

and the Labor Union own advertising agencies, guest houses, import-export companies, travel agencies etc.)

It is a busy morning at the NGO Resource Center. The phone keeps ringing. Reports pile up on the shelves of the rattan bookcase. Meetings and workshops are organized weekly. Vietnamese staff of various NGO's are getting together and discussing their work.

With a small grant from a Scandinavian aid organization, the Center pays a part-time director and a Vietnamese assistant. Other organizations donated furniture and books, and loaned a computer. "We will take anything," says Etherton laughing. "Subscriptions to magazine or periodicals on development would be great. We badly need info on training programs offered in the region. Many NGO's would like to send their Vietnamese staff abroad for short training periods, but few know what is available in the area."

An ever larger number of foreigners working in Vietnam worry that the Vietnamese are buying whole the western model of development. "One Swiss researcher came to do research here on non-motorized transportation," recalls Lawrence A. Egan. "He told the Hanoi transport authorities too many cars would harm the city. It did not go down well. Who are we to tell them not to make the same mistakes we made. If they want cars, what can we do?"

A few weeks ago, as I rode my bicycle downtown Hanoi I saw my first Mercedes painfully honking its way through Hanoi's anarchic and slow traffic. The same day, a nation wide survey showed that the gap between the rich and the poorer was deepening quickly.

Foreign aid will be crucial for a while to build infrastructure but the toughest challenge Vietnam face may be elsewhere. Just like Richard Bird wrote: "In order to stimulate economic development and improve the social conditions of their citizens, developing countries cannot rely on investments and aid from abroad but must secure their own financial resources through taxes."(12)

Most Vietnamese now regard taxes as a punishment not as part of a social contract. "I am smart and I am strong and I earn more money than my neighbor, why would I give it to the government?" says a young Hanoi scientist. "They do not know how much I earn, how can they demand income tax from me?"

Fiscal evasion is the norm in Vietnam. Tax collectors "negotiate" tax payments more than they collect it. The system needs a massive overhaul. And it may prove much more difficult than "absorbing" foreign aid and certainly more difficult than absorbing beer at the billabong or absorbing Johnnie Walker scotch whisky with dinner, like so many Vietnamese "new rich" already do in Hanoi.



Carole Beaulieu
Hanoi. August 20th, 1993

(12). Tax Policy and Economic Development, by Richard Bird.
The Johns Hopkins University Press, Baltimore and London, 1992.

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MOTORCYCLES AND THE ART OF TAX EVASION
IN A MARKET-SOCIALIST STATE

Vietnamese literature is full of brutal tax collectors but today's taxmen do not scare anyone. Taxpayers buy VCR's instead of paying taxes. With the Treasury deprived of 40% of its revenues, Hanoi is in no shape to build socialism.

Peter Bird Martin
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USA

Dear Peter,

Near the General Tax Department, on a leafy downtown Hanoi street, a grey-clad policeman tries in vain to direct traffic. Motorbikes run red-lights, cars u-turn on the one-way street, bicycles veer off unexpectedly, pedestrians squat on their heels in the middle of the road eating ice cream, bikers zigzag, slip and slide in blind disrespect of regulations. The policeman sweats, blows his whistle, threatens with his red stick. All of this to no avail. Helmetless bikers hit the gas and speed by. One of them forces me into the ditch. I begin to dream of a big stick, a big big one...

In Socialist Vietnam, citizens drive their motorbikes the same way they deal with their tax obligations: in total anarchy. And I am not sure which free-for-all is worse than the other.

Five hundred Vietnamese private enterprises (known as "non-state" enterprises) were caught last year evading taxes. None were brought to court. None were penalized. Some paid what they owed. Others negotiated - and sometimes bribed - to pay a lower amount. Income tax collection for the first seven months of 1993 has reached only 35% of the year plan. State-owned enterprises - until recently the "tax-cows" of Vietnam's Treasury - have not yet paid US\$15.5 million in tax arrears. "Our capacity to implement our tax laws is very weak," admits Tran Xuan Thang, director of Vietnam's General Tax Department. "Our tax revenues have increased mainly because of our sales of crude oil."

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Welcome to Socialist Vietnam, a land where tax evasion is a national sport that cost the State Treasury close to 40% of its revenues (according to an official estimate) at a time when economic development is restrained by potholed roads, insufficient communication networks and a disintegrating education system.

"I am smart and I work hard and I make more money than my neighbor, why would I pay for his child's schooling?" says Phat, a 28-year-old bespectacled lab technician from Hanoi who admits to not declaring most of his income.(1)

The idea that his government might need the money for "public goods" such as better roads does not move Phat. He is busy acquiring consumer goods. And his wife gives to the poor when she goes to the pagoda.

"But who will pay for the roads?" I insist. "And the hospitals?"

"The foreigners," says Phat. "They give us aid. And the big companies will pay too. They make more money than I do."

Phat grew up in Hanoi and has never travelled outside Vietnam. As a child he went to school with a red scarf around the collar of his white shirt and he learned about socialism and Ho Chi Minh's struggle for a free, independent and just society. On days off he, like most children, did compulsory "volunteer" work to clean up his school or the toilets on his street. The State paid for his schooling. Today, his government job in a laboratory pays very little so he moonlights to make ends meet. He will not tell me what he does nor where. Phat wears fashionable clothes and drives a new Honda motorbike. At home, his children watch videos. "Our government does not know how to manage money," he complains bitterly. "Too



One of Hanoi's billboards recalling HoChiMinh's struggle for a better society.

(1). I met Phat in an "English Club". Hanoi is full of such "clubs", informal gatherings of people - most of them young - interested in practicing their English skills. My favorite one meets in the basement of the Ministry of Science, Technology and Environment every second Thursday. Participants are in their late twenties, early thirties. Most of them are smart and curious young professionals working in various fields, from research to accounting or beer manufacturing.

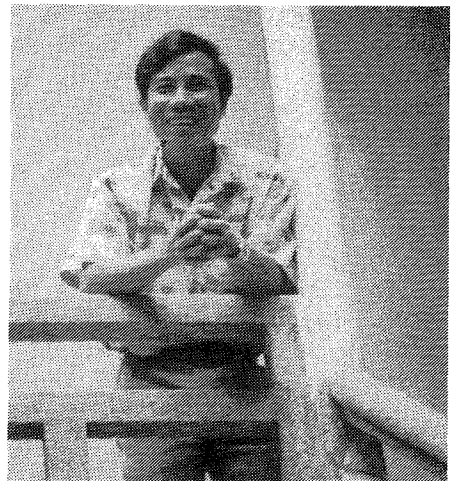
many lazy people get money from the government and many officials are corrupt. Just read the papers." Phat reads a lot and wants to know more about Canada's first female prime minister. "I like her ideas," he says. "Canadians pay too many taxes."

Phat is no exception. I am even beginning to think he may be the norm among educated urban Vietnamese. During this past year, I have met very few individuals wanting to support the weak and the poor not only through charity but through a solidarity enforced by public institutions. There was a doctor and a few government officials and some farmers too. I remember a young farmer in Thai Binh Province who told me he had "enough land" for his family and did not want more because "others in the village needed land". Maybe he said it because I was accompanied by a People's Committee official. That is possible. Anyhow, his attitude, or the constraints forcing it (See CB-10 on land law), is one reason why Vietnam's cities do not yet have vast slums of landless unemployed people. Life as a farmer is tough in Vietnam but it is still better than life on Hanoi's pavement. But the slums may be just a few years ahead. "The solidarity you are talking about exists," explains a Vietnamese professor of economics. "But it does not express itself toward the Vietnamese State, except in time of war. In peace time, the solidarity is for family and friends, and village members. We will need a lot of public debate to bring about a better understanding of national tax policies."

Swedish economist Maud Svensson, who just joined the Swedish Embassy staff in Hanoi, says she was "surprised" to find that Vietnam's long term objective for Tax Revenues is to reach 18% of GDP. "For a socialist government it is way too low," she says. "They will be unable to do anything, much less to redistribute money and fight social inequities. I cannot believe it is their objective." (Thailand's tax revenues, by comparison, are already at 18% of GDP. And the country has no socialist pretensions.)

According to Tax Director Thanh, 18% is a "realistic" objective, one Vietnamese authorities know they can achieve. "We do not believe the people can support more," explains Thanh.

Vietnamese literature is full of brutal tax collectors and cruel mandarins who drained hardworking peasants of their meager income. Chi Zau, a young mother who sells her oldest daughter to pay the taxman and free her jailed husband is a well-known literary character popularized in 1939 by Ngo Tat To's novel Tat Den (When the light goes out). Today's taxmen could not be more remote from those portrayed in Vietnamese literature. "Today we will not visit taxpayers," explains Le Xuan Hoa, a smiling 33-year-old tax officer from Hoan Kiem district, a densely-populated commercial area in the heart of Hanoi. "They are preparing for a big festival tomorrow. They would not like to see us now."



Tax officer Le Xuan Hoa

Tomorrow is the 15th day of the 7th month of the Lunar calendar, the Day of the Wandering Souls, a celebration second only in importance to New Year's Day. On this day, the dead are said to return to their homes where they are to be welcomed by the living. Family members gather in pagodas to give offerings and perform ceremonies at home to pray for their dead relatives as well as the welfare of their families.(2)

At 9 a.m. on the morning before the Festival, I sit in Hoan Kiem's dusty tax bureau, three floors atop the room where taxpayers come to "negotiate". There are broken chairs, rusty filing cabinets and dirty tea cups. Although the director has a portable phone on his desk, I know I have stumbled onto a planet light-years away from my computerized, law-abiding Canada where citizens fear the powerful taxmen and where tax dodgers pay stiff penalties. "We never visit businesses in the morning because people may have not sold anything yet and they would be angry," insists Hoa. "We must keep good relations with taxpayers."

In Vietnam, taxpayers negotiate the taxes they pay the same way they bargain for eggs at the market. Local politicians have a say in the amount of an individual tax bill and taxmen often do not understand the tax laws. "Tax collectors were trained under the centralized economy," explains Ho Xuan Phuong, Rector of Hanoi's Finance and Accounting College. "We have been unable to retrain them since new laws were adopted in 1990. Tax officers earn very little money and the new private businesses treat them well and offer them gifts in exchange for lower taxes."

ANARCHISTS AT HEART

Nobody likes paying taxes. But the Vietnamese seem to have turned tax evasion into an art. "The Vietnamese regard taxes as a punishment, not as a citizen's duty," says Jacques Bekaert, BBC-World Service Far East correspondent, who has been coming to Vietnam over the past 15 years. "It stems from a long history of feudalism and colonialism, and the communist period did not change that. In their hearts, many Vietnamese are anarchists."

Rector Phuong could not agree more. "In the past, paying taxes meant supporting the invaders," he explains. "Now we must teach people that by paying taxes they are helping themselves, helping their communities to provide better services. We need education and public debate."

(2). According to Vietnamese Buddhist belief, the 15th day of the seventh lunar month is an "amnesty day" devoted to the dead. On that day, sinful souls can be cleared of their sins and rescued from hell thanks to heartfelt prayers made by their relatives. On that day, the gates of hell are opened and the souls escape, flying back to their old homes on earth where they hope to find clothes and food displayed by their relatives. Additional altars are set in public places such as markets and communal halls for "homeless souls" who have no relatives and are in need of prayers.

Taxes are a hot potato in Hanoi. Getting a Vietnamese to talk about taxes is more difficult than getting my parents to talk about sex. Saying the word "tax" (*thuế*) inevitably generates giggles and evasive answers. Not a single Vietnamese friend will tell me the honest details of his/her tax situation. No one will introduce me to a business owner willing to talk truthfully about taxes. "It is a very difficult question," is the standard answer I get, followed by a giggle.

The idea that economic development requires an efficient government capable of providing such "public goods" as education, public health and social welfare - all of those being paid by people's taxes - seems utterly crazy whenever I bring it up in conversations with my young Vietnamese acquaintances. "See that motorbike," says Binh, a 34-year-old archives clerk, pointing to his parked Honda. "I could not have bought it if I had paid all my taxes."

Long-time Vietnam watcher Adam Fjorde calls this "the tiger's natural unwillingness to spend on anything he does not see as being to his immediate benefit." (3) While the country lacks roads, schools and hospitals, the number of privately-owned motorbikes, VCR's and color televisions is spiralling upward.

The Vietnamese authorities know this. According to a report of the International Monetary Fund (IMF), Hanoi faces a "rapidly expanding private sector functioning to a large extent under market conditions but not prepared to apply modern business accounting and comply with tax legislation."

Rows of stores on
Hai Ba Trung street
downtown Hanoi.



A brisk business
selling televisions,
VCR's and refrigerators.

(3). "Vietnam: a tiger on a bicycle", Vietnam Investment Review, 16-22 August 1993, p. 14.

Vietnam's fiscal problems are not only administrative. They are also cultural and political. Transfer of tax revenues between Vietnam's 53 provinces and the central government is a thorny problem. Tax officers jokingly talk about "The Federation of Vietnam" and call the central government the "54th province" in describing Hanoi's inability to get tax revenues out of provincial coffers to fund national projects. But first, some background.

THE "FEDERATION" OF VIETNAM

Administration of the State Budget was decentralized in 1983 with the objective of developing local economies. Today, the central government gets about 35% of the revenues but shoulders 65% of the spending! According to World Bank data, only former Yugoslavia had a more highly decentralized fiscal system, although it was not nearly as unbalanced as Vietnam's. (In Yugoslavia, the center received 25% of the revenues and was responsible for 25% of the expenditures.) "The center is powerless," says Le Dang Doanh, deputy director of the Central Institute for Economic Management, an influential Hanoi think tank.

There are four budgetary levels of government in Vietnam: the central government and three local levels, provincial, district and commune. All transactions are consolidated into the national budget accounts except the ones concerning villages. The central government collects external trade taxes. All other taxes are collected by provincial and local governments.

Complex rules guide the sharing of taxes collected between the central and local governments. Some taxes are shared according to fixed proportions but for the most part negotiations take place each year to establish the amount due.(4)

In theory, all sources of provincial finances must be reported to the central government. In fact they are not. "Provincial authorities want to keep the money in their province rather than send it to Hanoi," says Bach Minh Huyen, a researcher with the Finance Scientific Institute, an arm of the Ministry of Finance. "They do not recognize their responsibility to the central government."

(4). Every year, provinces draft plans setting targets for revenue collection. The drafts are submitted to the State Planning Committee and the Ministry of Finance. Provinces are allowed to keep a variable percentage of their revenues. That percentage will be determined mechanically through the accounting balance of projected revenues and projected expenditures. The expenditure plans are based on a series of rules: the Ministry of Finance establishes each year a funding level for each teacher, hospital bed, etc. This way the basic level of expenditure is determined. Provincial People's Committee needing more money for special projects must negotiate with the Ministry of Finance. The system is the same between district and provinces. Taxes are collected at the district level and a portion is retained by the district. The rest is transferred to the provincial authorities.

The fact that many "wealthy" provinces are located in the South - like oil-rich Vung Tau and booming HoChiMinh City - does nothing to help. Many Southerners resent their taxes going north while the overheating economy of the South is slowed down by insufficient infrastructure. "Some talk of secession," whispers a Hanoi economist. "That's why it is so important to develop the North. It is the only way to keep the country together."

In 1989, half of Vietnam's then 44 provinces were net contributors and half were net recipients of revenue transfers from Hanoi. In 1992, the proportion was roughly the same (there are now 53 provinces). The number of southern contributors was higher than northern contributors but the Ministry of Finance would not give me precise figures.

Pulling a poor province out of the "recipient" group is no easy task. Take for example Ha Tay Province, south-east of Hanoi. With a population of over 2.3 million the province has little economic activity aside from agriculture and a nascent tourism industry. Provincial authorities collect 60% to 65% of the revenues they need and expect the rest to come from Hanoi. In 1992, Hanoi covered 40% of Ha Tay's expenditures.

The director of the Ha Tay tax collecting office, Do Van Toan, expects the situation to be the same in 1993. "We are hoping for some foreign join-venture investment to help us in 1994", he says. Toan can not say exactly how much money his office collected last year, or this year. He looks puzzled when I ask him if he knows where Hanoi gets the money it transfers to him. Toan does not know and "never asked." The idea that Hanoi could one day not pay is not open for discussion. "They have to," concludes Toan.

Swedish experts who studied the Vietnamese system worry that provincial staff are more loyal to their provincial bosses - who have power over them - than to the central government. Tax collection figures are sometimes doctored to fit the provinces needs rather than the national needs. "The fusion of politics, policy making and administration is almost total in Vietnam," writes a Swedish consultant to the Swedish International Development Agency (SIDA) in a 1991 memo. "Politicians intervene in day to day administration and in individual cases, district tax officials join with the local government on the grounds that revenues are needed locally. Tax officials complain about tax rates and decide themselves which rate to apply in any given case." Hanoi hopes the Tax Department reorganization launched in 1992 will partly solve this problem.

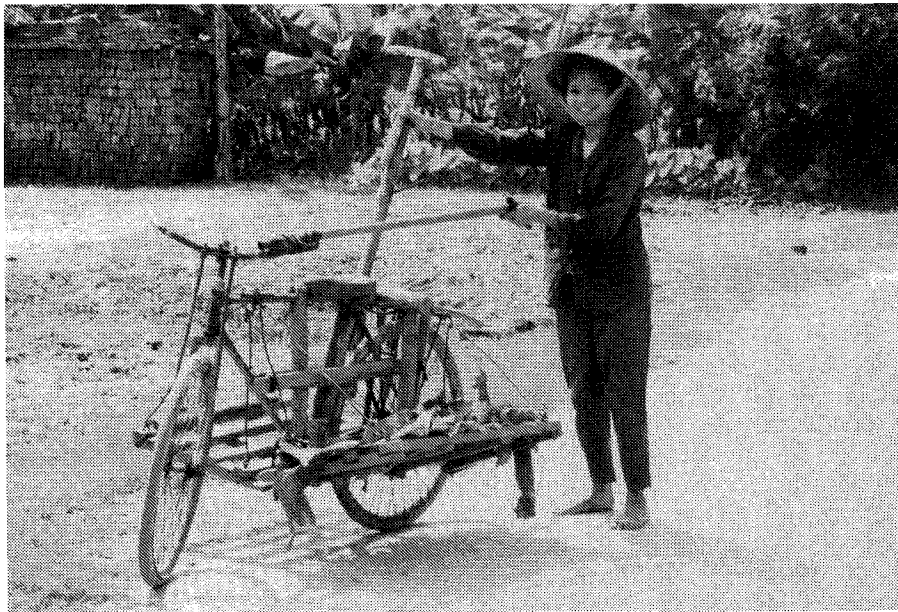
KEEPING THE COUNTRYSIDE HAPPY

Keeping the countryside happy is another political factor influencing the tax collection effort. Although 80% of the population is involved in agriculture and contributes 40% of GDP, the government gets only 10% of its tax revenues from agriculture.

World Bank experts believe there is "considerable scope for increasing taxation of agricultural production" but the government is cautious. Before 1986, tax collection from the agricultural sector was very low, less than 0.6% of GDP. It increased in 1989

(0.9%) but fell again to 0.6% in 1990. (On the occasion of the 100th anniversary of HoChiMinh's birthday, the government announced that a lost provision of HoChiMinh's will demanded that peasants be relieved of taxes for one year. The government forgave half the taxes due in 1990 and half in 1991.)

"Hanoi desperately wants to increase the standard of living in the countryside," explains a Vietnamese economist. "They want peasants to invest in their farms and in new income generating activities. Too many people have already moved to the cities. Keeping the countryside happy is a priority." (Authorities have reasons to worry. A HoChiMinh City friend told me last week he witnessed a peasant demonstration near a state-farm in the Mekong Delta. Peasants were protesting low prices offered for their products.)



In the Red River delta: a young farmer pushes her bicycle modified to carry heavy loads. Tools and means of transportation are still very basic.

AN AVALANCHE OF NEW TAX LAWS... WITH NO TEETH

While the political situation remains complex, the government has moved fast in the past few years to adopt tax laws better suited to a market economy.

Between 1990 and 1993, Hanoi adopted or amended at least nine major tax legislations.(5) In 1990 and 1991, new turnover and profit taxes were adopted. An amended import-export tax took effect in 1992. Personal income tax for high-income earners was introduced in

(5) I use the word "legislation" to cover both laws adopted by the National Assembly and "ordinances" enacted by the State Council.

April 1991 by an Ordinance of the State Council. A new agricultural tax was voted this summer by the National Assembly after numerous re-draftings. Ordinances on Natural Resources Taxes and Real Estate Taxes were also enacted. "These taxes are a step in the right direction," says a foreign economist. "But they are too complicated and Vietnam does not have the administrative capacity to implement them. The structures of the taxes are overly complex. They are costly to administer and difficult to enforce."

A weak administration may be the key problem of Vietnam's fiscal system. "They are very good at policy making," reflects Brian Wurt, a Canadian tax expert. "But voting a law is not enough. You must have the tools to implement it." A Swedish mission concluded in 1990 that the government "underestimated the difficulties of implementing new tax laws in the Vietnamese society."

In 1990, all tax departments were united under one roof: the General Department of Taxation (GDT). Only Customs remained independent of the GDT. (The Ministry of Finance is fighting to bring Customs under its control but Customs is a fertile ground for bribes and the department is fighting back. Corruption among custom officers frequently make headlines in the Vietnamese press as smuggling booms on the Chinese border and at Vietnam's international airports.)

To strengthen administration, new departments were created within the GDT: a research unit, a computer department, a training division, an education unit, even a brand new "anti-tax loss team" soon to become a "tax-enforcement" team. Most of these departments are less than a year old. Their impact has yet to be felt. "They are facing many problems at the same time," explains a Swedish expert. "Their staff is ill-trained and ill-equipped and the new laws they have to implement are too complex."

Take turnover tax and profit tax for example. They are driving entrepreneurs crazy. Each month, a tax officer visits businesses, looks at the accounting books and determines the amount of taxes to be paid. Rates are flexible. Businesses fall in one of three categories: 10-15%, 15-20% or 20-25%. Who decides if a business is to pay 22, 23 or 25%? Nobody knows. The Pullman-Metropole Hotel, Hanoi's better known joint-venture and one of the most successful ones, has set up a "negotiating team" to deal with tax collectors.

The profit tax discriminates heavily against Vietnamese enterprises. Foreigners pay a maximum of 25% tax on their profits and often much less in some priority sectors. Local businesses must pay 25%, 35% and sometimes as much as 45%. "Why do you think there is so much fraud?" asks Tran Van Bay, a HoChiMinh City businessman. "The tax is not fair and people know it."

Turnover tax rates also vary from businesses to businesses. A big hotel for example pays a standard 10% on the turnover from the rent of its rooms, 4% on the activities of the businesses center, 6% on the margin earned on phone calls and so on. "It's a mess," says a disgusted hotel manager.

It is even more of a mess when businesses do not have accounting books, which is the case for the majority of Vietnam's newly

created small businesses. Without those books tax officers guess turnover. To do so, the Ministry of Finance uses a method called "contract basis."



Private shops like this toys store blossom in Hanoi. Few keep accounting books.

Basically, it means tax officers compare the turnover declared by "comparable" businesses and determine a "basic amount" on which taxes will be calculated. How exactly is that amount arrived at? Nobody knows for sure. I asked time and time again and could not get a clear answer. (In some provinces the "basic amount" is the same for all small coffee shops for example. In others, the "basic amount" varies from shop to shop!) Finally a professor of economics from the National University told me "it does not matter because much of it is very arbitrary anyway."

Once determined, the amount must be submitted to the local People's Committee for approval. (Imagine the mayor or your city councillor having to OK your individual tax bill!). "Such a process insures democracy," insists Nguyen Huy Truong who heads the tax department responsible for private enterprises. "The elected officials care about the people and often know better their individual circumstances."

In theory, the Tax Department and the People's Committee have to agree on the changes. If they do not, the Tax Department has the final word. In fact, says a tax officer, "the People's Committee have a lot of power and often get their way." The results of the People's Committee involvement until now has most often been to reduce the amounts due.

The Swedes, whose National Tax Board is involved in an aid program to Vietnam, have decided to respond to the Vietnamese Government request for "high level policy advice" by giving high priority to "the subject of separation of powers and of an independent administration perceived as standing above political favoritism."

GIVING PRIORITY TO TRAINING

Training is the Department's logistical nightmare, a race against the growth of private businesses. In the words of an IMF economist "tax administrators are improperly organized and poorly compensated to function adequately. If the private sector continues to grow at

the current pace, the tax department will no longer be able to assume its duties. Training of tax officers must be a priority."

Altogether, more than 34,000 people work for the Tax Department, not counting 20,000 part-time employees who collect taxes in the villages. The majority was recruited from the armed forces and 75% do not have any training in tax matters. Employees were often trained on the job to do a specific task and cannot be used for other work. The Swedes hope to help the Vietnamese retrain all these people by 1995.

At the Hoan Kiem bureau, no training has been done since the new laws were adopted. Employees "have been encouraged to do self-teaching," explains director Vu Duc Vien. Workers were told to organize meetings on their own and invite speakers. Very little of that actually takes place. Handbooks and routine manuals for each of the new taxes have been produced with the help of the Swedes but have not yet been distributed.

Computers were only recently introduced in the Tax Department, thanks to a Swedish pilot project. Early this year, only 5% of the department's work was done on computers. Deputy director Ha Huy Tuan, talks of an "urgent need to reduce manual work." One of four deputy directors, Tuan, 34, is about to depart for a two-year study term at Harvard.

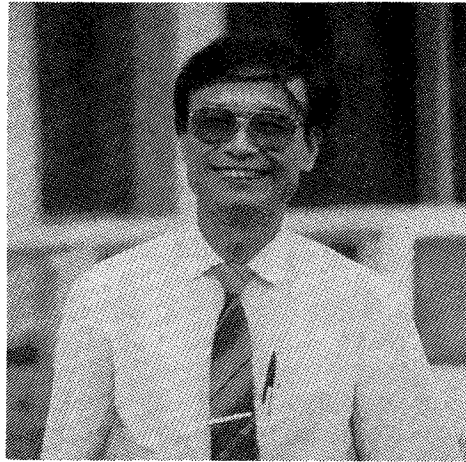
Most of the Tax Department's employees have studied at the Finance and Banking College, 50 kilometers outside of Hanoi. Over 20,000 government employees have graduated from that school over the past 30 years. The library is full of Russian books but has no recent textbooks in English or French. Since 1990, the school has had the mandate to retrain government employees.

On a rainy day I meet College rector Phuong on the site of the school's new campus, nine kilometers away from the city center. The building is still under construction and throngs of young men labor under the downpour. Dressed in worn-out green garb, barefoot in the mud, they haul up cement in pails and throw bricks to each other from floor to floor as if throwing baseballs (an amazing method I have seen used on numerous downtown work sites).

The first completed wing of the school is a bright, airy, four-storey building. Only a few hundred students study there at present. Once completed, "in a year or two," the school should house two thirds of the student population. Over 3000 full-time students are enrolled at the College. Close to 6000 more are part time students, most of them provincial government employees involved in short-term retraining programs. "In the future our role will be even more important," says Phuong.

But Phuong may be overly optimistic. Competition is rife between various schools in Hanoi. The National Economics University opened an accounting program last year although the field traditionally belongs to the Finance College. The University receives support from numerous foreign aid programs and the Finance College gets almost none. (Only a small insurance project is supported by the French government)

While the University trains economists and managers, the College has the responsibility to train accountants, tax collectors, and banking and credit staff. The University is under the umbrella of the Ministry of Education while the College answers to the Ministry of Finance for "content" and to the Ministry of Education for "methods." The Ministry of Education wants to take over the school but the Ministry of Finance refuses. While they argue, the College suffers. Aside from the new building, little is done to upgrade teachers' skills or to update teaching material. "We are only the adopted child of the Ministry of Education," says Phuong.



Rector Phuong:
"Training is a priority"

Without better trained tax officers, Vietnam stands little chance of improving tax collection. "Tax officials feel very close to the population," explains a Swedish expert in a project report. "They are deeply involved in local politics. Some remain true adherents to the Communist Party. Others are unable or unwilling to understand the new economic policies."

In Vietnam, businessmen know their tax officer. They see him every month. When he visits, they offer him tea and sometimes lunch. They tell him of their miseries, their wife's illness, their oldest son's unruly behavior. If they are smart they offer him presents. "Many offer me gifts," admits tax officer Le Xuan Hoa. "but I never accept." (Not everyone is as honest as Hoa. According to the owner of a neighboring clothing shop, the taxmen visits are called *cuop ngay*, a robbery in broad day light, "because they do not collect taxes as in the past, rather require bribes," she says.)

Being an "honest" tax officer is not easy. A father of two, Hoa earns US\$20 a month in a city where US\$70 is the bare minimum needed to feed a family of four (US\$100 is better). To make ends meet, he moonlights as a tailor as does his wife. They are not about to tell the State how much they make as part-time tailors. With an income higher than US\$65 a month, they would have to pay income tax.

LOW SALARIES BUT HIGH INCOME

Income tax is a newcomer to the Vietnamese tax scene and, until now, not a very successful one. Most government employees (over one million) earn on average US\$20 a month so the number of taxpayers is quite small. Everybody knows however that most of those workers have other jobs to supplement their income and do not declare those revenues. One telling sign is the growing number of state employees buying new houses and new motorcycles. "Never ask a Vietnamese about his salary," warns American aid worker Lawrence Egan. "Ask about his income."

Income tax rates of Vietnamese citizens

Monthly income per person	Tax rate
Up to VND650,000 (US\$65)	0%
VND650,000 to 1,300,000 (US\$130)	10%
VND1,300,000 to 1,900,000 (US\$190)	20%
VND1,900,000 to 2,900,000 (US\$290)	30%
VND2,900,000 to 4,400,000 (US\$440)	40%
Over VND4,400,000	50%

The real targets of personal income tax are high income earners: foreigners and Vietnamese working for foreign companies. According to a Tax Ordinance adopted in December 1990, foreigners working in Vietnam must pay income tax. Few comply, often because they are not aware of the law or do not understand its complexities. "Take the Metropole Hotel for example," says Clive Cartwright, a financial consultant advising foreign businesses in Hanoi. "They operated for 18 months without paying income tax on their staff salaries. Not that they did not want to. They simply did not know how much it was, or how to go about it." (6)

Vietnamese working for foreign companies are expected to give 50% of their salaries to the government. But with "negotiation" being imbedded in the Vietnamese tax system, who knows? Import-export taxes are other examples of the limbo in which businesses often find themselves.

Over 50,000 types of goods are listed as taxable under the import-export tax. Official documents only stipulate the amount of tax to be levied on a few dozen. The law allows local authorities to set the minimum rates for all the others. "Tax rates change continually," complains Clive Cartwright. "There is no way to plan." The same goods entering the country through different ports may be taxed differently.

Recently, the Pullman-Metropole heard a strange request from the Hanoi Tax Bureau. Goods imported by the Metropole are usually cleared by Haiphong authorities on arrival at the Haiphong port. Suddenly, the Hanoi bureau also wanted to inspect the goods. The Hotel was to pay the expense for the Hanoi staff to travel to Haiphong and stay there as long as necessary. The Hotel has been stalling on the answer. "Now that the tax bureau has seen the kind of profit the hotel makes, they are on to them," says Cartwright.

A month ago, Vietnamese officers audited the Metropole. They confirmed the amount to be paid to the Treasury but asked for a 5%

(6). Ten percent individual income tax must be paid by foreigners who earn more than VND3 million (US\$300). The rate increases according to the level of income up to 50% for foreigners earning over US\$6000 per month.

"supplement" to be paid directly to the tax office. (Previously, local authorities were allowed to keep some of the taxes collected to be used for local spending. Since August they are forbidden to do so. All taxes must be paid to the Treasury.)

On paper, the government has enacted strict measures to deal with smuggling, corruption and tax dodgers. "But the reality is quite different," admits deputy director Tuan.

In March 1993, the Ministry of Finance issued a circular defining penalties for tax evasion. Failure to notify tax authorities of a change of business location, for example, warrants a minimum fine of US\$2. Monthly profit tax declarations must be filed in the first ten days of the following month. Failure to do so warrants a fine between 50,000 dong and one million dong (US\$5 and US\$100).

But in Hoan Kiem district where dozens of stall-owners often change business places to avoid taxes, director Vien admits "no one" yet has paid a penalty, although officers know very well the small operators have only moved a few streets away to a different part of the pavement.

- "Why?" I enquire.

- "It is very difficult," answers Vien. (Stall owners often pay the police to turn a blind eye to their activity. Those who do not risk their goods seized.)

Some tax officers like Hoa believe "repression" is not "the Vietnamese way." "Persuasion is more in line with oriental psychology," he says. "We must make people understand the law."

Foreign experts say that is not enough. "If they want compliance they must develop a simpler system, easier to understand and seen as fair by the citizens," says Adrien Venne of Revenue Canada, the Canadian national tax agency in charge of collecting federal taxes in the country's ten provinces and two territories. "Taxpayers must perceive a substantial risk associated with non compliant behavior." A European expert suggested names of tax dodgers be published in newspapers.

Hanoi is eagerly looking for ways to improve tax collection. As early as 1990, the Vietnamese authorities contacted several



"Mobile" shoe repair near
Hoan Kiem lake.

countries to obtain advice and support in the introduction of tax legislations better suited to a market economy.

The Ministry of Finance has been most interested in Sweden's expertise and a long-term institutional cooperation has been established. Germany recently signed an agreement to assist Vietnam, and France is also investing in the training of tax experts.

Determined to change its citizens' attitude toward taxes, the Vietnamese government is also taking tax education right into the schools. During the late 80's, at the start of the economic reforms, a new "tax awareness and citizen duty" program was introduced in secondary schools. "Teachers explain what taxes are, why citizens should pay them, what they are used for," recalls Ha Tay Province director Toan who has often given talks to students.

Clearly, many Vietnamese do not trust their government to manage their money and would rather do it themselves. "The government must not only increase revenues," says an economics teacher from Hanoi University. "It must also increase the people's confidence in its efficiency."(7)

Tax officer Hoa admits many people ask him what the government does with their taxes. "I tell them about hospitals and schools," he says, "but they do not seem to believe me, especially the old ones. They see no improvement in the services they get."

In its search for increased revenues, Vietnam is seriously considering the introduction of a Value-Added Tax (VAT). A pilot project began in September with 11 enterprises. But analysts see in the project the same flaws now crippling the Vietnamese tax system. "They are using three tax rates instead of one," says Canadian tax expert Brian Wurt. "It is too complicated. They should aim for a simpler system."

Many believe the Vietnamese administrative capacity is too weak to implement a VAT and warn the government against acting too fast. "The Philippines introduced a 10% VAT but they only collected 1% of their GDP because their administrative capacity was too low," explains Canadian professor John Whalley, from Western Ontario University. "The South Koreans proposed a VAT in 1958 but only introduced it in 1977 when their administrative capacity had improved. They did much better."

(7). In 1991, the government reduced its work force by 5%. Close to 20% of the civil service is to be retrenched before 1995. Until now most the reduction has come from state enterprises not from the government bureaucracy. Government employees are paid so little (between US\$10 and US\$20 a month all bonuses included) some say it's not worth increasing the unemployment rate which is already so high (20%). But then, because they are not paid much, public employees often work at other jobs and are not very efficient.

To fuel economic development, Hanoi urgently needs to mobilize savings and to increase government revenues. Foreign capital will not be enough to solve the country's infrastructure problems. Vietnamese citizens have very little faith in their banking system (more on the banking reforms in another newsletter) and are still investing their savings in gold, housing or consumer goods. A better "social contract" between the State and its citizens appears increasingly as an urgent need.

As Adam Fjorde wrote in a recent report: "Prospects for the Vietnamese economy are good but depend greatly upon institutional evolution and the emergence of an effective state that can provide good governance."(8)

In Hanoi traffic chaos worsens by the day as does smuggling on the Chinese border. Accidents are now common place in the capital as drivers ignore the more basic traffic regulations. Prime-Minister Vo Van Kiet even made a speech about the need for more order on Hanoi's streets. But to no avail. Policemen are ill-equipped to stop reckless drivers and as the number of vehicles increases so does the number of drivers intoxicated by the freedom given of their new wheels. Standing on corner streets with their whistles and their red sticks, policemen seem powerless. Just like the taxmen.

Carole Beaulieu

Carole Beaulieu
Hanoi, october 28th



A policeman on bicycle checks shops' registrations.
Even the police these days seems ill-equipped.

(8). Vietnam: Economic Commentary and Analysis, No.3, April 1993. Aduki Ltd.

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