



**THE COMPLIANCE COSTS OF TAX PROCEDURES
IN VIETNAM**

Hanoi, July 2007

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1. Executive summary

This study estimates the amount of time that enterprises spent on undertaking the procedures for tax payment in Vietnam. The study findings are aimed at indicating the total time costs of whole procedures for taxation and the most time consumed procedures. The study findings are also used to analyze possible impacts of new regulations of tax management on time costs of taxation. Based on those findings and analyses, the study gives recommendations to reduce time costs of taxation and therefore the compliance costs of taxation.

The time cost for implementation of tax obligations are summed up the time amount that enterprises spent on the procedures relating to tax number identification registration, value added invoices, value added tax payment, enterprise income tax payment, special sale tax payment, tax examination and inspection. The time costs are estimated on data collected from questionnaire-based survey. The surveyed enterprises belong to different business forms, scales, business areas and locations. The sample size is of 360 enterprises.

According to survey, on average the enterprises spent 1959.2 working hours for completing all activities for tax payment, of which 15.1 hour for tax registration, 93.1 hours for purchase, printing, and management of value added invoices; 1732.7 hours for VAT tax, 51,2 hours for enterprise income tax, 8.7 hours for special sale tax and 58.5 hours for tax examination and inspection. Therefore, the VAT tax payment is the most time consumed procedures, accounting for 88% of total time costs of tax procedures.

Almost enterprises employ one or two persons for fulfillment of tax number registration. The preparation of registration dossier requires two persons involved with time amount of 9.1 hours, while preparation of copied certificates

and submission of dossiers need one person with time costs of 3.2 hours and 2.8 hours, respectively.

For the time costs relating the value added invoices, on average enterprises spent 19.8 hours to implement the invoice purchase procedures ; 55.8 hours for invoice self-printing procedures with 18.1 hours for registration of invoice sample, 26.8 for registration of quantity of self-printed invoices and 10.9 hours for registration of circulated invoices. Annually, the enterprises spent 35 hours for making reports on invoice use, of which 28.8 hours for monthly reports and 6.2 hours for annual report. For the enterprises which make mistakes in writing invoices, they spent 57.6 hour to correct the failed invoices.

For VAT procedures, the enterprises use 5 persons to complete all related activities. Preparation of VAT dossier is the most time consumed step. Particularly, time amount that enterprises spent on preparation of VAT tax dossier is 1683.6 hours, of which 910.8 hours for collection, classification of invoices and related documents; 615.6 hours for lists of purchased and sold goods and services; 157.2 hours for VAT declaration. Furthermore, enterprises also spent 21.8 hours for VAT finalization; 23.9 hours for VAT refund and 55 hours for VAT examination.

For enterprise income tax, on average enterprises use 3 persons for enterprise income tax procedures. Similar to the case of VAT, the preparation of enterprise income tax dossier are most time consumed step. The time cost for dossier preparation is 708.1 hours, of which 676.8 hours for collection and classification of invoices, receipts and related documents, 17.2 hours for declarations, 14.1 hours for tax adjustment. The enterprises spent 19.1 hours for enterprise income tax finalization. For enterprises entitled to tax incentives, the time amount spent on exemption and reduction procedures is 12 hours.

The Law on Tax Management are effective since July 2007. The question raised is how new regulations impact on the time costs of tax procedures. Based on the comparison of procedures and formalities under the old and new regulations and the estimated costs of tax procedures, the study provides the directions and extent of impacts that could be produced by new regulations on the time costs. According to the new regulations, the tax procedures still comprise the major steps : tax number identification registration, declaration, payment, refund, exemption, examination and inspection.

The new regulation do not have strong impact on the most time consumed step of VAT procedures and therefore it likely does not reduce time cost of whole tax procedures significantly. For other steps, the new regulations are not largely different from the old ones and the impacts on time costs are therefore not strong.

The new regulations have elements that impact the time costs in opposite directions. The elements that could reduce the time costs are: more diversified ways of submitting the dossiers, removal of unnecessary formalities such as request for tax registration and declarations of enterprise income tax adjustment. However, the time costs of these activities account for small part of total time costs of tax procedures. It means that these improvements may have small impacts on total time costs.

The new regulations require enterprise calculate incomes tax quarterly rather than yearly. These new regulations could increase the time amount spent on preparation of enterprise income tax dossiers. The new regulations strengthen the autonomy of taxpayers in fulfilling tax obligations. The enterprises self determine their tax liabilities and tax authorities focus on tax examination and inspection. The time costs for tax examination could increase time costs of individual enterprise as well as enterprise sector as a whole.

2. Introduction

Improving the business environment is confirmed as the most effective measure to strengthening enterprises as well as national competitiveness. Recently, Vietnam launched important reforms in business environment, especially in market accession and business starting-up. However, there remain obstacles to enterprises in their business environment.

In fact, enterprise community usually consider taxation weaknesses as major obstacles in the business environment. Many business environment reports prepared by international as well as domestic organizations have same conclusion that the taxation limitation is one of the reasons for lower competitiveness of Vietnam as compared with other countries. According the World Bank's report, in 2006 the Vietnam's rank of business environment is very low, only 120 over 175 ranking countries. One of the reasons for this low rank is time costs of taxation compliance in Vietnam is very high and ranked 120 over 175 ranking countries. The World Economic Forum's report indicates that in 2006 taxation is the sixth most limited factors in the Vietnam's business environment.

Facing the above problems, there are many dialogues and researches regarding the taxation limitations, including limitation in taxation procedures and related compliance costs. However, there is absence of comprehensive and in-depth studies on whole administrative procedures of taxation. Overcoming the above limitation, this report focusing on estimation of time cost of implementing procedures of tax paying. In addition to estimation of time costs of whole taxation procedures, the report also estimate the time costs for each smaller steps.

The reports aims at the following purposes:

- Estimating time cost of taxation procedures on the basis of enterprise surveys. This estimated cost indicates more clearly total time that enterprises, on average, spend on implementing taxation procedures and the most time-consuming steps. This, in turn, help to determine the effective measure to reduce the time costs and, therefore the compliance costs.

- Analyzing the impacts of recent reforms on taxation management. The report aims to answering the question of how the Law on Taxation Management which come into force on the first July 2007 affect on the time costs of taxation administrative procedures. Based on the estimates of time costs in the past and comparison of new and old taxation administrative procedures, the report is expected to answering such questions as: which time cost would changes? In what direction? And at what extent?

- Making actual impacts of taxation reform. This report provides baseline data before the Law on Taxation Management becoming effective. These data and results can be compared with the similar surveys conducted after the Law on Taxation Management being implemented for certain time. Based on this comparison, the actual impacts of the Law can be estimated.

- Providing recommendations for reduction of time costs of taxation procedures. Based on the estimated time costs for each small steps, the report can determine the most important points that the solutions are required to reduce the time costs and therefore improve the effectiveness of taxation compliance costs.

3. Methodology

This report measures the time enterprises spend in implementation of procedures for tax paying in each year. Total time costs is synthesized from time costs of implementation following taxation procedures and steps: (i) tax number registration; (ii) buying, printing and management of value added invoices; (iii) paying value added tax; (iv) paying enterprise income tax; (v) paying special sale tax; (vi) serving the taxation examination and investigation. Noticeably, all taxation procedures and steps are not required for a specific enterprise. Therefore, estimated time costs for averaged enterprise are calculated by using the convert ratio for some costs items.

Time costs for each step are summed up from specific activities of the step. Similar to the estimation of total time cost, the time costs of each step are calculated on the basis of convert ratio. The time cost of specific activities are simple average of time costs of all enterprises undertaking this activity. To ensure this averaged calculations are representative without the bias of outliers, the report removes from calculation some enterprises having huge time costs for specific activities. In addition to averaged costs, the report also provides the averaged time costs of groups of enterprises with lowest time costs as well as averaged time costs of enterprises with highest time costs.

The data for the above estimates are collected from the enterprise survey. This survey has been carried out from April to July 2007. The survey is based on mailing questionnaires to the surveyed enterprises. After filling the questionnaires, the enterprises send the completed questionnaires through the mail. The enterprises of surveys come from different business forms, business sectors, labor scale and locations.

The questionnaire is constructed on the basis of procedures for value added tax, enterprise income tax and special sale taxes. Particularly, the questionnaire consists of six major parts:

- Part 1 on outsourcing for implementation of taxation procedures: information on out-sourcing costs for taxation procedures.
- Part 2 on tax number registration: data on human, time costs, money for implementation of tax number registration procedures.
- Part 3 on invoice of value added tax: information and data on time and money spent on VAT invoice printing or purchasing and on invoice management.
- Part 4 on VAT paying: information and data on humane, time and money spent on collection, classification, recording and maintaining of invoices and receipts; establishment of lists of goods, declaration form; finalizing VAT, VAT refund and VAT examination and inspection.
- Part 5 on compliance costs of enterprise income tax: data on human, time and money spent on classification, recording, maintaining of invoice and receipts; filling declaration form; finalizing tax; exemption of tax.
- Part 6 on compliance cost of special sale tax: information and data on humane, time and money for preparation of file for exercise tax payment.
- Part 7 on tax examination and inspection: information and data on human time and money for implementation of procedures of examination and inspection.

The questionnaire are revised on the basis of discussion with the experts, consultant firms, and pilot surveys at some enterprises.

About 360 enterprises responded to the questionnaires. Table 1 indicates the sample structure:

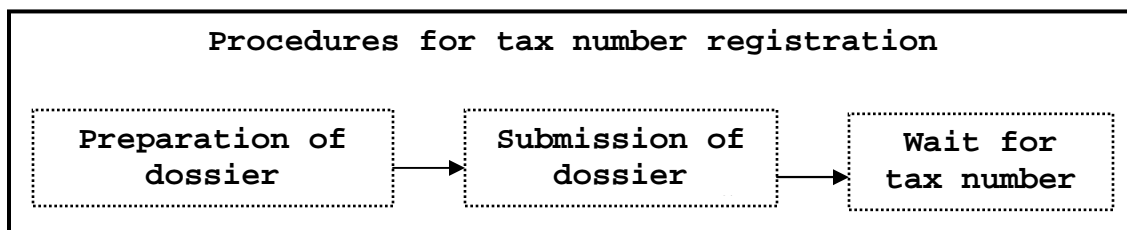
Table 1. Size and structure of sample

Criteria	% surveyed enterprises
<i>Business forms</i>	
State owned enterprises	22%
Shareholding companies	50%
Limited liability companies	19%
Foreign invested enterprises	9%
<i>Scale (labours)</i>	
Below 100 labours	22%
From 101 to 300 labours	32%
Above 300 labours	46%
<i>Locations (provinces, cities)</i>	
Hochiminh City	15%
Hanoi	8%
54 other provinces	77%

4. The time costs of tax payment procedures

4.1. The time costs of tax number identification registration procedures

Procedures of registering tax identification number are regulated in the Prime Minister's Decision No 75/1998. Since 1998 the Ministry of Finance has issued and revised several guiding circulars. Particularly, Circular No 79/1998, Circular No 68/2003, Circular 80/2004 and Circular 10/2006. Despite numerous guiding circulars, the procedures for tax identification number registration have been basically unchanged. The procedures for tax registration consist of following steps: preparation of tax registration dossiers, submission of the dossiers at the tax authorities' office, and obtain of Certificates of Tax Identification Registration.



The first step in tax registration procedure is preparation of tax registration dossier. The activities of dossier preparation include: (i) writing an official letter requiring tax number registration according to form 07-MST¹; the tax registration declaration, made according to form No. 01-DK-TCT and lists enclosed therewith (if any); (ii) the business registration certificate (notarized copy) or the license for foreign investment in Vietnam (copy) and the establishment decision (copy), if any. Noticeably, the contents of declaration

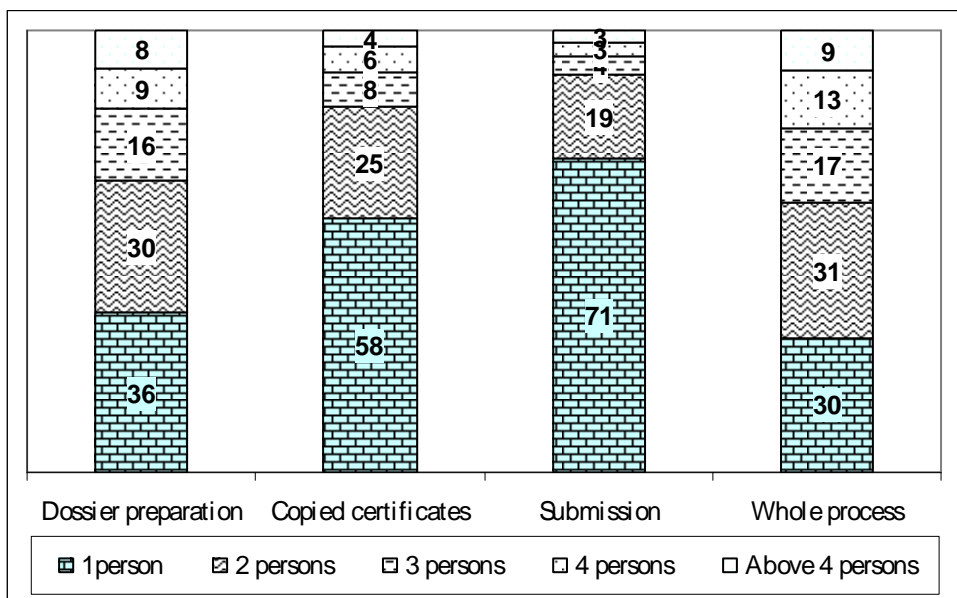
¹ The Circular No 10/2006/TT-BTC removes this official letter. However, all surveyed enterprises registered tax number identification before this Circular is implemented, the time costs of writing this letter are still included into the time costs for tax registration in this study.

form, attached lists and notarized copies have almost been unchanged since implementation of Decision No 75. This means that although the surveyed enterprises registered tax number according to different guiding circulars, the procedures for tax registration are basically similar. Therefore, time cost of tax registration is estimated from the data collected from all surveyed enterprises², regardless tax registration time. The time cost in this procedure is mainly for preparation of tax registration dossier.

The survey shows that majority of enterprises (64%) employ one or two staffs for tax registration procedures and small part of them (10%) employ more than four staffs to do this procedures (see Figure 1). Most enterprises (59-71%) only need one staff for preparation of notarized copies and submission of tax registration dossiers, while majority of enterprises (64%) need at least two staffs for preparation of declaration forms and attached lists. A important part of surveyed enterprises (15%) use more than three staffs for preparation of declaration forms. Therefore, for the tax registration procedures, the preparation of declaration form and attached lists required more human resources than submission of tax registration dossiers.

Figure 1. Enterprise distribution by number of staffs involving tax number registration procedures (%)

² In the sample, almost enterprises registered tax number identification since 1998.



Time costs of fulfilling the tax number registration procedures vary significantly among the enterprises. On average, the time cost of tax registration procedures is 15.1 hours, of which 9.1 hours for preparation of tax registration dossiers, 3.2 hours for notarized copies and 2.8 hours for submission of tax registration dossiers (see Table 2). Preparation of dossiers is most time consuming activities within the tax registration procedures. For the 30% enterprises with lowest time amount, the averaged time cost is only 1.5 hours, meanwhile for the 16% enterprises with largest time, time costs are as high as 28.9 hours. Therefore, there is huge difference between the least and most time consuming enterprises, around 20 times.

Table 2. The averaged time costs for tax registration procedures

Tax registration procedures	Time costs (hours)
Preparation of tax registration dossier	9.1
Preparation of notaried copies	3.2
Submission of tax registration dossier	2.8

Total time costs of tax registration**15.1**

The completion of tax registration dossier is not straightforward as 27% of surveyed enterprises are required by the tax authorities to supplement and amend their dossiers. Among these enterprises, 30% of them made amendment at least twice. The supplementation and amendment of dossiers increase largely the time costs of tax registration, especially for the preparation of tax dossier (see Table 3). Consequently, time cost for tax registration of these enterprises is 19.5 hours, being significantly higher than that of enterprises without supplementation or amendment of dossiers. In other words, the supplementation and amendment of dossier increase time costs of tax registration dossiers by 40%.

Table 3. Comparative time costs of tax registration between enterprises with and without supplementation and amendment of dossiers

	Enterprises without supplementation of dossiers	Enterprises with supplementation of dossiers
Preparation of tax registration dossier	8.1	11.9
Preparation of notaried copies	2.9	3.8
Submission of tax registration dossier	2.5	3.4
Total time costs of tax registration	13.5	19.1

After submitting the dossier at the tax authorities' offices, the enterprises wait for the tax registration certificates. According to Circular No 80/2004, during examination of the submitted dossiers, the tax authorities will check the business place of newly established enterprises and create the written confirmation of business place. The regulated examination time are different over the time.

As stipulated in the Decision No 75/1998, the tax office will grant the tax registration certificates within 15 days, since the date of receiving the dossier from enterprises. The followed guiding circulars specified this time period. The maximum time for granting tax registration certificates is reduced from 15 days for the period 1998-2003 (the Circular No 79) to 10 days for the period 2004-2006 (the Circular 80) and 5 days since 2006 (the Circular No 10). Furthermore, since 2003, the guiding circulars also determine and reduce the time that tax office notifying enterprises about the incompleteness in their tax registration dossiers from 5 to 3 days, since the date of receiving the dossiers.

The surveys show that the averaged days that enterprises can receive the tax identification number during the invalidation of the circulars 79, 68 and 80 is about 10 days and since the implementation of the Circular No 10/2006 is 5 days. The share of enterprises being granted the tax registration certificates over the described time is quite small in each period. For example, this share is only 10% during the period 1998-2003.

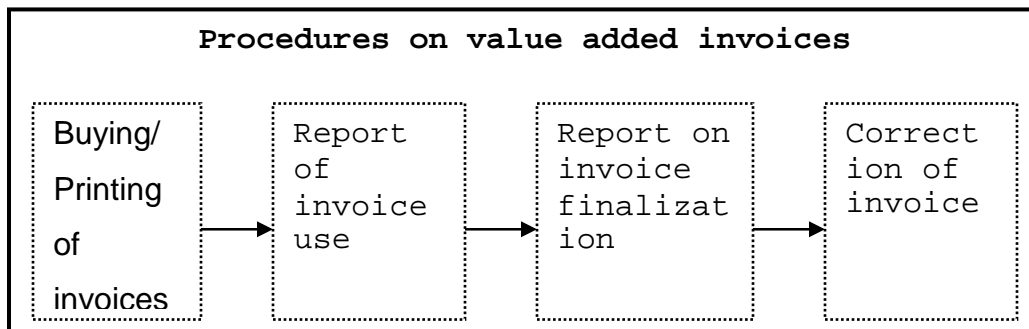
In the case of changes in the content of tax registration declaration, the enterprises shall make additional tax registration notifications. Similar to the case of tax registration, the procedures for changes in the content of declaration comprises preparation of dossiers, submission of dossiers and wait for re-grant of tax registration certificates. The survey indicates that 40%

surveyed enterprises made changes in the content of tax registration declaration. Time costs for procedures of re-grant of registration certificates is 7.5 hours for the inclusion of export and import activities, 6.5 hours for changes in enterprise name, 7.6 hours for changes in business offices and 10 hours for transformed enterprise form.

In short, majority of surveyed enterprises employ one or two staffs for implementing procedures of tax registration with the time costs of 15 hours. Preparation of tax registration dossiers is most human and time consuming activities (around 60% of total time costs of tax registration). The required supplementation and amendment of dossiers increase significantly time costs of tax registration. This indicates that the effective measures to reduce the time costs of tax registration are ones that reduce time costs of dossier preparation and the mistakes in preparation of dossiers. Furthermore, more in-depth studies the on the huge difference in time costs of tax registration among enterprises should be carried out.

4.2. The time costs of value added invoice procedures

The procedures and formalities of value added invoices are regulated in Decree No 89/2002 and guiding circulars No 120/2002 and No 99/2003 issued by the Ministry of Finance. The time costs of value added invoices come from the following major steps:



- Time costs of buying or printing value added invoices

The enterprises can self print or purchase value added invoice. The procedures and formalities for value added invoice purchase are different from ones for value added printing.

Time costs of value added purchase

The procedures of invoice purchase are different between first-time and regular purchase. For the first-time purchase of invoice, the enterprises shall undertake the following steps:

- ***Preparation of dossier for invoice purchase.*** The dossier comprises application for invoice purchase, made according to the described form, official introduction letter from enterprises, and copy of tax registration certificates.
- ***Submission of dossier of invoice purchase at the tax office.*** The tax office receives and examines the dossier of invoice purchase. If the dossier is relevant, the tax office will write down the notification of dossier submission and will make the date to sell invoice for enterprises with maximum waiting time of five working days. During this period of time, the tax office will examine the business office to make sure that the business office exists and make confirmation paper of business premier existence. After the site examination, the tax office shall undertake formalities to sell value added invoice for enterprises. If the enterprises fail to satisfy the conditions, the tax office will notify enterprises about reasons to reject selling invoices to enterprises.
- ***Purchasing invoice at the tax office.*** The enterprises purchase the invoices at the tax office. When purchasing invoices, the enterprises shall make company seal on each invoice. The tax office will sell invoices on the

same for enterprises having Tax registration Certificates and invoice purchase books and dossiers. The number of invoice books for the first-time purchase is not exceed 2 books.

For the invoice purchase in the following purchases, the enterprises shall submit the tax office official introduction letter and invoice purchase books. The number of sold invoice books are not exceed the number of invoice books used in the last month.

Almost surveyed enterprises (80%) buy value add invoice from the tax offices. On average, each enterprise buy invoice about 6.4 times a year. As mentioned above, the number of invoice books sold to an enterprise is not exceed the number of invoice books used in the last month. The way of determining the number of invoice books sold to enterprises make shortage of invoices for enterprises who use more invoices than the last month. In that case, the enterprises shall go to the tax office at least twice a month. There are about 10% of surveyed enterprises went to the tax offices more than 12 time a year. In other words, these enterprises went to the tax office sometime at least tow time a month for the invoice purchase.

For each time that enterprises purchase the value add invoice, the enterprises shall spent time on preparation of dossier and purchasing invoice at the tax office (mainly time for making seal on each purchased invoice). On average, time spent on these activities is 3.1 hours. For the 29% least time consuming enterprises, the averaged time cost of 0.9 hours. Meanwhile, for the 14% most time consuming enterprises, this figure is 7.5 hours. With the averaged times of purchasing invoices is 6.4 times a year and time cost for each purchase is 3.1 hours, the yearly time costs of invoice purchase is 19.8 hours.

Time costs of value add invoice printing

For being permitted to self-print value added invoices, the enterprises shall implementing the procedures registering invoice sample, number of self-printed invoices and circulation of self-printed invoices.

- **Registration of self-printed invoice sample.** The enterprises prepare self-printed invoice dossier comprising official letter of self printed invoices, invoice sample, map of production, business or office area, house renting contract, notarized business certificates, tax registration certificate. The tax office will examine the dossier within 5 working days and approval of self printed invoice sample.

Time costs of self-print invoice procedures if 18.1 hours. For the least time consuming enterprises, the averaged time cost of 1.8 hours, while for 18% most time consuming enterprises this time is 57.9 hours. There are 15% of surveyed enterprises spent more than 3 days to fulfill the registration of invoice sample.

- **Registration of number of self-print invoice in use.** Before printing invoice, the enterprises shall register the signal, number and order of self printed invoices and report use of old invoices.

On average, the registration is implemented once or twice a year. In 2006, on average enterprises register invoice before printing twice a year with 61% enterprises registered once and 20% enterprises twice a year. The enterprises spent 13.4 hours for each time of registration. For 20% least time consuming. this averaged time is 1.6 hours as compared to 48.5 hours spent by 13% most time consuming enterprises. There are 20% of enterprises spent more than 3 days to complete the procedures of registration. For the whole year, the time costs of registration of invoice number of 16.8 hours.

- **Registration of circulated invoices.** Before using the self printed invoices, the enterprises shall register circulation of invoice sample with the tax office. The content of registration comprises invoice symbol, quantity of invoice and consecutive numbers of the invoices. The tax office, on the basis of enterprise's demand for invoices and abeyance of regulations on administration and use of invoice, shall specify the number of self printed invoices that will be circulated for period of one two three months.

After 5 days of self-printed invoice sample registration, the enterprises shall make written notification (with attached invoice sample) sent to the tax office and public the announcement of invoice issuance at the enterprise offices, sale or transaction places. This announcement clearly informs invoice sample, type, symbols, valid time, etc.

When there is a change of sample form invoice, the enterprises shall notify publicly type, symbols, quantity, invalid time to the tax office and make a public declaration at the enterprise's office, sale or transaction places about type of invoices no longer valid for use as well as finalization and handling in all unused invoices to the tax office.

According to the survey, the enterprises register circulated invoice 3.5 times in year 2006 with the time costs of each time is 3.1 hours. For the 14% least time consuming enterprises, the averaged time costs is 0.5 hours, meanwhile for the 15% most time consuming enterprises this figure is 8.5 hours. Therefore, the enterprises spent 10.9 hours each year for procedures of registration of circulated invoices.

□ **Time costs of invoice administration**

- **Time costs of making report on use and finalization of invoices.** For administration of invoice, the enterprises are required to make monthly

report on usage of invoices (made in accordance with form BC-26/HD)³. Every year, the enterprises also make the report on finalization of invoices.

The averaged time to make a monthly report on invoice use is 2.4 hours, of which 50% enterprises spending maximum time of 1 hour. However, there are 8% of enterprises spent more than 1 days to complete the report. For the whole year, time costs of monthly report preparation is 28.8 hours. The time spent on yearly finalization report is 6.2 hours. There are 61% of enterprises spent half day at maximum to prepare yearly report while 20% of enterprises spent more than one day to complete the report. Therefore, total time costs of preparation of reports on use and finalization of invoices are 35 hours for a year.

➤ ***Time costs of dealing with failed invoices.*** According to the laws, when the enterprises make mistakes in writing invoices and this failed invoices are tear a way from the invoice books and given to the customers, both buyer and sellers are required to make the written notification clearly stating the failed contents, symbols, series number, etc. of the failed invoices; and the enterprises shall collect all duplicates of the failed invoices and write cancel in this invoice.

In fact, making mistakes in writing invoice is quite common with 54% of surveyed enterprises having failed invoices. On average, the enterprises have 24 failed invoices in year 2006. The number of failed invoices are varies among enterprises. There are 22% enterprises have less than 3 failed invoices, while other 40% of enterprises have 40 failed invoices. For each failed invoice, the enterprises spent 2.4 hours to fulfill the procedures to address failed invoices. There are 45% surveyed enterprises can finish the procedure in one hour and other 20% enterprises need more than 10 hours. Therefore, there are 54% of

³ Except some special industries being required to submit quarterly reports.

enterprises spent 57.6 hours to implement the procedures to correct the failed invoices.

Table 4 summarizes time costs for fulfilling the procedures of value added invoices. Total time spent on these procedures is 97.3 hours⁴/year.

Table 4. Time costs of value added invoice procedures

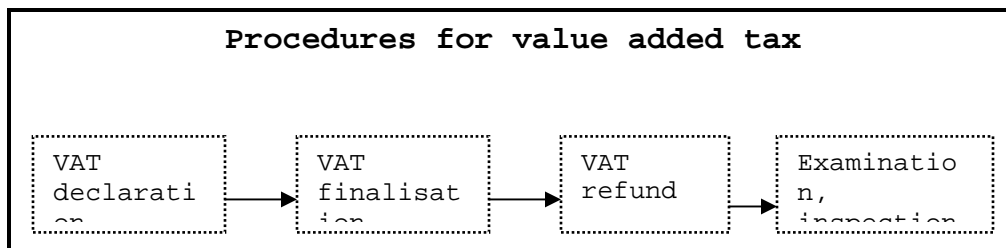
Procedures	Time costs (hours/year)
Purchase of invoice	19.8
Self printed invoice	55.8
Registration of invoice sample	18.1
Registration of printed invoice number	26.8
Registration of circulated invoices	10.9
Report on invoice uses	35.0
Report on monthly use of invoices	28.8
Report on year finalization of invoices	6.2
Wrong written invoices	57.6
Total time costs	93.1

⁴ Some time costs only happen for part rather than whole enterprises: 80% enterprises bear the time cost of invoice purchase, 20% having time costs of self-printed invoice procedures, 54% enterprises having failed invoices, meanwhile 100% enterprises bear time costs of making report on invoice use. In order to reflect these facts, the total time costs are estimated through two steps: (i) multiplied each time cost item by the percentage of enterprises having these costs; (ii) sum up the time costs after being multiplied by the percentages of enterprise having the costs.

In summary, on average, each year enterprises spent more than 90 hours to implement the procedures relating to the value added invoices, of which 40% of this time is allocated for preparation of reports on use of invoices, especially the monthly reports. For the enterprises who self print invoices or make mistakes in writing invoices, the time spent on the related procedures account for significant part of time costs of value added invoice procedures. Similar to the case of tax number registration, there are larger differences in time costs among. It can be seen that within the procedures of invoice, the enterprises spent most of time for preparation of reports on printing, use and administration of invoices. Therefore, the effective measures to reduce the time amount consumed for procedures if invoice is to simplify the reports of value added invoices.

4.3. The time costs of value added tax procedures

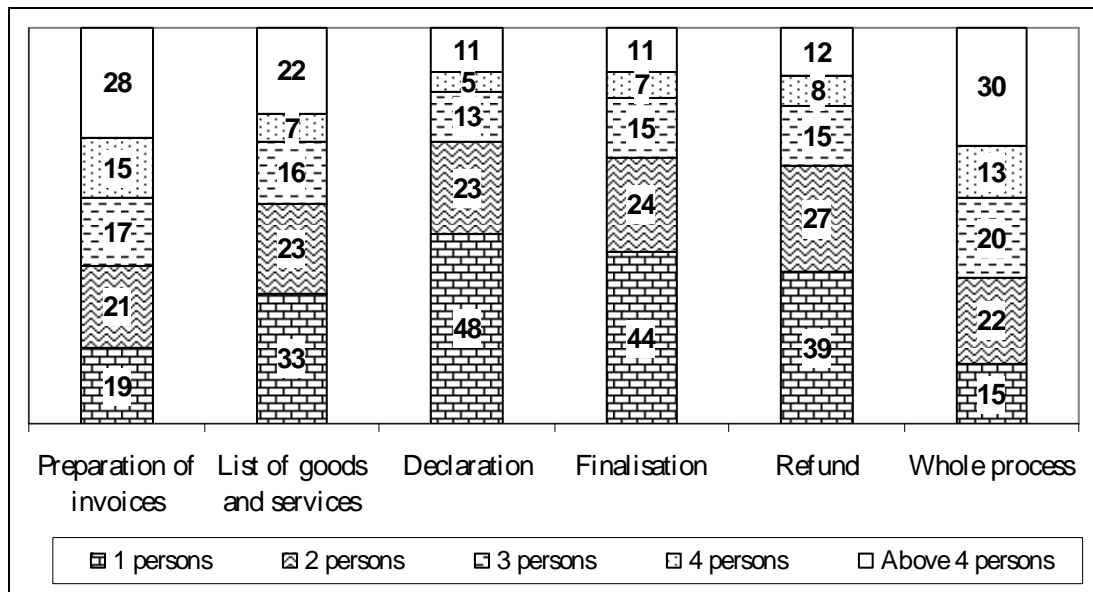
Procedures and formalities for paying value added taxes are regulated in the Decree No 158/2003 detailing implementation of the Law on Value Added Tax and the Circular No 120/2003 guiding implementation of the Decree No 158. Accordingly, the VAT paying consists of the following major steps:



On average, there are five staffs involving the procedures for paying VAT. There are 15% of surveyed enterprises only need one staff to finish all

necessary VAT procedures, meanwhile 15% enterprises require 8 staffs to complete these procedures (see Figure 2). Among the VAT procedures, collection, classification, recording, maintaining and storing of invoices related to the VAT obligations require most humane resource. Nearly 42% of enterprises using at least 4 staffs to do such activities while only 17-28% enterprises using same number of staffs for doing other activities of preparation of lists, VAT declaration, finalization, and refund. The other activity requiring extensive human resource is preparation of lists of sold and purchased goods, In facts, 22% of enterprises use more than four staffs to do such activities.

Figure 2. Enterprise distribution by staff number doing VAT procedures (%)



□ **The time costs of preparation of declaration form and tax payment**

According to the taxation law, monthly enterprises have to submit to the tax authorities the VAT declaration and the lists of goods and services sold and purchased during the month (including the case without selling or purchasing of

goods and services in the reported month). For enterprises paying tax on the tax reduction method, the activities relating to the VAT declaration consist of::

- **Collection, classification, recording, maintaining of invoices and receipts related to the VAT.** On average, enterprises monthly spent 75.9 hours for collecting, classifying, recording and maintaining invoices, receipts and other documents required for VAT obligations. For 27% least time consuming groups of enterprises, the averaged time cost if 4.6 hours while for 20% most time consuming enterprises, this averaged time is 258 hours.
- **Preparation of lists of invoices and receipts of sold and purchased goods and services on the monthly basis,** particularly, list of sold goods and services (form No 02/GTGT), list of purchased goods and services (form 03/GTGT), list of purchased goods and services without invoices (form No 04/GTGT), list of agricultural and forestry goods (form No 05/GTGT),... In fact, the enterprises spent 51.3 hours monthly for this preparation. For 22% of lowest time enterprises, this averaged time if 2.6 hours while for the highest time enterprises this one of 177.7 hours.
- **Preparation of VAT declaration.** The enterprises prepare the VAT declaration in accordance with the Form No 01/GTGT. Time spent on preparation of this form is 13.1 hours. The preparation time amount varies significantly among enterprises. For 30% of lowest enterprises, the averaged time for preparation is 0.9 hours while for 20% highest time enterprises this one is 52.8 hours.
- **VAT payment.** Monthly, the enterprises have pay the VAT⁵. In the case enterprises have large amount of VAT, stabilized around VND 200 millions

⁵ The deadline is 25th of the next month.

per month, they have to pay at the interval of 5 or 10 days. The tax authorities will determine the period of tax payment.

In summary, total time costs for monthly VAT preparation is estimated at 140.3 hours. For the whole year, the time cost is 1683.6 hours.

□ **The time costs of VAT finalization**

At the end of fiscal year, the enterprises have to prepare and submit the VAT finalization (according to the Form 11/GTGT) to the local tax authorities.

On average, the enterprises spent 21.8 hours for preparation of VAT finalization file. The time costs of 20% lowest time enterprises is 1.5 hours while for 20% highest time enterprises this figure is 76.9 hours. There are about 50% of enterprises spending less than one day to finish this work. However, there remaining 20% enterprises spending more than 4 days to complete the VAT finalization.

□ **The time costs of VAT refund**

The enterprises are considered for VAT refunds in certain cases, for instances: (i) they have input tax amounts left undeducted for three or more consecutive month reaches VND 200 millions or more; (ii) newly established enterprises have the refundable input VAT amount of their invested assets valued at VND 200 millions or more.

For VAT refund, the enterprises have prepare VAT refund dossiers, comprising: (i) the official dispatch requiring the VAT refund (made according to form No 10/GTGT); (ii) the general declaration of the arising output amount, the deductible input tax amount, already paid tax amount, the tax amount

requested to be refunded; (iii) the list of goods and services purchased and sold in the period.

The survey indicates that 36% of enterprises prepared VAT refund dossiers in 2006. The averaged time for the VAT dossier preparation is 23.9 hours. This figure for the 27% lowest time enterprises is 2.4 hours and the 20% highest time enterprises is 77.8 hours. There are 40% of enterprises can complete this dossier within only one day, meanwhile 20% enterprises spent more than 5 days to finish the VAT refund dossiers.

□ **The time costs for VAT examination and inspection**

For VAT refund, the enterprises are classified into two groups: VAT refund with post examination or VAT refund with pre-examination. There are 34% surveyed belong to VAT refund with pre-examination. For examined or inspected enterprises, they usually allocate 4 staffs serving these examination and inspection works with the total time costs of 55 hours. For 32% lowest time enterprises, this figure is 10 hours while for the 20% highest time enterprises this figure is 161.7 hours.

Table 5 summaries the time costs on implementation of procedures paying VAT. Total time costs for averaged enterprises is 1755.4 hours⁶. The time costs of VAT dossier account for 97.2% of total time costs of VAT procedures, of which 52.6% for collection, classification, recording, and storing of invoices and receipts and 35.5% for lists of purchased and sold goods and services.

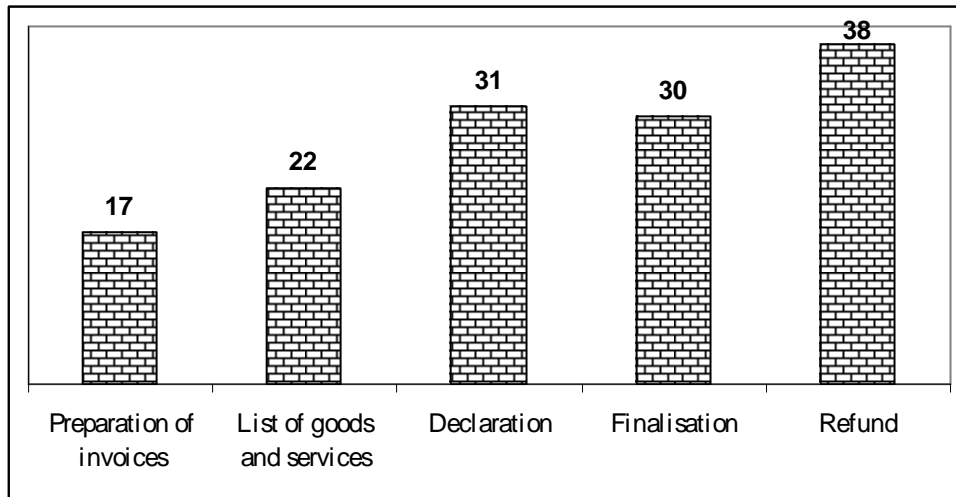
⁶ Time cost satisfying examination team's requirements occurs in 34% surveyed enterprises. Therefore, the time cost of VAT examination and inspection estimated for all surveyed enterprises are time costs of examined enterprises multiplied by 0,34. This result is summed into the total time costs of tax procedures.

Table 5. The time costs of VAT procedures

VAT procedures	Time costs (hours/year)
Preparation of VAT dossiers	1683.6
Collection, classification, recording, maintaining of invoices	910.8
Preparation of list of purchased and sold goods and services	615.6
Preparation of VAT declaration	157.2
VAT finalisation	21.8
VAT refund	23.9
Examination and inspection before VAT refund	55.0
Total VAT time costs	1732.7

The procedures for VAT payment is not easy as large share of enterprises being required to make further explanation about their VAT dossiers. The percentages of enterprises with further explanation vary over the steps of VAT payment procedures. As can be seen from Figure 3, the percentage of enterprises with further explanation is 17% for the step of invoice and receipt preparation, increased to 22% for preparation of lists, 30-31% for preparation of declaration and finalization and 38% for VAT refund. Almost enterprises are only required providing further explanation one time.

Figure 3. Percentages of enterprises with further explanation, (%)



The further explanation strongly effect the time costs of VAT procedures. Table 6 indicates that time costs of enterprises with further explanation is much higher than those without explanation, especially in the step of invoice and receipt preparation (842.4 hours as compared with 703.2 hours) and lists of purchased and sold goods (736.8 hours as compared with 525.6 hours). In sum, time cost of enterprises with explanation is higher than that of enterprises without explanation by 32%.

Table 6. Comparative time costs of VAT procedures among enterprises with/without explanation (hours/year)

	Enterprises without explanation	Enterprises with explanation
Preparation of invoice and receipts	703.2	842.4
Preparation of lists	525.6	736.8
Preparation of VAT declaration forms	115.2	184.8

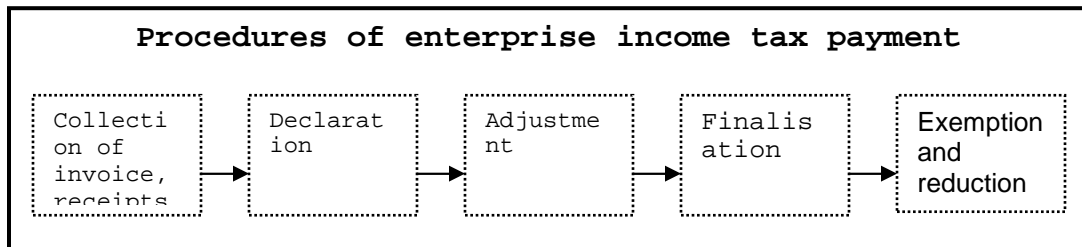
VAT finalization	18.1	31.3
VAT refund	3.9	12.0
Total time costs	1366.0	1807.3

Majority of enterprises (63%) reported that preparation of VAT dossier is more simplified, clear and understandable, meanwhile 25% enterprises indicates that there is no change and 12% find the VAT dossier being more complicated, unclear and not easy to prepare. This change has significant impacts on time costs of VAT refund dossier. Particularly, the time costs of enterprises having positive views toward VAT dossier is lowest (20.2 hours) as compared with enterprises seeing no change (27.5%) and enterprises having negative view against VAT refund dossier (39.6 hours).

In summary, on average, the enterprises employ 5 staffs to undertake all procedures on VAT with total time costs of 1.730 hour/year. Among the VAT procedures, the collection, classification, recording, and maintaining of invoices, receipts, and documents related to VAT and preparation of lists of purchased and sold goods and services are the steps that require staffs and time most. Time costs for VAT procedures are largely different among enterprise groups. The further explanation increases significantly the time costs. Majority of enterprises realize that the VAT refund dossier is more simplified, clear and understandable and this in fact help to reduce the time costs for preparation of VAT refund dossiers. With the above time cost structure, the effective measure to reduce the time costs of VAT procedures should focus on the steps of collection, classification, recording, maintaining of invoices and receipts and preparation of lists of purchased and sold goods and services.

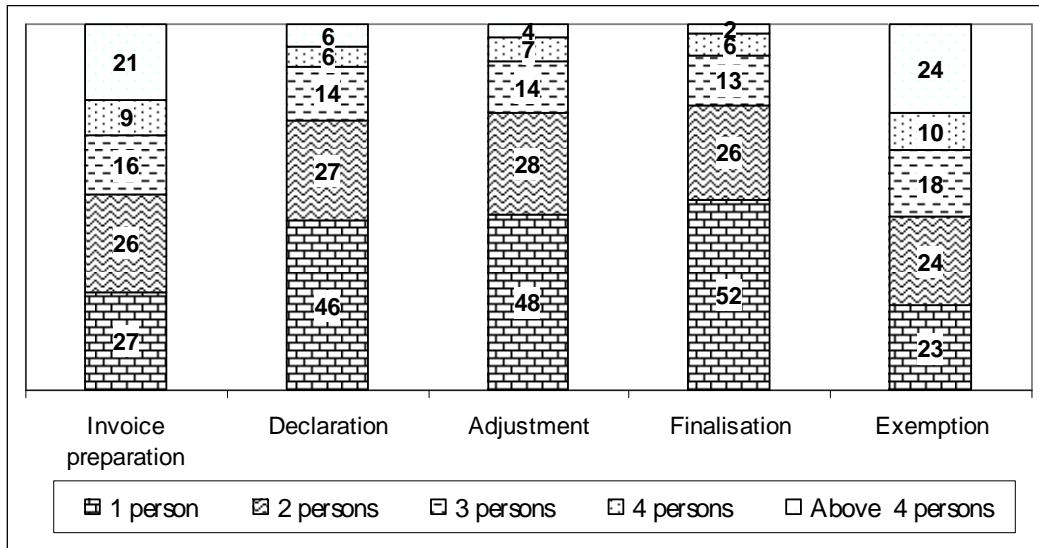
4.4. The time costs of enterprise income tax procedures

Procedures for enterprise income tax (EIT) obligations are regulated in several legislative documents: the Law on Enterprise Income Tax, Decree No 164/2003, and Circular No 128/2003. In accordance with these documents, the EIT procedures comprise the following steps:



On average, the enterprises employ three staffs to undertake all activities of EIT procedures. Collection, classification, recording and storing of invoices and documents regarding EIT need three staffs, while for other steps (declaration, adjustment, finalization and exemption of tax) require two staffs. Figure 4 indicates that the shares of enterprises who only need one staff undertaking EIT procedures are 27% for the step of invoice and document preparation and 47-52% for other steps. Furthermore, there are important portion of surveyed enterprises (21%) using more than 4 staffs for invoice and document preparation, while only very small part of enterprises (2-6%) using more than 4 staffs doing other steps of EIT procedures.

Figure 4. Enterprise distribution by number of staffs involving in EIT procedures (%)



❑ **The time costs of collection, classification, recording and storing of invoices and documents**

The time cost for collection, classification, recording and storing of invoices and documents relating to EIT payment is 56.4 hours per month. Almost the invoices and documents relating to EIT are ones required to fulfill the VAT obligations, therefore the time cost of doing these activities is excluded from the time costs of EIT procedures to avoid double accounting.

❑ **The time costs of EIT declaration**

Annually, the enterprises shall be responsible for declaration and submission of EIT declarations (Form 02A-TNDN) to the tax office directly in charge no later than the twenty fifth day of January, or in the case of a business establishment permitted to apply a financial year other than the Gregorian year, no later than the twenty fifth day of the month after the last month of such applicable financial year. The basis for declaration shall be the results from production and trading in goods and services of the previous year and the business potential for the following year. The enterprises shall explain the

indicators in the declarations, including reasons for increase or decrease in enterprise income. On average, the enterprises spent 17.2 hours for completion of the EIT declaration form. For 27% enterprises with least time costs, this time amount is 1.3 hours while for 19% enterprises with highest time costs, the amount is 61 hours.

□ **The time costs of adjustment of provisional tax payable**

If there are major changes to the production and business situation during the first six months of the year which may result in an increase or reduction of more than twenty (20) per cent compared to the amount provisionally payable as declared with the tax office, an enterprise shall prepare a complete file requesting adjustment of the amount of tax provisionally payable for the whole year and for the last two quarters of the year and shall submit it to the tax office directly managing it no later than 30 July. A file requesting adjustment of the amount of tax provisionally payable for the whole year and for each quarter shall comprise: Request for adjustment to provisional tax payable for the whole year; Declaration specifying reasons, amount paid for the first six months of the year, and amount payable in the second six months; Financial statements for the first six months of the year (balance sheets, profit and loss statements, and explanatory statements of financial accounts on the forms). After consideration of the above reports, the tax office shall notify it by 25 August at the latest of the provisional tax payable for the whole year (adjusted) and the amounts payable in the two final quarters.

The enterprises shall pay in full the amounts of tax provisionally payable for each quarter into the State Budget in accordance with their declaration of corporate income tax or in accordance with the amount fixed by the tax office.

The time-limit for tax payment for each quarter shall be no later than the last day of the quarter.

There are significant share of surveyed enterprises (70%) undertaken the procedures for adjustment to tax payable in 2006. For these enterprises the time cost of complete the adjustment dossier is 14.1 hours. This time amount is 0.9 hours for 20% enterprise with least time costs and 48.6 hours for the enterprises with most time costs.

□ **Time costs of finalization of enterprise income tax**

EIT finalization shall be conducted annually. At the end of each tax period, enterprises shall finalize tax with the tax office in accordance with Form 02/DD-TNDN. Enterprises also attach to this form the appendixes and documents related to the calculation of tax obligations. These appendixes specify the losses transferred from previous year, tax payable in the tax period, the tax exempted or reduced, tax paid abroad. The time cost for finalization of EIT is 19.1 hours. For 25% enterprises with lowest time cost this figure is 1.4 hours and for the 20% enterprises with highest time cost, this figure is as high as 63.9 hours.

□ **The time costs of EIT exemption and reduction**

The enterprises entitled to EIT exemption and reduction shall follow the procedures comprising following steps: (i) enterprises shall self-determine their conditions for entitlement to tax incentives and their levels of tax exemption, tax reduction and carry-forward of losses; (ii) tax offices shall conduct the task of checking the conditions for entitlement to tax incentives, determine the tax amount for which any one enterprise will be granted exemption or reduction and the amount of losses carried forward which may be deducted from taxable

income, correctly in accordance with the conditions which such enterprise actually satisfies.

There are about 42% of enterprises conduct the EIT exemption procedures in year 2006. For these enterprises, the time amount spent to complete this procedure is 12 hours. This time cost are 1 hour for 20% enterprises with least time amount and 44.1 hours for the 20% enterprises with most time costs.

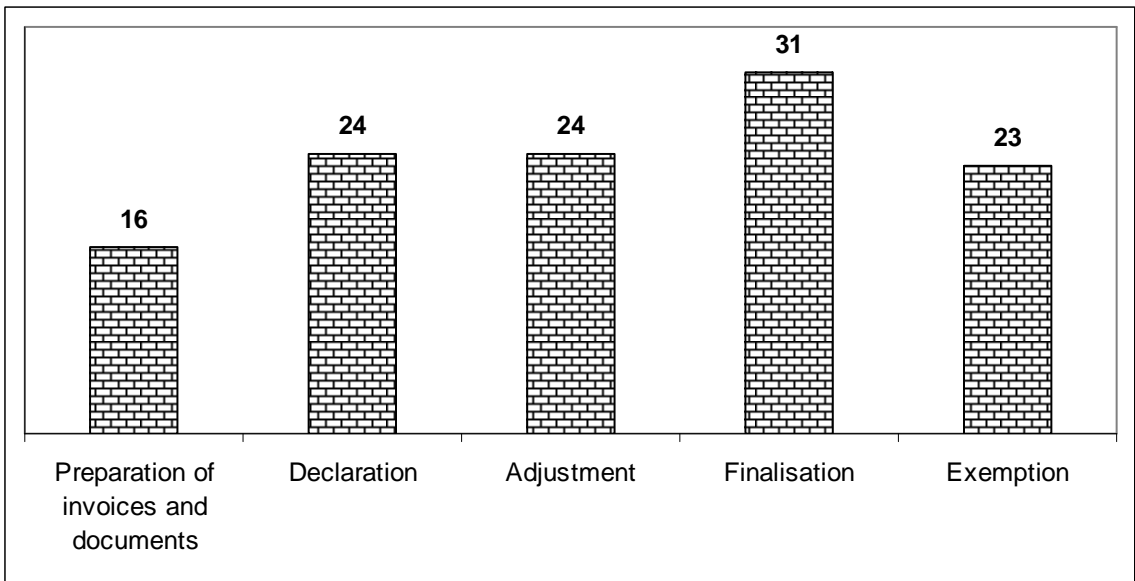
Table 7 summarizes the estimated time costs for fulfilling the EIT procedures. On average, total time cost for completing the EIT procedures is 728 hours/year. Similar to the VAT procedures, preparation of invoices, documents for tax payment is the most human and time consumed activities. If excluding the time costs for preparation of invoices and documents, the time cost for procedures of income tax is reduced to 51.2 hours/year and the most time consumed activities are finalization and preparation of declaration.

Table 7. Time costs of EIT procedures

Procedures	Time costs (hours/year)
Preparation of EIT dossiers	708.1
Collection, classification, writing, store of invoices	676.8
Preparation of declarations	17.2
Adjustment to EIT	14.1
Finalization of EIT	19.1
EIT exemption and reduction	12.0
Total time cost	728.0
Total time cost, excluding time for preparation of invoices	51.2

There is important portion of enterprises being required to make amendment to their EIT dossiers. Figure 5 indicates that EIT finalization is the activity with the highest part of enterprises being required to make amendments (31%), followed by preparation of declaration and attached lists (24%). For almost enterprises with amendment to the dossier, the amendment is undertaken once .

Figure 5. Percentages of enterprise with amendment to EIT dossiers



Similar to the case of VAT, the amendment has certain impacts on the time costs of implementing EIT procedures. Table 8 shows that for all activities of this procedure, the time costs of enterprises with amendments are largely higher than those of enterprises without amendments. The differences between two groups are significant in the steps of preparation of declaration, adjustments and tax exemption and reduction .

Table 8. Comparative time costs of EIT procedures between enterprises with and without amendments to EIT dossiers (hours/year)

	Enterprises without amendments to EIT dossiers	Enterprises with amendments to EIT dossiers
Preparation of invoices	630.0	637.5
Declaration of EIT	13.6	21.4
Adjustments to EIT	12.6	19.7
Finalization of EIT	18.5	19.7
EIT exemption and reduction	8.4	16.7
Total time costs	674.3	699.1

In summary, the enterprises employ 3 staffs for implementation of EIT procedures with the total time cost of 728 hours/year. If excluding the time cost for preparation of invoices and documents, the time cost of EIT procedures is 51.2 hours, mainly for EIT finalization (37% of total time costs) and preparation of EIT declaration (33% of total time costs). Therefore, the measures to reduce the time costs of EIT should focus on the activities of EIT finalization and declaration.

4.5. The time costs of special sale tax procedures

The procedures and formalities of special sale tax payment are regulated in the Decree No 149/2003/ND-CP and the Circular No 119/2003/TT-BTC. The basic steps in the procedures of special sale tax payment comprise: (i) declaration and payment of special exercise tax; (ii) finalization of special exercise tax.

Monthly, enterprises manufacturing goods subjected to special sale tax shall prepare and submit declaration forms, made according to the described form No 01/TTDB, and attached lists of sold goods according to the form No 04/TTDB. In the case there is no special sale tax liability happen, enterprises are still required to make and submit declarations to the tax office. For enterprises having large amount of special sale tax, they shall make and submit declaration form at every 5 days or 10 days, in addition to the monthly declaration .

Annually, enterprises producing the goods subjected to special sale tax shall finalize tax with the tax offices. The enterprises shall declare all figures relating to the amount of payable tax, already paid tax at the time of finalization, made according to the form 05/TTDB.

On average, the enterprises employ 3 staffs involving special sale tax procedures with the time cost of 43.4 hours/year. This time cost is 2.8 hours for the 29% enterprises with lowest time costs and 139.3 hours for the 20% enterprises with highest time costs.

There are 12% surveyed enterprises being required to supplement and amend the dossiers. For the enterprises with amendments, the time cost for special sale tax procedures is 87.2 hours, being much higher than that of enterprises without amendments to dossiers (42.6 hours).

4.6. The time costs of tax examination and inspection

The tax office are responsible for examining and inspecting the declaration, payment and finalization of tax. The maximum duration for examination are 5 days and inspection are 30 days. In special cases, the time period can be

extended but not exceed the described time period for examination and inspection.

There are 58% enterprises reported that the tax offices undertaken the tax examination and inspection at the enterprises in year 2006. Almost examined and inspected enterprises (91%) reported that the examination and inspection are undertaken once a year. The averaged time duration for each examination and inspection is 6 days. About 38% of enterprises have examination and inspection more than 5 days.

According to the laws, the examined or inspected enterprises shall provide tax officers with related information and data. The survey shows that for each of examination and inspection, the enterprises employ 6 staffs to provide required information and data with time costs of 100.8 hours. For 20% enterprises with lowest time cost, the averaged time cost is 15.3 hours and for 20% enterprises with highest time costs the figure is 263.9 hours.

The estimated time costs for all procedures of tax payment is summarized in Table 9. In summary, the averaged time cost of tax payment is 1959.2 working hours per year⁷. It can be seen that time cost for VAT tax is largest component (88% of total time costs), mainly time spent on preparation of invoices, receipts and documents for tax payment (85% of total time costs).

Table 9. Summaries of time costs of tax procedures

Time costs (hours/year)

⁷ There are 58% of surveyed enterprises have been examined or inspected, therefore the time cost of tax examination and inspection for all enterprises are estimated by multiplying the average time cost of individual examination or inspection (100.8 hours) with 0.58. Similarly, as there are 20% of surveyed enterprises paying special sale tax, the time costs of special sale tax procedures for all enterprises are estimated by multiplying 43.4 hours with 0.2.

Tax number registration	15.1
VAT invoices	93.1
VAT payment	1732.7
Enterprise income tax payment	51.2
Special sale tax payment	43.4
Tax examination and inspection	100.8
Total time cost	1959.2

The survey results indicate that the measures to reduce the time cost of tax payment should focus on time spent on VAT and enterprise income taxes, mainly the time amount for preparation of invoices and attached lists of purchased and sold goods. Furthermore, the time costs for fulfillment of value added invoice procedures are also the important one (account for 4.8% of total time costs of taxation).

Table 10 indicates the time costs estimated for enterprises of different scales. It can be seen that the medium enterprises have highest time cost of taxation, being 10% higher than the averaged one. The main difference among these enterprises is time cost for preparation of VAT dossier.

Noticeably, the large enterprises having huge number of transactions and therefore are expected to spent much more time on preparation of invoices and receipts than medium and small enterprises. However, the estimated results show that the time cost of large enterprises is less than that of medium enterprises and not much higher than that of small enterprises. It reflects the facts that the customers of large enterprises are better than the customers of medium and small enterprises in providing the accepted invoices. Other reason is the large enterprises are more likely to use the software for accounting and tax procedures than the medium and small enterprises.

Table 10. Comparative time costs of taxation among enterprises of different scales

Procedures	Small enterprises	Medium enterprises	Large enterprises
Preparation of tax registration dossier	8.2	9.6	9.4
Preparation of notaried copies	3.1	3.6	3.1
Submission of tax registration dossier	2.6	3.3	2.7
Tax number registration	13.9	16.5	15.2
Purchase of invoice	17.1	20.8	20.5
Self printed invoice	60.8	52.5	58.2
Registration of invoice sample	26.7	16.2	18.8
Registration of printed invoice number	21.8	26.7	27.9
Registration of circulated invoices	12.3	9.5	11.5
Report on invoice uses	26.9	32.2	43.6
Report on monthly use of invoices	21.4	26.3	36.3
Report on year finalization of invoices	5.5	5.9	7.3
Wrong written invoices	52.8	61.4	63.7
Value added invoice	81.32	92.54	106.02
Preparation of VAT dossiers	1490.4	1844.4	1571.8
Collection, classification, recording, maintaining of invoices	793.5	949.8	879.2
Preparation of list of purchased and sold goods and services	581.6	683.3	556.1
Preparation of VAT declaration	115.4	211.3	136.5

VAT finalisation	20.6	26.4	19.0
VAT refund	16.8	19.2	28.2
Examination and inspection before VAT refund	67.4	51.1	55.2
VAT procedures	1540.0	1895.1	1619.7
Preparation of EIT dossiers	91.3	82.5	72.0
Collection, classification, writing, store of invoices	68.7	50.6	50.4
Preparation of declarations	14.3	20.1	13.5
Adjustment to EIT	11.8	16.7	11.6
Finalization of EIT	19.9	20.9	16.0
EIT exemption and reduction	7.1	10.7	11.8
EIT procedures	45.5	57.3	42.6
Special sale tax	51.2	44.7	34.8
Tax examination and inspection	76.8	105.5	106.9
Total time costs	1776.4	2167.3	1880.4

Some surveyed enterprises also indicate the obstacles in fulfillment of tax procedures, increasing the time costs of taxation. These obstacles can be classified into the following groups:

- ❑ Invoices of purchased goods and services:
 - The required invoices are numerous and very detailed;
 - No invoices for small transactions;
 - Huge time spent on collecting invoices from branches operating in different areas.

- ❑ Lists of purchased and sold goods and services:
 - Large number of purchased and sold goods and services, too detailed and numerous tiny expenditures;

- Very long list of purchased and sold goods and services.
- ❑ Forms:
 - Frequent changes and not easy to be updated;
 - Inconsistency among the tax offices regarding to the required tax forms.
- ❑ Accepted costs:
 - The concept of reasonable costs are understood differently, even among the tax officers and different time periods;
 - It is difficult to determine the reasonable costs.
- ❑ Declaration of enterprise income tax:
 - Too long, complex and confusing;
 - It is not easy to separate the costs being higher than the accepted ones;
- ❑ Guiding information:
 - Introduction of software for tax purposes are not implemented widely;
 - Not timely notification of changes in forms;
 - The misbehavior of some tax officers.
- ❑ Examination and inspection at enterprise places:
 - Long duration of examination ;
 - The disputes over the conclusions made subjectively by tax officers.

5. Analysis of possible impacts and recommendations

5.1. Possible impacts of Law on Tax Management (LTM)

The Law on Tax Management (LTM) have been in force since July 2007. The Government also issued Decree No 85/2007 for implementation of this law. A question raised is how regulation of LTM impact the time costs of taxation. This section analyses and predicts the possible impacts on the time costs of taxation on the basis of comparison of procedures subjected to the old regulations with the ones based on the new regulations and the estimated costs in the above sections.

According to the new regulations, the procedures of tax payment are basically unchanged with the following steps: tax number registration, tax declaration, tax payment, tax refund, tax exemption and reduction and tax examination and inspection. The regulations in the LTM and Decree No 85 determines the components of dossiers for each step. However, so far there have been no circulars specifying the contents of the dossiers. Therefore, the following analyses and predicts are only based on the procedures and formalities and the components of dossier with assumption of unchanged contents of the dossiers.

□ Tax number registration

The LTM stipulates that the dossier of tax number registration consists of: (i) tax number registration declaration; (ii) copy of business certificates, establishment certificates or investment license. The enterprises submit the dossiers of tax registration at the tax office. The enterprises can sent the dossiers directly or through mail or electronic ways. Therefore, unlike the old regulations, the tax registration dossier does not include official letter for tax registration and allow the enterprises to choose different ways of submitting the

dossiers rather than the direct way. These changes have some impacts on the time costs for preparation and submission of tax registration dossier.

As mentioned above, the preparation of tax registration dossier is the most time consumed step of the tax registration procedures (60% of time costs of tax registration). The new regulation removing the requirement of official letter for tax registration could reduce time of dossier preparation. However, preparation of declaration and lists are most time consumed activities. There have been no new guidelines for specific contents of declaration and lists. Noticeably, in the past the contents of declaration forms were fundamentally unchanged despite of different implementing circulars. Therefore, with the assumption that the contents of declaration and attached lists are unchanged according to new regulations, the impacts of new regulation on time costs of tax registration though the channels of simplification of procedures and content of dossiers are not high.

The new regulations provides alternative ways of submitting the tax registration dossier and therefore, the enterprises are more free to choose the way of submitting dossiers with lowest time amount. For example, the enterprises can use the electronic way rather than direct way to submit the dossier. This way of submitting dossier can reduce the time amount for travel and circulation of dossier. However, as mentioned above, the time costs for submitting the dossier is account for small part of total time costs of tax registration (18%). It means that the extent of impact on reduction of tax number registration is not large.

□ **Value added invoices**

LTM and Decree No 85 have no regulation on the value added invoices. Therefore, the new regulations are not expected to have direct impact on the time costs regarding to the value added invoices.

However, with the intention to increase the autonomy of enterprises in paying taxes, the Ministry of Finance encourages and expands the enterprises to self-print invoices. For example, recently the local tax authorities rather than the General Department of Taxation approve the use of self-printed invoices. In the encouragement is successful and there are many enterprises will self-print invoice rather than buy from the tax authorities, the time amount that the enterprise community as a whole spent on the value added invoices would increase because as mentioned above the time costs for self-printed invoices are much higher than time costs for purchase of invoices.

□ **Value added tax, enterprise income tax and special tax**

For value added tax payment, the procedures of VAT taxes still consist of basis steps: declaration and payment, finalization, refund, examination and inspection. The enterprises are still required to make monthly preparation and submission of VAT declaration, yearly finalization. Like old regulations, the monthly VAT dossiers remains consisting of VAT declaration, lists of purchased and sold goods and services; the yearly finalization dossiers comprise the VAT finalization declaration and related documents; the VAT refund dossier includes official letter for VAT refund, tax payment receipts and other related documents. It is clear that the specific contents of VAT dossiers subjected to the new regulations are not different from those subjected to old regulations. The estimated time costs indicate that the time costs of VAT procedures account for 88% of total time costs of taxation. Therefore, the new regulation may not reduce significantly the time costs of taxation.

Being different from old regulations, according to the new regulations, the enterprises can submit the VAT dossier through different ways (direct, postal or electronic ways). However, the time costs of submission of dossiers are small

as compared with other activities. It means that the impact of new regulation on time costs of taxation through the reduction of submission time is not large.

For enterprise income tax payment, the enterprises shall start the procedures from declaration, finalization to tax exemption and reduction. Thus, the new regulations do not mention the adjustment to taxable income. If this requirement is removed, the time costs of income tax procedures will be reduced by 14.1 hours.

According to the old regulations, the enterprises declare the estimated income once a year. The LTM stipulates that the enterprises declare the estimated income quarterly. By doing so, at the end of each quarter, the enterprises make declaration and payment of estimated income tax on the basis of business performance of current quarter. This new declaration try to make the estimated income tax more being closed to the actual one, addressing the estimated income tax being much higher than the actual one and therefore release funds for the enterprises.

However, quarterly declaration also means that the enterprises shall make income tax declaration four times rather than one time a year. It means that the time costs of tax registration is much higher than before (may be four times higher). With the time costs of preparation of declaration of 17.2 hours, accounting for 33% of time costs of enterprise income tax (excluding time costs for preparation of invoices). Therefore, implementation of new regulation likely increase significantly the time spent on implementation of enterprise income tax procedures.

The dossiers for income tax finalization and exemption under the new regulation are similar to the ones under the old regulation. The dossier of income tax finalization comprises year financial statement and related documents. The dossier for tax exemption and reduction includes tax

declaration and documents determining the exempted and reduced tax amount. If the specific contents of declaration form and related documents subjected to the new regulations are not much different from the ones subjected to the old regulation the impacts of new regulations on time costs of finalization and exemption of income tax is insignificant.

According to the new regulations, for the enterprises who self determine the amount of exempted and reduced tax amount, the submission of dossier can so at the same time with declaration and submission of income tax. This regulation can reduce the dossier submission time and even time costs of preparation of tax exemption and reduction dossiers. According to the survey, the time costs for preparation of tax exemption and reduction dossier is 12 hours (19% of time costs for income tax payment).

For special sale tax payment, Compared with the old regulations, the number of tax declaration and dossier of special exercise tax are unchanged. Therefore, the new regulation may not have strong impact on time costs of special exercise tax payment.

□ **Tax examination and inspection**

The LTM regulates two types of tax examination: at the offices of tax authorities and at the offices of taxpayers. The examination at the taxpayers' offices is only undertaken if the enterprises fail to satisfy demands from tax officers for examination at the tax authorities' offices.

Tax examination at offices of tax authorities shall be conducted on a regular basis on tax dossiers in order to assess the completeness and accuracy of information and vouchers in tax dossiers, and compliance with tax law by taxpayers. If tax dossiers have unclear contents related to payable, exempted, reduced or refunded tax amounts, tax authorities shall notify and request

taxpayers to explain them or supplement information and documents. If taxpayers are able to explain unclear contents and supplement information and documents to prove the accuracy of the declared tax amounts, then their tax dossiers are accepted. If the explanations and supplemented documents cannot prove the accuracy of the declared tax amounts, tax authorities shall request taxpayers to make supplementary declarations. Upon the expiration of the time limit notified by tax administration agencies, if taxpayers fail to explain unclear contents or supplement information and documents or make supplementary declarations in their tax dossiers, or improperly explain unclear contents or improperly make supplementary declarations in their tax dossiers, tax authorities shall assess payable tax amounts or issue decisions on tax examination at offices of taxpayers. Tax examination decisions shall be sent to taxpayers within three working days from the date of their signing. Within five working days after receiving tax examination decisions, if taxpayers can prove the accuracy of their declared tax amounts or fully pay payable tax amounts, tax authorities shall cancel the tax examination decisions.

The examination at the tax authorities offices (off-site examination) is a new one. This type of examination aims at reducing the interventions of tax authorities into the enterprise's business activities as these interventions in fact happen when conducting examination at the taxpayers' offices. As a result, replacing examination at the taxpayers' offices with examination at the tax authorities' offices are expected to reduce the time amount that the enterprises spent to serve the tax examination team. As shown in the above section, the time cost is not small. However, the examination at the tax authorities' offices possibly requires enterprises more frequent supplementation and explanation to the tax authorities. These new obligations likely cause higher time costs for supplementation and explanation to the enterprises. This time cost may increase as the enterprises are required to supplement and explain many times. Furthermore, as the new way of tax management focuses more on examination

of taxpayers, it is likely that the number of enterprises being required to supplement and explain their tax dossiers increases.

Conducting tax examination at the taxpayers' offices within five working days from the date the examination decision is announced; in case of planned examination for exported goods or imported goods, this time limit is fifteen days. When necessary, the tax examination duration under the tax examination decision can be extended once but the extension must not exceed the time limit. The examined enterprises have obligations to promptly, fully and accurately supply information and documents relevant to the examination contents upon request of tax examination teams. It is clear that the new regulation on tax examination at the taxpayers' offices is not different from the old regulation. Therefore, the new regulations do not have strong impacts on reduction of examination time costs.

The LTM limits tax inspection to some cases: enterprises with diversified business lines and a wide scope of business (tax inspection conducted on a regular basis no more than once a year); when there is a sign of tax law violation; to settle complaints or denunciations or upon request of heads of tax authorities or of the Finance Minister. A tax inspection duration must not exceed thirty days from the date of notification of the tax inspection decision. In case of necessity, tax inspection decision issuers may prolong the tax inspection duration. The prolonged duration must not exceed thirty days. Compared with the old regulation, the new regulations limit the cases of tax inspection, while tax inspection duration, contents and the enterprises' obligations are unchanged. Therefore, the new regulation could reduce the time costs of tax inspection for a enterprise sector as a whole rather than time costs for individual inspected enterprises.

□ **Other regulations of the LTM having impacts on time costs of taxation**

In addition to the regulations directly involving the tax procedures, there are other regulations of the LTM that have possible impacts on time costs of tax procedures, particularly:

- Increasing liabilities and autonomy of enterprises in undertaking the tax obligations. Under the old regulations, tax payment were centrally managed and enterprises were passive in undertaking tax payment. According to the new regulations, the enterprises self calculate, declare and pay tax. The new regulations allow the enterprises actively calculate the payable taxes, payment and tax incentives. The tax management is changed from pre- to post-examination.
- Determining clearly responsibilities and penalties applied to the tax authorities and tax officers. The new regulations specify the tax officers' obligations of receiving and addressing tax dossiers. The LTM also regulate the prohibited activities of the tax authorities. The tax authorities and tax officers have to compensate for damages to the enterprises. The tax officers and examiners are disciplines. These new regulations are expected to strengthening the responsibilities and reduce the subjective behaviors of tax authorities and tax officers in conducting their duties.
- The LTM have provisions facilitating the enterprises' implementing their tax payment procedures. The enterprises have right to require tax authorities to guide, explain policies and tax administrative procedures to determine their tax obligations; require tax authorities to properly conduct tax exemption, reduction, refund and compensation. The tax authorities are strengthened to provide the public services such as law propaganda, supports to the taxpayers. Especially, the LTM encourages tax service providers conduct the tax procedures on the behalf of enterprises, such as: tax declaration, payment, finalization, exemption and reduction.

5.2. Recommendations

Based on the estimated time costs of taxation, the effective measures to reduce the time costs of taxation should focus on:

- ***Regulations on procedures, formalities, and contents of tax obligations***

Although many improvements have been made in the procedures, formalities and forms in accordance to the international standards, the complaints from surveyed enterprises indicate that further improvements are required to reduce the declarations that are unnecessary, duplicated and not suitable with Vietnam's situation and technical development level.

- ***Conducting studies on integrating steps of tax payment procedures***

Implementation of "one-stop shop" in dealing with the tax obligations;

Public all tax administrative procedures at the tax authorities' offices;

- ***Conducting studies on reducing the unnecessary content of tax dossiers***

Conducting studies on simplification of contents of tax dossiers

Removing the unnecessary requirements on the invoices and receipts.

- ***Encouraging computerization of tax declaration and payment***

Providing compatible software for tax declaration in order to help the enterprises to form accurately and quickly tax declaration forms.

Speed up the registration and declaration through the internet.

□ ***Strengthening tax propaganda and training***

Strengthening the tax propaganda and training in order to help the enterprises to declare tax accurately and adequately.

Encouraging the tax consultancies through telephone, email, fax, etc.

□ ***Improving capacity and professional morals of tax officers***

□ ***Improving the understanding and capacities of enterprises in conducting tax procedures***

□ ***Encouraging tax declaration services***

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