempt.

Also exempt from the motor vehicle license tax are Vietnamese government vehicles and those owners of vehicles who are privileged with diplomatic immunity. Vehicles registered in foreign countries are permitted to be operated in Viet-Nam for three months without payment of the license tax.

A change was introduced on January 1, 1959 with respect to the due date of the tax. During 1957 and 1958, the tax was due before February 1, while starting in 1959 tax payments are due prior to May 1. Despite the fact that tax payments must be made before May 1, however, the license is effective during the calendar year.

Once the tax is paid on a vehicle, it remains licensed for the remainder of the year despite changes in ownership. Thus, the issue of prorating the tax for partial-year ownership is raised only in the case of newly-licensed vehicles. Owners of these vehicles are first permitted one month from the date of acquisition for the payment of the tax. After this month, vehicles for which the tax was due after June 30 were taxed at one-half the annual rate during 1957 and 1958. Since 1959, the tax is prorated as follows:

January 1 to March 31: full annual rate of the tax.

April 1 to June 30: three-fourths of the annual rate.

July 1 to September 30: one-half of the annual rate.

Oct. 1 to Dec. 31.: one-quarter of the annual rate.

Vehicles bear a registration plate which is permanently assigned until turnover of ownership rather than an annual license plate. Thus, there is no way to determine by visual inspection of the vehicle whether the circulation tax has been paid. Five classifications are made with respect to the registration plates: NA: scooters and motorcycles; NB: private cars; NC: small trucks; ND: large trucks and buses; NT: automobiles owned by foreign transients; and CD: owners with diplomatic immunity. Within each category the registration numbers are issued consecutively in the following manner: for private cars, NBA001 to NBA999; NBBO01 to NBB999, etc.

Tax payments may be made at any indirect tax office and the tax receipt for the previous year must be shown at the time of making payment. The penalty for non-payment or late payment is 100 per cent of the tax. In the event that the tax and penalty are not paid within three months, the Tax Directorate is authorized to appeal to the courts in order to institute proceedings to auction the vehicle.

All collection responsibility for the motor vehicle tax is vested with the General Directorate of Taxation, but the responsibility to ensure that all vehicles in use are currently licensed has been distributed among the military, municipal, and security police forces, as well as inspectors of the Tax Directorate.

(b) Analysis: Collections for the motor vehicle tax have

risen steadily during the past three years: 1957: 40,758,200\$VN; 1958: 44,664,639\$VN; and 1959: 47,285,068\$VN.<sup>12</sup> It is important to note, however, that the change in tax rates effective January 1, 1959, did not result in an appreciable increase in revenue.

Approximately one-half of these annual collections occur in April before the May 1 deadline for payment of the tax. As indicated below, tax payments in Saigon-Cholon represented approximately 64 per cent of total collections in 1959:

	<u>1958</u> (\$VN)	<u>1959</u> (\$VN)
Saigon-Cholon	29,415,500	30,468,275
Provinces of South Viet-Nam	10,806,671	11,800,900
Central Viet-Nam	2,818,100	3,456,493
Highlands	1,624,368	1,559,400
	<u>44,664,639</u>	<u>47,285,068</u>

Tables 18 and 19 have been prepared in order to present the distribution of tax payments by amounts of payment and to show the effect of the changes in tax rates in 1959 on this distribution. Referring first to Table 18, which shows the distribution of tax payments for 1959, it is important to note that the larger proportion of taxable vehicles in Viet-Nam bear the lower rates of the tax. Forty-four per cent of all taxable vehicles in Viet-Nam have two or three wheels and thus bear the lowest tax rate of 300\$VN. Another 32 per cent are trucks or

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<sup>12</sup>Collections for 1959 are complete except for approximately 1,000\$VN from the Province of Darlac.

Classification of Motor Vehicle Taxpayers for  
1959 by Amounts of Tax Payments and Regions of Viet-Nam

Regions	Number of Tax Payments						Totals
	300\$VN <sup>(1)</sup>	500\$VN <sup>(2)</sup>	1,000\$VN <sup>(3)</sup>	2,000\$VN <sup>(4)</sup>	3,000\$VN <sup>(5)</sup>	4,000\$VN <sup>(6)</sup>	
Saigon	11,400	5,289	1,962	4,085	1,393	350	24,479
Cholon	4,651	4,041	491	1,169	351	84	10,787
Totals	16,051	9,330	2,453	5,254	1,744	434	35,266
Remainder of South Viet-Nam	7,643	6,533	669	1,465	411	52	16,773
Center Viet-Nam	2,082	2,216	168	380	68	2	4,916
Highlands	541	1,283	113	155	79	5	2,176
Totals for Viet-Nam	26,317	19,362	3,403	7,254	2,302	493	59,131

- (1) Two-or three-wheeled vehicles registered with the Public Works Department.  
 (2) Public passenger vehicles and all trucks.  
 (3) Private passenger vehicles with cylinders of 1,200 c.c.'s or less.  
 (4) Private passenger vehicles with cylinders from 1,201 c.c.'s to 2,000 c.c.'s.  
 (5) Private passenger vehicles with cylinders from 2,001 c.c.'s to 4,000 c.c.'s.  
 (6) Private passenger vehicles with cylinders over 4,000 c.c.'s.

Source: General Directorate of Taxation.

Table 19

Classification of Motor Vehicle Taxpayers  
for 1958 by Amounts of Tax Payments in Saigon-Cholon

	<u>Number of Tax Payments</u>				<u>Total</u>
	<u>300\$VN</u> (1)	<u>500\$VN</u> (2)	<u>1,500\$VN</u> (3)	<u>2,000\$VN</u> (4)	
Saigon	10,941	6,280	1,206	6,411	24,83
Cholon	4,922	4,000	255	1,924	11,10
Totals	15,863	10,280	1,461	8,335	35,939

(1) Two- or three-wheeled vehicles registered with the Public Works Department.

(2) Public passenger vehicles and all trucks.

(3) Private passenger vehicles with cylinders less than 1,000 c.c.'s.

(4) Private passenger vehicles with cylinders over 1,000 c.c.'s.

Source: General Directorate of Taxation.

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public vehicles used for the transportation of passengers and are taxed at only 500\$VN. This means that only 24 per cent of all vehicles are taxed progressively between 1,000\$VN and 4,000\$VN.

An indication of the progressive rates borne by some of the more popular cars follows:

1,000\$VN: Fiat 500c, Citroen A-2 cv., Volkswagen 7cv, Peugeot 202.

2,000\$VN: Ford Consul, Mercedes 170sv, Simca Aronde.

3,000\$VN: Opel Kapitän, Nash Rambler, Lancia Aurelia, Chevrolet Bel Air.

4,000\$VN: DeSoto Fire Dome, Lincoln, Buick Special.

A comparison between the statistics assembled in Tables 18 and 19 for the Prefecture of Saigon-Cholon gives an indication of the effect of the tax changes introduced in 1959; although it is not possible to show the complete shift in tax liabilities because there were less individual tax payments in 1959 than in 1958. The data show that the number of vehicles paying a tax of 1,000\$VN was reduced from 8,335 in 1958 to 5,254 in 1959, and that 1,461 vehicles subject to a tax of 1,500\$VN in 1958 only had to pay a tax of 1,000\$VN in 1959. On the other hand, there were 2,759 vehicles subject to tax rates of 3,000\$VN and 4,000\$VN in 1959 which were previously taxed at 2,000\$VN in 1958. In approximate terms, therefore, the 1959 tax increases for larger vehicles were largely offset by tax relief extended to smaller vehicles.

There are some very conspicuous shortcomings in the rate structure of the vehicle tax. Among the more important are:

(1) Some revenue should be obtained from the relatively large number of motorbikes, which are presently exempt. (2) Buses, trucks and taxis are very greatly under-taxed under the present system of applying a flat-rate levy of 500<sup>0</sup> VN to each of these vehicles. (3) More progression should be introduced into the rate structure for passenger vehicles. Table 20 demonstrates that the present progressive rate structure has done little but maintain an effective rate which is proportionate to the retail price of the vehicles. To the degree that the levy is rationalized as a luxury tax or one based on ability to pay, therefore, it largely fails its purpose.

Enforcement of the vehicle tax is a serious problem. Table 21 presents an inventory of all vehicles in Saigon-Cholon in 1959. Comparing the data in Table 18 on tax payments to the inventory statistics in Table 21 discloses that 50 per cent of Saigon-Cholon taxable vehicles was untaxed in 1959. This conclusion has been reached from the following data:

	<u>Tax Payments (Table 18)</u>	<u>Taxable Vehicles (Table 21)</u>	<u>Percentage of Tax Payments to Taxable Vehicles</u>
Passenger vehicles	9,885	18,624	53
Trucks, buses, taxis	9,330	17,756	53
Two and three-wheeled vehicles	<u>16,051</u>	<u>33,916</u>	<u>47</u>
Total	35,266	70,296	50

Table 20

Relationship of the Vehicle Tax  
to Retail Prices of Vehicles

Type of Vehicle	Retail Price Excluding Registration Fee (\$VN)	Vehicle Tax (\$VN)	Percentage of Vehicle Tax to Retail Price
Fiat 1100	122,000	1,000	.82
Citroen 2 cv	121,000	1,000	.81
Ford Anglia	160,000	1,000	.62
Volkswagen	165,000	1,000	.61
Renca Aronde	169,800	2,000	1.17
Peugeot 203	191,700	1,000	.52
Vauxhall 4 Victore	192,500	2,000	1.03
Vauxhall 4 Super	198,000	2,000	1.01
Ford Consul	202,000	2,000	.99
Ford Ariane 4	205,000	2,000	.97
Vauxhall de luxe	211,500	2,000	.94
Ford Taunus	216,000	1,000	.46
Peugeot 403	218,900	2,000	.91
Forward	231,000	2,000	.86
Vellette Beaulieu	264,000	3,000	1.29
Vauxhall 6 Velox	249,000	3,000	1.20
IS 19	255,000	2,000	.78
Ford Zephyr	275,000	3,000	1.09
IS 19	280,000	2,000	.71
Voliant	284,000	3,000	1.06
Plymouth	315,000	3,000	.95
Chevrolet Belair Sedan	340,000	3,000	.88
Cambler 6	366,000	3,000	.82
Cambler 8	384,000	3,000	.78
Ford Fairlane 500	386,000	4,000	1.04
Alismobile	437,000	4,000	.92
Mercury	450,000	4,000	.89
Alismobile de luxe	490,000	4,000	.82

Source: General Directorate of Taxation.

Table 21

## Inventory of Vehicles in Saigon-Cholon, 1959

Type of Vehicle	Number
Private passenger vehicles	18,624(1)
Trucks	12,160(1)
Buses	2,000(1)
Taxis	3,596(4)
Motorcycles, scooters, and three-wheeled taxable vehicles	31,474(1)
Motorized cyclos	2,442(4)
Non-motorized cyclos	5,490(4)
Motorbikes (imported within three years)	26,580(3)
Bicycles	300,000(2)
Three-wheeled rickshaws	12,100(4)
Total:	414,062

Sources:

- (1) General Directorate of the Budget and Foreign Aid.
- (2) Prefectural Police.
- (3) Department of Finance.
- (4) Prefectural Government.

It should be emphasized, however, that the inventory data are based on estimates, and therefore, the evasion problem may be of less severity than indicated. In particular, a proportion of the untaxed vehicles may not be in use. The General Director of Taxation is of the opinion that the compliance score is higher than 50 per cent, but agrees, nevertheless, that an evasion problem of some magnitude exists.

Enforcement activities are inhibited by the absence of a windshield sticker or license plate on vehicles, which would present visual evidence that the tax has been paid. A paper sticker was used in 1957, but it was of poor quality and disintegrated. No stickers were used in 1958 or 1959. In 1959, the Director General of Taxation proposed an order to the United States of 70,000 stickers at 5 piasters each, but this request was turned down by the Vietnamese Government because it would constitute a drain on foreign exchange reserves. This impediment has been removed by the determination that weatherproof stickers be manufactured in Viet-Nam, also at a price of 5 piasters per sticker. At the time of writing this report in March, 1960, the Presidency is weighing the issue of whether these stickers should be introduced.

Enforcement activities of the license tax have been nominal. Inspectors of the Indirect Tax Directorate have undertaken no enforcement since the tax was initiated, while the activity of the police has been of a token nature. It is reported that there has been virtually no enforcement during 1959. There is no record of a vehicle having been confiscated for non-payment of the tax.

(c) Recommendations: Expert opinion favors considerable emphasis on an annual motor vehicle tax on the basis of two arguments:

(1) The tax acts as a compensation for the low correlation between weight and gasoline consumption. Studies show that a 2-ton automobile may wear out the highway twice as much as a 1-ton automobile, but the 2-ton automobile may use considerably less than twice as much gasoline. This unneutrality may be corrected by license fees graduated so that rates advance more rapidly than weight. (2) The license tax is justified as a minimum charge that should be paid even though vehicles are used infrequently.

An additional argument justifying the tax in Viet-Nam is that the ownership of private transportation vehicles is a form of conspicuous consumption indulged in by middle and upper income groups. Given the difficulty to assess and collect progressive income taxes, there is justification to utilize more easily administered types of progressive taxes based on the ownership of property. Stated another way, until it is possible to tax the average businessman effectively on the basis of his income,

there is justification to exploit his proclivity to spend his income on high-priced vehicles. This argument also holds for the owners of scooters and motorbikes, who are a relatively privileged group with respect to income.

The present vehicle tax in Viet-Nam does not serve these objectives. It is at the present time a relatively weak companion to the gasoline tax; it should be developed into an effective partner.

Several bases may be used for the levying of license taxes, such as horsepower, value of car, piston displacement, wheel base, gross weight, and net weight. The consensus of opinion favors net weight. However, the vehicle tax in Viet-Nam is in such a primitive form of development that it appears more prudent at the present time to improve the present system than to shift to a better but more elaborate base.

A feature of the recommendations is that the tax rates on trucks and buses have been increased sharply so that they are equal with those on passenger vehicles. It should be recognized that this is only a temporary rate increase and that in the future the rates on trucks and buses should be heavier than on passenger vehicles.

Specific recommendations for strengthening the vehicle tax follow:

- (1) Adoption of the following rate schedule with the proviso that the tax is reduced by 5 per cent for each year of the vehicle's age until a maximum reduction of 50 per cent of the tax is reached in ten years:

- 300\$VN: motorbikes.
- 600\$VN: motorcycles and scooters.
- 1,500\$VN: motorized cyclos and motorized three-wheeled vehicles.
- 2,000\$VN: passenger vehicles, trucks and buses with cylinders of 1,200 c. c.'s or less.
- 3,000\$VN: taxis.
- 4,000\$VN: passenger vehicles, trucks and buses with cylinders of 1,201 to 2,000 c. c.'s.
- 5,000\$VN: passenger vehicles, trucks and buses with cylinders of 2,001 to 3,000 c. c.'s.
- 6,000\$VN: passenger vehicles, trucks and buses with cylinders of 3,001 to 4,000 c.c.'s.
- 8,000\$VN: passenger vehicles, trucks and buses with cylinders over 4,000 c.c.'s.

- (2) Immediate introduction of windshield stickers for the visual identification that the vehicle tax has been paid.
- (3) The assignment to the police forces of full responsibility to enforce the vehicle tax and the introduction of an effective enforcement drive on tax evaders.
- (4) The General Directorate of Taxation should provide the police forces each year a list containing the registration numbers and names of owners of vehicles on which the vehicle tax has not been paid.
- (5) The requirement of immediate payment of the tax (instead of a one-month grace period) upon acquisition of a vehicle.

Adoption of these recommendations would raise revenue from the vehicle tax to at least 172 million \$VN as compared to the present level of 47 million \$VN.

(b) Analysis: Recent collections for the paddy transformation tax show a sharp increase from 1956 to 1957, a leveling off during 1958, and another increase during 1959. Actual collections were: 1955: 10,405,841\$VN; 1956: 12,818,441\$VN; 1957: 25,009,446\$VN; 1958: 25,194,238\$VN; and 1959: 33,631,627\$VN. This irregular trend is caused by several factors, such as growing conditions, strength of the export market, and changes in land area cultivated. Collections also follow an irregular seasonal pattern from one year to another.

Approximately 80 per cent of paddy tax collections is attributable to the provinces of South Viet-Nam. Collections by origin in 1959 were: provinces of South Viet-Nam: 26,154,781\$VN; Saigon-Cholon: 6,792,502\$VN; Central Viet-Nam: 682,077\$VN; and the Highlands: 2,267\$VN.

There are 1,156 rice mills in Viet-Nam, of which 1,014 are in South Viet-Nam and 24 are in Cholon. The size of the mills varies considerably, with the larger ones being used principally for the preparation of export rice. The larger mills are located in Cholon and in the towns of Soc-Trang, Rach Gia, Bac Lieu, and Long Xuyen. Most of the remaining mills are located in smaller towns and districts.

There are five distilleries using paddy for the production of alcohol. The largest one of these is operated by French owners, while the four smaller ones are owned by Vietnamese.

In 1959, the large French-owned distillery, Distillerie de l'Indochine, made total paddy tax payments of 2,461,965\$VN.

The aggregate amount of evasion of the paddy tax may be estimated quite simply and with some certainty by comparing actual receipts to estimated receipts, with the latter being based on the amount of total production of paddy which should be subject to the tax. Nearly all rice destined for human consumption, except that grown in the highlands, is hulled in mills and is therefore taxable. The only other two uses for unhulled rice is for livestock feeding and for seed. Agricultural experts in Viet-Nam estimate that 5 per cent of Viet-Nam's total paddy production is used for seed, while another 5 to 10 per cent is either farm-hulled or fed to livestock. Averaging the latter two figures results in the estimate that 87.5 per cent of Viet-Nam's total paddy production is legally subject to the paddy tax.

Table 22 presents a comparison of actual and estimated paddy tax collections, with the latter based on the assumption that 87.5 per cent of all paddy production is legally subject to the tax. Due to the fact that an undetermined amount of paddy is carried over from one crop year to another, there is no strict correlation between paddy production and tax receipts for any one year. However, since the data in Table 22 represent a series of five years, it is apparent that only about 25 to 30 per cent

of the total legally incurred tax liability is collected. Some consolation is found, however, in that there appears to have been an improvement in collections since 1955.

The principal explanation for the high evasion score is that the payment of the paddy tax is almost on a voluntary basis. Most of the enforcement staff is concentrated in Saigon-Cholon, where there are eight inspectors available for the control of nine indirect taxes. During the last three years, these inspectors undertook only four investigations of the paddy tax, two each in 1957 and 1958, and none in 1959. These four investigations produced 630,848\$VN in additional revenue. There is said to be more enforcement activity in the provinces, but this assertion must be interpreted in the light of a rural tax staff that is so meager and poorly trained that often it must be reinforced by personnel on the staffs of the provincial chiefs.

Professor Richard Lindholm developed a new administrative procedure for the collection of the paddy transformation tax.<sup>14</sup> This procedure involved the issuance of a set of forms by the village elders to every person selling paddy, and the return of another set of forms to the elders for all paddy purchased. The reaction of the General Directorate of Taxation was that this system was too complicated for implementation.

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<sup>14</sup>Analysis of Viet-Nam's Tax System and Recommendations, USOM, Viet-Nam, 1956, Section VII-4, pp. 19-30.

Table 22

Comparison of Estimated and  
Actual Paddy Tax Collections

Year	Production (1,000 metric tons)	Estimated Paddy tax <sup>(1)</sup> (\$VN)	Actual Paddy tax Collections (\$VN)	Per Cent of Actual to Estimated Tax (\$VN)
1955	2,766,7	72,625,875	10,405,841	14.3
1956	3,412	89,565,000	12,818,441	14.3
1957	3,191,6	83,779,500	25,009,446	29.8
1958	3,990,2 <sup>(2)</sup>	104,742,750	25,194,238	24.0
1959	4,500 <sup>(2)</sup>	118,125,000	33,631,627	28.4

(1) Based on the assumption that 87.5 percent of paddy is hulled in mills and used in distilleries.

(2) Preliminary government estimates.

Another proposal made for the purpose of improving paddy tax collections is the installation of meters on the machinery used in rice mills.

The essential problem with respect to the administration of the paddy tax is the maintenance of false accounting books by the owners of mills, who understate their receipts and sales. Tax officials maintain that there is no technical problem which prevents adequate enforcement. With adequate staff, it is believed that the evasion problem could be resolved.

Although an inadequate administrative effort is the principal shortcoming of the paddy tax, consideration should be given also to an increase in the paddy tax rate. Based on a wholesale price of paddy of 300\$VN per 100 kilos,<sup>15</sup> the paddy transformation tax of 3\$VN per 100 kilos represents a tax of one per cent of value. This tax burden is light as compared to the burden borne by other consumer products subject to the 6 per cent production tax, and this suggests that rice production does not contribute adequately to the national budget. Moreover, the real burden of taxes on paddy has been reduced within recent years as a result of inflation, the elimination of the 4 per cent turnover tax in 1957, and the elimination of the pacification tax on January 1, 1959. For all of these reasons,

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<sup>15</sup>Actual wholesale prices of paddy per 100 kilos were: 1956: 301\$VN; 1957: 283\$VN; and 1958: 304\$VN. The price in 1959 is not available.

there appears to be justification to increase the rate of the paddy tax.

(c) Recommendations: In principle, the agricultural industry in Viet-Nam should be taxed principally through the combination of income and land taxes. Previous reports on the income and land taxes have demonstrated, however, that problems of compliance and enforcement in the rural areas have largely nullified the application of these two taxes to the vast agricultural industry of Viet-Nam.

This condition, moreover, is likely to continue for some time. As a result, the best way to obtain tax revenue from the agricultural industry, at least for the short run, is to use a form of market tax like the paddy transformation tax. Even if the paddy tax were adequately administered, however, the present rate of 3\$VN per kilos represents a tax of only one per cent of value, which is extremely light as compared to the tax burden borne by other agricultural and industrial output in Viet-Nam.

The most important problem to be faced with the paddy tax, however, is ineffective administration, which results in only about 25 to 30 per cent of the potential tax being collected. Not much improvement can be expected in resolving this problem until the General Directorate of Taxation obtains a higher budget and more personnel. The paddy transformation tax stands out in bold relief as a relatively good tax being allowed to live a sickly life for want of government support.

Under these circumstances, improved administration and determined enforcement of this levy are prime requisites. Once the goal of improved collections has been achieved, further study of the

tax should be undertaken for the feasibility of a rate increase in the light of the urgent national need for additional revenues. In this respect, due consideration should be given to the real income of rice farmers.

7. The Precious Metals Luxury Tax

(a) Description: The precious metals luxury tax is principally a sales tax on jewelry, although it also includes within its base the sale of antiques and stamps sold to collectors. Among jewelry products, it is presumed that most of the impact of the tax falls on articles made of gold. The levy was introduced into South Viet-Nam in November, 1946, into North Viet-Nam in November, 1948, and into Center Viet-Nam in December, 1950.

Taxable sales include: (1) gold, silver, platinum, pearls, diamonds, and other precious stones used to make jewelry, as well as all jewelry items made of these products; (2) the following articles, provided that they are over 50 years of age: statues, paintings, fine arts, curios and antiques; objects made of earthenware, porcelain, and ivory; and other objets d'art; and (3) the sale of stamps for use in stamp collections.

Included in the base of the tax is the value of any labor expended on the taxable articles. Thus, the base of the tax in each case is the gross sales price.

A uniform tax rate of 10 per cent was levied on all taxable articles until March 4, 1957, when the rate was raised to 20 per cent. Then on June 21, 1958, the rate on pure gold (24 karats) was reduced to 10 per cent, with all other articles remaining taxable at 20 per cent.

The tax is a multi-level transactions levy, with sales at

all levels of trade being taxable. Included also are sales by second-hand dealers and auctioneers. However, a tax deduction is permitted, as under the production tax, in order to prevent pyramiding of the tax. This means, for example, that a manufacturer of gold jewelry is permitted to deduct from his own tax liabilities the tax which was levied on his purchases of raw materials.

In those instances in which an article consists only in part of a precious metal, the tax may be prorated in order that it is applicable only to the value of the precious metal. To illustrate, in the case of a wrist watch with a gold case, the tax is applicable only to the case provided that the invoice given to the purchaser shows a breakdown for the value of the case as distinct from the value of the remaining part of the watch. Prorating is also possible for articles which are in part made of pure gold, taxable at 10 per cent, and other articles taxable at 20 per cent.

Each taxpayer is required to register with an indirect tax office upon his initiation of business and provide certain facts about the business, including a list of inventory. Thereafter, tax declarations and payments are due on the 15th day of each month for all transactions of the preceding month.

Rather elaborate taxpayer compliance requirements have been established in order to assist in enforcement.

(1) A book must be maintained which records all daily purchases

and sales. (2) A deposit book must be maintained for the listing of all jewelry left by customers for the purpose of embellishment or repair. (3) Receipts in duplicate must be prepared for each sale, the original being given to the buyer and the duplicate being retained by the seller. Each one of these books and receipts must also be verified and paged by an indirect tax office before use.

(b) Analysis: Collections for the precious metals luxury tax show a deterioration since 1957, and this is inconsistent with levels of aggregate spending that are believed to be rising each year. Annual collections during the past five years were: 1955: 9,020,907\$VN; 1956: 7,848,431\$VN; 1957: 10,285,823\$VN; 1958: 8,701,338\$VN; and 1959: 7,310,212\$VN. Another indication of revenue weakness is that monthly collections for 1959 were lower in 8 months as compared to comparable months in 1958.

For 1959, the regional sources of collections were: Saigon-Cholon: 3,453,704\$VN; provinces of South Viet-Nam: 3,071,643\$VN; Center Viet-Nam: 619,319\$VN; and the Highlands: 165,546\$VN.

There is little doubt that evasion of the precious metals tax is general and is practiced without much inhibition. As evidence of this it may be noted that the doubling of the tax rate on March 7, 1957 should have raised collections materially. Not only did this increase not eventuate, but collections were actually lower in 1959 than before the tax rate was increased. Also, Table 23 shows the results of a token sample of seven large jewelry stores located on Rue Catinat in Saigon. It is apparent that the amount of tax payments made by these firms in 1959 reflects levels of gross sales that would be inadequate to pay even the amount of rent on the properties.

Table 23

## Tax Payments for a Group of Jewelers, 1959

Firm Number	(1) Gross Sales from 1958 Income Tax Return (\$VN)	(2) Precious Metals Tax Payments for 1959 (\$VN)	Percentag (2) to
(1)	460,921	27,523	5.9
(2)	600,000	12,307	2.0
(3)	375,927	21,304	5.7
(4)	118,300	21,280	17.9
(5)	2,943,375	56,624	1.9
(6)	(1)	27,415	-
(7)	(2)	44,090	-

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(1) No gross sales declared in 1958 income tax return.

(2) No declaration file for 1958.

Source: General Directorate of Taxation.

Typical ways in which the precious metals tax is evaded include the following: (1) Jewelers minimize their tax liabilities by claiming that much of their business involves the embellishment of materials belonging to their customers, (2) Dealers fail to make out receipts for their sales and do not add the amount of the tax to the sale price. (3) Purchases of materials are not recorded by the dealers, and lists of inventory are falsified.

Enforcement of the precious metals tax has deteriorated and is now almost non-existent. In Saigon-Cholon, inspectors in the Indirect Tax Directorate undertook 19 investigations in 1957, one in 1958, and none in 1959. This type of weak enforcement probably prevails throughout other municipalities and towns of Viet-Nam. Nor is there much hope that enforcement could be improved in the short run, for any increase in auditing staff for the indirect taxes should be channeled into the control of the more important and more productive taxes. Another inhibiting factor in improving enforcement is the relatively large number of actual and potential taxpayers. For example, there are 250 registered jewelry stores operating at the retail level in Saigon-Cholon alone.

In considering policy recommendations for the precious metals tax, it is obvious that a logical alternative to the tax would be the imposition of higher import duties on precious metals and stones. The following data would suggest that there

is considerable latitude available for raising import duties on these products:

<u>Product</u>	<u>Custom Tax Rate</u> (Per cent)	<u>Production Tax Rate</u> (Per cent)
Pearls	50	35
Precious stones	35	35
Gold	15	35
Silver	15	35
Platinum	10	35

An important qualification, however, is that higher import duties would be an ineffective way to tax the sale of gold. The reason for this is that existing sales of gold represent a turnover of gold stock already within the country plus whatever amounts may be smuggled into Viet-Nam. Although the National Bank has a monopoly on the sale of gold, there is no record of gold having been purchased or sold by the Bank since 1957.

(c) Recommendations: Jewelry is purchased in Viet-Nam both for purposes of adornment and as a means of saving. To the degree that jewelry is used to satisfy the need for conspicuous display, there is justification in equity for a tax to be borne by persons having incomes which permit undue expenditures of this type. Moreover, to the degree that jewelry is used as a form of saving, there is economic justification to channel some of this saving into productive use by means of a tax.

On the other hand, it is possible to defend the elimination of the tax. First, it should be borne in mind that the tax is innately difficult to administer because of the existence of thousands of actual and potential taxpayers, most of whom would have to be inspected in order to bring about effective enforcement. It is also apparent that to plan for a mass enforcement effort is unrealistic, because any additional inspectors obtained by the Indirect Tax Directorate should be utilized in the administration of better and more productive taxes. Thus, retaining the tax in effect means the retention of a levy which has been unproductive of revenue and flagrantly evaded in the past, without at the same time there being much hope that these problems will be resolved in the future. Moreover, it can be argued that the retention of a seriously evaded tax is generally debilitating on taxpayer morale. For example, it is a handicap in developing better compliance of the income and land taxes if it is possible to evade the precious metals tax with impunity. Finally, the elimination of the tax would involve very little sacrifice in terms of revenue loss.

Despite these arguments, it is recommended that the tax be retained and its enforcement be strengthened. While recognizing that any mass collection effort is presently not feasible, it appears that strict enforcement on a selective basis with heavy penalties would sound a cautionary note to potential evaders in addition to increasing revenues.

It is further recommended that the rate on pure gold be raised to 20 per cent, thus equalizing the levy on all precious articles.

8. The Ice Consumption Tax

(a) Description: The ice consumption tax is a specific excise tax of 100\$VN per metric ton (1,000 kilos) levied on the sale of ice at the producer's level. South Viet-Nam adopted the tax first in 1946 at a rate of 50\$VN per metric ton, and North Viet-Nam followed in 1948 with a rate of 100\$VN per ton. A uniform rate of 100\$VN per ton was established throughout Viet-Nam in 1953, and this rate has been continued until the present time. The base of the tax includes all ice produced regardless of its intended use.

Taxpayers, who are the manufacturers of ice, are required to register with indirect tax offices. Declarations and tax payments are required by the 15th day of each month for all ice sold during the preceding month. All responsibility for the collection and enforcement of the tax is assumed by indirect tax bureaus.

(b) Analysis: Collections for the ice consumption tax show a developing weakness during the past five years, with the amount collected in 1959 being 34 per cent lower than collections in 1955. Recent collections by calendar years were: 1955: 17,937,858\$VN; 1956: 13,818,280\$VN; 1957: 12,911,960\$VN; 1958: 11,890,490\$VN; and 1959: 11,649,587\$VN. Over one-half of the tax is collected in Saigon-Cholon. Regional collections in 1959 were: Saigon-

Cholon: 6,520,777\$VN; provinces of South Viet-Nam: 4,501,129\$VN;  
Center Viet-Nam: 569,750\$VN; and the Highlands, 57,931\$VN.

The deterioration in collections is due possibly to weak enforcement of the tax and the introduction of ice-making refrigerators into homes and business establishments. That enforcement is weak is evident from the fact that there has been no investigations made in Saigon-Cholon during the past three years. Research at the Customs Directorate indicates that there has not been an annual increase in the number of refrigerators imported during the period from 1955 to 1959, but the number of units imported during the period totaled 6,073.<sup>16</sup> Import taxes on refrigerators are relatively moderate, with the customs duty being 15 per cent and the production tax 35 per cent.

Enforcement of the ice consumption tax is made relatively easy by the limited number of taxpayers who are subject to the tax. There are only 14 registered ice producers in Saigon-Cholon, so it is likely that the total number of manufacturers in all Viet-Nam is less than 50 firms. Making enforcement even more easy is the fact that one firm in Saigon-Cholon, Brasseries et Glacieres de l'Indochine (BGI), dominates the market. Ice tax collections from this firm in 1959 totaled 6,081,984\$VN out of total ice tax collections in Saigon-Cholon of 6,520,777\$VN.

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<sup>16</sup>The number of refrigerating units imported was: 1955: 1,795; 1956: 1,198; 1957: 971; 1958: 1,234; and 1959 (to October 31): 875. Out of this total of 6,073 units, 6,028 were under 30,000\$VN and 45 were over 30,000\$VN in value, excluding import taxes.

Brief consideration of the economics of the ice market is relevant in assessing the desirability of the ice consumption tax. Ice is purchased exclusively for the cooling of drinks and the preserving of food. In Viet-Nam, factory sales are made directly to the home, to business establishments, and to dealers who distribute ice to final consumers. Ice dealers distribute the product to homes, refreshment stands, restaurants, and retailers of food products. A precise percentage distribution of the total product by types of consumers is not available.

Most of the ice is sold in blocks of 50 kilos each, and the price of one of these blocks is 24\$VN at the factory or 26\$VN delivered. A tax rate of 100\$VN per 1,000 kilos represents a tax of 5\$VN per 50 kilos of ice. Assuming that the average price of ice is 25\$VN per 50 kilos, a tax of 5\$VN per kilo represents a burden of 25 per cent of sale price.

This effective tax rate of 25 per cent of sale price means that ice production is being subjected to a very heavy tax burden as compared to that borne by other factory output in Viet-Nam, which is taxed at a rate of 6 per cent under the production tax. It is difficult to defend the taxation of ice at a level of 25 per cent of sale price when such products as soft drinks and ice cream are taxed at 6 per cent of sale price. It is even more difficult to defend a tax of 25 per cent on ice when it is recalled that the sale of pure gold is taxed

at a rate of 10 per cent and the paddy transformation tax represents a burden of only one per cent of sale price. Furthermore, many middle and upper income receivers successfully avoid the incidence of the ice tax by the use of home freezers. The same type of avoidance is true of the larger bars, restaurants, and hotels, which would have their own refrigeration units.

(c) Recommendations: The conclusion is unavoidable that the production and consumption of ice has no special considerations which justify the imposition of a tax rate four times as heavy as that borne by other factory output. This burdensome rate should have been removed in 1957 when the production tax was introduced. At that time, the special tax on ice should have been eliminated and ice should have been taxed under the production tax. It is not too late to introduce this reform.

The only justification which exists for the continuation of the ice consumption tax is to avoid a loss of revenue. Eliminating the ice tax would result in a loss of approximately 9 million \$VN in annual collections. Additional revenues may be realized quite easily, however, by raising the custom duties on refrigerators. On the assumption that about 1,000 refrigeration units are imported annually at an average price of 15,000\$VN, a ten per cent increase in the customs duty would result in about 15 million \$VN in additional revenue. This change would not only bring in more revenue, but it would also help to shift the burden of taxation to middle and upper income groups.

9. Tax on Consumption in Restaurants

(a) Description: The tax on consumption in restaurants is a retail sales tax of 10 per cent levied on charges for meals and drinks exceeding 100\$VN per person. When the tax was first introduced in South Viet-Nam in 1946, North Viet-Nam in 1948, and Central Viet-Nam in 1950, the tax rate of 10 per cent applied to all charges per person over 60\$VN. In 1953, the tax was codified and made uniform for all Viet-Nam and the 10 per cent rate was made applicable to charges per person exceeding 100\$VN. No further changes in the tax have been introduced since 1953.

The tax applies to the sale of all meals and drinks whether these articles are sold in bars, restaurants, tea rooms, night clubs, or other establishments. Consumption of the products must be on the premises, however, and facilities for consumption, such as chairs and tables, must be provided. Also, the base of the tax includes the total bill for charges exceeding 100\$VN per person and not merely that portion of the price exceeding 100\$VN. Tips or service charges are included within the taxable base unless these are specifically identified in the bill, a separate book is maintained for the listing of the service charges, and the employees sign this book as evidence that they have actually received the gratuities.

All taxpayers must register with indirect tax offices

when initiating their operations. Declarations and tax payments are required by the 15th day of each month for tax liabilities arising in the previous month. These declarations must show the total turnover of the business as well as the turnover subject to the restaurant tax.

An attempt is made to control the restaurant tax by requiring all taxpayers to present a statement to each customer which indicates the total charge and the amount of the tax.

These statements must be taken from a book which has been previously paged and numbered by an indirect tax office. The books also contains stubs which must be completed whenever a statement is presented to a customer. This procedure is based on the theory that the stubs will serve as a check on the reliability of the tax declarations.

(b) Analysis: Annual collections for the restaurant tax reached a high point in 1957 but have been deteriorating since that year. Collections for the last five years were: 1955: 2,114,645\$VN; 1956: 1,785,677\$VN; 1957: 4,923,869\$VN; 1958: 3,560,861\$VN; and 1959: 3,015,534\$VN. Possible explanations for the relatively high level of collections in 1957 are the use of the forfeiture method of assessment and a high level of consumption expenditures. The decline in collections since 1957 is probably attributable more to the elimination of the forfeiture method of assessment and to an increase in evasion than to any weakness

in consumption expenditures since 1957.

Approximately 77 per cent of tax collections in 1959 was from Saigon-Cholon. Regional collections for the past three years again demonstrate the developing weakness of the restaurant tax throughout Viet-Nam:

	<u>South Viet-Nam</u>	<u>Center Viet-Nam</u>	<u>Highlands</u>
1957	4,561,462 \$VN	221,301 \$VN	141,106 \$VN
1958	3,129,334 \$VN	58,802 \$VN	372,725 \$VN
1959	2,753,061 \$VN	53,996 \$VN	208,477 \$VN

The deterioration in collections since 1957 is undoubtedly attributable in large part to taxpayer evasion and an inability to enforce the tax adequately. In fact, among the nine indirect taxes, the restaurant tax probably vies for honors with the precious metals tax for high score in evasion. For example, in Saigon there were only 35 taxpayers in 1959, but the patente tax roll indicates that there were 59 large restaurants, 130 medium-size, and 760 small. Among the 15 largest taxpayers, there were four hotels and one night club, while the three largest hotels accounted for 70 per cent of all collections in Saigon-Cholon. One of the largest restaurants in Cholon, the Arc-en-Ciel, indicated a turnover amount subject to the restaurant tax in 1959 of 155,160\$VN, which amounts to less than 300\$VN per day subject to tax. The conclusion appears warranted from this and other evidence that the restaurant tax is only

collected from the larger restaurants and even these pay only a fraction of their legal tax liabilities. Despite this, no inspections were made in 1959.

The restaurant tax constitutes a good example of the principle that an elaborate set of regulations imposed upon taxpayers is no substitute for the use of enforcement personnel, or the maxim that any system can be defeated by unwilling taxpayers who are not inspected. In a preceding section, a description was presented of the statements for charges which must be presented to customers in order to insure that the tax will be collected and a record will be available for verifying tax liabilities. These regulations are easily circumvented in several ways. Restaurant proprietors may fail to present a bill to a customer, may make out two bills instead of one in order to reduce the amount of each bill below 100\$VN, or may simply falsify the bill. Apparently, these and other forms of evasion are practiced extensively.

A particular problem with the tax on consumption in restaurants is the complexity arising because of the application of three taxes: (1) There is an entertainment tax of 40 per cent levied either on the entry ticket or minimum charge whenever any form of entertainment is supplied. (2) There is the restaurant tax of 10 per cent levied on charges per person in excess of 100\$VN. (3) There is a production tax of 6 per cent levied on goods produced on the premises of the taxpayer.

These three taxes have required the development of several regulations in order to give effect to the application of each tax: (1) Charges bearing the entertainment tax are exempted from both the restaurant and the production taxes. (2) Charges bearing the restaurant tax (that is, in excess of 100\$VN) are exempted from the production tax of 6 per cent. (3) Charges of 100\$VN or less are subject to the production tax of 6 per cent, providing that the goods are "produced" by the restaurant. If, on the other hand, the goods are not altered in any way by the restaurant, they are not subject to the production tax.

The complexity involving the application of these three taxes may be made more evident by the presentation of a hypothetical restaurant bill appearing below. It may be noted that a distinction must be made in every bill totaling less than 100\$VN per person as to whether or not the food was prepared in the restaurant.

Restaurant's Name  
Address

Bill Number  
Customer Number

<u>Items</u>	<u>Price</u> <u>(\$VN)</u>	<u>Production Tax</u> <u>(\$VN)</u>	<u>Total</u> <u>(\$VN)</u>
1 Beer	10.	--	10.
1 Vegetable	10.	.60	10.60
1 Chateaubriand	40.	2.40	42.40
1 Cheese	15.	--	15.00
1 Banana	<u>3.</u>	<u>--</u>	<u>3.00</u>
Total	78.	<u>3.00</u>	81.00
Luxury Tax		--	--
Total amount			81.00

(c) Recommendations: Starting with the resolution of the easier problems first, a case can be made for the elimination of the production tax on restaurant meals. This tax is quite irrational in the sense that it requires a determination of whether goods are actually transformed physically in the restaurant. In practice, this means that a bottle of beer is exempt from the tax but a bowl of rice is taxable. Moreover, applying the production tax to restaurant meals is a very ambitious administrative undertaking, for it means that all restaurants with gross sales over 500,000\$VN annually are taxable.

Of the two remaining taxes that are applied in the general area of restaurant and night club expenditures, it would appear that the entertainment tax levied on entry tickets and cover charges has a more convincing justification than the consumption tax on restaurant meals. Night club and tea room patronage appears to be more clearly a luxury expenditure than the consumption of meals exceeding 100\$VN per person. Moreover, the entertainment tax is more manageable administratively, as there are only 13 night clubs and 7 tea rooms in Saigon-Cholon.

This brings us to the restaurant tax, which poses a dilemma. Certainly, there is justification in equity for a luxury tax on consumers who are able to afford expenditures for food and drinks in excess of 100\$VN per person. Therefore, there is a temptation to recommend an intensive campaign to collect the tax. But the difficulty with this recommendation

is that a successful campaign is most unlikely to eventuate, for the base of the tax is too wide and the rate too high for effective enforcement and compliance. Two recommendations, therefore, are suggested: (1) The enforcement burden may be reduced by restricting the application of the tax to those establishments classified as "large restaurants" under the patente tax. (2) Better compliance may be encouraged by reducing the rate from 10 to 5 per cent on charges over 100\$VN per person.

APPENDIX A

List of Products Classified as Necessities  
and Taxed at a Rate of 15 Per cent Under  
The Production Tax Levied on Imports

1. Condensed milk
2. Cereal flour
3. White and brown sugar
4. Coal
5. Petroleum
6. Gaseous products used for the production of medicines
7. Serums for vaccinations
8. Drugs for human and animal consumption which are not advertised and displayed
9. Drugs for human and animal consumption which are advertised and displayed
10. Other medical products
11. Oriental drugs
12. Nitrogenous fertilizer
13. Phosphate fertilizer
14. Potassium fertilizer
15. Other kinds of fertilizer
16. Firewood, charcoal, and lumber
17. Paper and pasteboard
18. Newspapers and magazines
19. Written or printed pieces of music
20. Books
21. Cotton thread
22. Crystal objects used in laboratories
23. Small-size crystal products
24. Cotton tissue

25. Farm tractors
26. Agricultural implements used for the drainage and preparation of land
27. Agricultural implements used for harvesting
28. Agricultural implements used for sowing and distributing fertilizer
29. Agricultural implements used for threshing
30. Equipment used to protect trees
31. Equipment used in poultry and bee raising
32. Other kinds of agricultural implements
33. Generators and motors
34. Trucks and tractors
35. Scientific and microscopic machines and spare parts
36. Machines and equipment used in chemistry and physics
37. Meteorological equipment
38. Geophysical equipment
39. Scientific equipment used in education
40. Surgical equipment
41. Surgical appliances, stretchers, and ambulances
42. Surgical equipment used for treating patients
43. Oxygen equipment used for treating patients
44. Face guards used for surgery
45. Surgical sterilizers
46. Artificial limbs
47. Material used to manufacture insecticides
48. Tires for airplanes
49. Woven rayon
50. Wool and animal hair

51. Hemp
52. Artificial wool
53. Castings
54. Diesel motors
55. Industrial machines and equipment
56. River ships
57. Spare parts for airplanes

Source: The first 46 articles were approved in order to enclose with Decree No. 2/57 of March 4, 1957, while the last 11 articles were added by Decree No. 93TC of April 16, 1959.

APPENDIX B

List of Products Classified as Luxuries  
and Taxed at a Rate of 35 Per Cent Under  
The Production Tax Levied on Imports

1. Wines and aperitifs
2. Liquors
3. Spirits
4. Colored liquors
5. Modified alcohol used in industry and other kinds of wine
6. Tobacco products
7. Light products made from petroleum
8. Pure oil
9. Natural perfume
10. Mixed material from natural or artificial perfume used to  
make perfume or foods
11. Cosmetics
12. Natural perfume emerged in oil or grease
13. Silk
14. Low-quality silk
15. Woven cloths from mixed thread
16. Carpets
17. Woven objects used to decorate tables, chairs, wardrobes,  
beds, etc.
18. Carpets woven by other kinds of thread
19. Natural pearls
20. Cultured pearls
21. Gems

22. Synthetic stones.
23. All kinds of powder and by-products from gems or synthetic stones
24. Silver and silver alloy
25. Gold plate and platinum plate silver
26. Gold and gold alloy
27. Gold plate
28. Platinum, platinum alloy, and other precious metals such as osmium, rhodium, ruthenium, and irridium
29. Gold plate platinum
30. Platinum and platinum alloy
31. Precious metal powder
32. Objects made of silver or gold plate silver
33. Objects made of silver or silver plate
34. Objects made of gold
35. Objects made of gold, gold plate, or inlaid gold
36. Objects made of platinum, covered platinum, or platinum plate
37. Imitation jewels
38. Refrigerators
39. Heaters, air conditioners, and similar appliances
40. Generators, electric bulbs, and neon lights
41. Radios and cameras
42. Small generators and electric shaving machines
43. Electric hair dressing machines
44. Generators used in private homes, which do not have trade marks, and are not listed above
45. Private motor vehicles

46. Motors and scooters
47. Cameras, movie cameras, and projectors
48. Watches
49. Spare parts for watches
50. Musical instruments with strings, faces, and pedals
51. Musical instruments with strings
52. Automatic musical instruments with strings
53. Wind musical instruments
54. Wind automatic musical instruments
55. Musical instruments used to keep time
56. Musical instruments which are not listed above
57. Radios, transmitters, tape recorders, record players, and dictaphon
58. Toys, dolls, cotton-mounted toys, and spare parts for toys
59. Other kinds of toys
60. Adult games (billiard, poker etc.)
61. Objects for decoration at marriage ceremonies
62. Fishing and hunting equipment
63. All kinds of cigarette lighters
64. Modern fine arts
65. Antiques and curios
66. Dogs
67. Cats

Source: The first 65 articles were approved in order to enclose with Decree No. 2/57 of March 4, 1957, while the last 2 articles were added by Decree No. 93TC of April 16, 1959. This latter decree also deleted electric bulbs from article number 40.