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**IMPROVING THE CURRENT CORPORATE INCOME
TAX IN VIETNAM**

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PREFACE

1. Urgency of the thesis topic

Corporate income tax (CIT) is a very important type of tax in the tax system of a country. It does not only help generate large revenue for the state budget but it also serves as a very effective tool for the government in regulating the macro economy and adjusting the behavior of enterprises, production and business organizations in the economy. A well-organized and well-managed CIT has significant impact on the economy's development.

In this context, the writer chose "*Improving the current corporate income tax in Vietnam*" as the thesis topic in order to find a number of solutions with scientific grounds and practical meaning. These solutions focus on improving the effectiveness of CIT policy and administration in the coming time in a timely manner to bring into play the role of tax policies in mobilizing tax revenue, regulating and promoting Vietnam's socio-economic development. With such significance, it is necessary and urgent to study the thesis topic.

2. Research objective

Overall objective: Recommending a number of solutions to improve CIT policy and administration with scientific grounds and in line with the reality of CIT in Vietnam to improve the effectiveness of CIT policy and administration, make sure that CIT mobilize revenue for the state budget and help regulate and promote Vietnam's socio-economic development during 2020 -2025 with vision to 2030.

Specific objectives:

Firstly, clarifying theoretical issues about CIT policy and administration as the basis for evaluating the reality of CIT in Vietnam nowadays and looking for solutions to improve CIT in Vietnam during 2020 - 2025 with vision to 2030.

Secondly, studying theoretical basis and building models to analyze and evaluate the impact of tax rate and changes of CIT policy on economic development.

Thirdly, synthesizing, analyzing, commenting and evaluating the reality of CIT in Vietnam during 2000 - 2018; clarifying achievements, shortcomings and reasons for such shortcomings.

Fourthly, giving orientations and proposing important solutions to improve CIT in Vietnam in both aspects: CIT policy and CIT administration.

3. Research questions

To achieve the above-mentioned objective, the writer focuses on answering the following questions:

(1) Which model and method should be used to evaluate the results of implementing CIT policy in order to achieve high reliability.

(2) What is the evaluation of achievements and shortcomings of CIT policy and administration in Vietnam during 2000 - 2018?

(3) What are solutions to improve CIT policy in Vietnam during 2020 - 2025?

(4) What are solutions to improve CIT administration during 2020 - 2025?

4. Research objects and scope

4.1. Research objects

The thesis's research objects are theoretical and practical issues related to CIT policy and administration.

4.2. Research scope

- *Scope of CIT administration subjects*: Tax administration bodies at levels and tax administration of tax payers that are enterprises operating under the Enterprise Law excluding: (i) taxpayers as individual household businesses, non-business organizations, and armed forces not operating under the Enterprise Law; (ii) tax administration activities of customs authorities.

- *Scope of content*: The thesis inherits results from related scientific studies and focuses on clarifying the theoretical framework of CIT policy and administration. The thesis studies the contents of CIT policy and administration.

- *Scope of space and time*: CIT in Vietnam during 2000 -2018, specifically CIT policy and administration in Vietnam during three periods: (i) 2000 - 2006; (ii) 2007 - 2011; and (iii) 2012 -2016 with forecast 2020 -2025 and vision to 2030. Secondary data are mainly collected from General Statistics Office (GSO), the Ministry of Planning and Investment (MPI), and the Ministry of Finance (MOF). Primary data are synthesized by the writer from report of tax agencies such as Ha Noi Tax Department and General Department of Taxation.

5. Research data and methodologies

5.1. Research data

Data in the thesis include macro data of Vietnamese economy, micro data of annual enterprise survey from the General Statistics Office and Ministry of Planning and Investment.

➤ *Data used for evaluating the impact of CIT: macro approach*

The writer uses quarterly data from 2000 to 2018 with data sources mainly from the GSO and MPI.

➤ *Data used for analyzing and evaluating the impact of CIT: micro approach*

In this part, the writer uses the enterprise survey data set of the GSO and MPI from 2000 to 2018. Such data set has been used by the GSO for annual survey since 2001.

In the data set, the writer eliminates some variables due to statistical error, such as: capital, number of employees, business age with negative sign, incomplete answers or the enterprises has not declared the tax code.

➤ Variable description

Variable symbol	Meaning	Source
GDP	Gross Domestic Product	GSO
K	Gross fixed capital formation	GSO
L	Labor	GSO
TAXCOP	Corporate income tax	MOF
TAXOTH	Other tax, calculated by subtracting corporate income taxes from total tax collection	
FDI	Foreign direct investment	GSO
GC	Government spending	GSO
CPI	Customer price index	GSO

In which,

- GDP: Gross Domestic Product, collected from GSO with 2010 as the base year. For the chain to end in first order logarithmic difference, the writer removes the chain's seasonality by using Holt-Winters' seasonal method (unit: billion dong).

- Customer price index (CPI): collected from the GSO with 2010 as the base year (unit: percentage)

- Variable TAXCOP and TAXOTH are collected from MOF and converted to real value by dividing to GDP's deflation.

- GC: collected from GSO using 2010 as the base year (unit: billion)

- FDI collected from GSO using 2010 as the base year (unit: billion)

For descriptive statistics of variables, see Annex 2.

5.2. Research methodologies

Methods applied in the thesis include:

Statistical comparison method; synthesis analysis method;

Quantitative method: used for modeling the impact of CIT on economic entities.

Soft wares used for data analysis in the thesis include: Eview 10 and Stata 14.

6. Scientific and practical significance of the thesis topic

** Scientific significance:*

Firstly, the thesis systemizes and clarifies basic theories of CIT policy and administration, namely concepts, characteristics, principles, methods of establishing CIT policy and administration, and influencing factors of CIT policy and administration. These important issues serve as the basis for evaluating and improving CIT policy and administration in Vietnam.

Secondly, the thesis studies and summarizes main orientations in improving CIT in countries in the world to draw lessons for Vietnam. The thesis focuses on important conclusions in terms of clarifying, simplifying and creating transparency in deductible expenses when identifying taxable income; cutting down on a number of expenses such as depreciation, interest...; adjusting common CIT tax rate; narrowing fields and industries eligible for preferential tax rates and focusing on spearhead industries and difficult areas; and finding effective solutions to prevent transfer pricing and tax losses.

Thirdly, the thesis applies the theoretical basis and builds a model to evaluate the impact of CIT on revenue, labor, productivity, profit of enterprises; assess the impact of CIT on CIT tax revenue and total tax revenue by applying quantitative methods to approach the research issue in two aspects: macro approach (by applying the studies of Mansouri, Fossu & Magnus, and Sakyi) and micro approach (by applying the two-factor production function model of Varian and Fuss & McFaden and Cobb–Douglas production function model).

Fourthly; the thesis provides a relatively in-depth and comprehensive evaluation of CIT policy and administration in Vietnam during 2000 - 2018; the thesis also clarifies positive impacts of this tax on the economy. Epecially, the thesis points out shortcomings and reasons for shortcomings in specific contents of CIT policy and administration in Vietnam.

Fifthly, the thesis proposes important solutions regarding CIT policy and administration.

** Practical significance:*

Firstly, thesis serves as a good reference material in teaching and studying policy and administration of CIT as well as basic theories of the model for evaluating the impacts of tax rate and changes of CIT policy. Also, authorized state administration agencies can refer to the thesis' explanations and proposals in building and implementing tax reform policies in the coming time.

Secondly, the thesis proposes five groups of solutions to improve CIT policy and three groups of solutions to improve CIT administration. These solutions focus on important issues of CIT, shortcomings and reasons for shortcomings of corporate income tax in Vietnam. Some solutions are explained comprehensively and have both theoretical and practical grounds; they are new recommendations such as: revising regulation of deductible expenses; revising and adding regulations on preferential income tax, improving supervision and inspection of CIT...

7. Structure of the thesis

In addition to the preface and conclusion, the thesis is comprised of four chapters:

Chapter 1: Overview of studies on corporate income tax

Chapter 2: Theoretical basis of corporate income tax

Chapter 3: Reality of corporate income tax in Vietnam

Chapter 4: Some solutions to improve corporate income tax in Vietnam

CHAPTER 1: OVERVIEW OF STUDIES ON CORPORATE INCOME TAX

1.1. Local researches:

During these times, there have been many domestic works on tax policies and CIT policy in the form of dissertations, theses, scientific research works or scientific articles published in specialized journals. There are 10 doctoral theses, 03 scientific research topics related to tax policy and CIT policy.

In recent years, there has not been any scientific work at ministry level or doctoral thesis that directly studies CIT administration in Vietnam. There have been a number of scientific works by scientists, managers, graduate and postgraduate students and graduate students related to this issue. Besides the achieved results, even though these scientific works still have contents related to CIT administration or CIT policy, such contents have not been mentioned or analyzed in detail. Therefore, on the basis of inheriting results of previous studies

on CIT policy and administration (with 07 doctoral thesis studies and 02 scientific research topics as representative studies), the writer continues to develop, supplement, update and have new research directions in this thesis.

In summary, up to now, there have been many doctoral thesis about tax administration in general and CIT administration in Vietnam in particular according to different perspectives but there has been no study about CIT in Vietnam similar to this thesis topic.

1.2. International researches

There are four international studies on CIT policy and four studies on CIT administration.

1.3. Assessment of research results

These works were carried out at specific stages of economic, cultural, political and institutional environments. There is no uniformity in the environment and historical circumstances in different countries, in different historical periods. In addition, there exist differences in political, cultural, economic and educational backgrounds; therefore, according to the writer, it is necessary to study CIT in a specific country and in a specific period to help improve CIT policy and administration in accordance with the characteristics of each country in each period. Theoretical issues about CIT need to be developed and added to match with the reality. Therefore, it is necessary to continue studying and proposing specific solutions with more practical results.

1.4. Research gap

Firstly, studies in other countries are not applicable to Vietnam due to different socio-economic conditions. *Secondly*, previous studies were mainly about CIT policy or administration only; frequent changes in reality requires policy and administration to be adjusted accordingly. *Thirdly*, there has been no comprehensive study on CIT policy and administration or impact assessment by econometric model to have more scientific and practical arguments for proposing solutions to improve CIT in Vietnam in the new context.

CHAPTER 2: THEORETICAL BASIS OF CORPORATE INCOME TAX

2.1. Corporate income tax

2.1.1. Concept and characteristics of CIT

Based on the dialectical argument for the existence of CIT, it is possible to consider the concept as CIT as follows: *“Corporate income tax is a tax calculated on taxable income of enterprises in the tax period”*.

2.1.2. Role of corporate income tax

Theoretically, CIT is one of the most important type of taxes in the tax system; it performs the roles of the tax system in general, namely: (1) regulating income and ensuring social equality; (2) being a significant revenue source of the state budget; (3) encouraging and promoting production and business, encouraging investment in certain fields and localities in certain periods.

2.2. Corporate income tax policies

2.2.1. The concept of tax policies and corporate income tax policies

“Policy” is the term commonly used in documents and media; however it is very difficult term to define in a specific and clear way.

From the analysis of the concepts of policies, public policies and tax policies mentioned previously, it is possible to introduce the concept of CIT policy as follows: *“Corporate income tax policy is a set of interrelated decisions issued by the government, including goals and solutions to regulate a portion of organizations’ income in the society, used by the government to achieve certain goals”*.

Thus, studying tax policy means studying goals that the tax policy aims at, the economic content of each tax and other necessary tools for the tax policy to to achieve its goals.

2.2.2. Principles and methods of creating corporate income tax policy

2.2.2.1. Principle of creating corporate income tax policy

Even though the scope of coverage, subjects of application, tax rates or CIT preferences are different in countries, the following basic principles are strictly applied in creating CIT policy: *taxing based on the principle of permanent establishment, taxing based on income from which expenses for creating income is deducted; determining tax year.*

2.2.2.2. *Method of creating corporate income tax policy*

Theoretically, there exist three models for creating CIT policy: *taxing on each source of income generation; taxing on total income; mixed tax.*

2.2.3. *Content of corporate income tax policy*

2.2.3.1. *Taxpayer*

Taxpayers of CIT are organizations with business, production and service activities and taxable income, including: Enterprises established and operating under regulations of Enterprise Law, Investment Law, the Law on Credit Institutions, Insurance Business Law, Securities Law, Petroleum Law, Commercial Law and the provisions of other legal documents in the forms: Joint stock companies, limited liability companies, partnerships, private enterprises, the parties in a business cooperation contract, the parties in petroleum product sharing contract, petroleum joint venture enterprises and joint operating companies.

2.2.3.2. *Grounds for calculating tax*

Tax is calculated based on taxable income and tax rate

2.2.3.3. *Method of calculating tax*

CIT payable = (Assessable income - Amount transferred to science and technology fund (if any) x CIT tax rate

2.3. **Corporate income tax administration**

2.3.1. *The concept of corporate income tax administration*

CIT administration is a specialized administration field; therefore, to approach the concept of CIT administration, it is necessary to approach the concept of administration beforehand.

This thesis agrees to the viewpoint that “*Corporate income tax administration is the deliberate impact of state authorities on the process of calculating and collecting corporate income tax in order to generate revenue for the state budget and achieve the government’s goals*”.

Within the scope and content of this thesis topic, the thesis focuses on CIT administration in a narrow sense, only covering the activities of tax authorities in implementing administration contents in order to carry out legal policies on CIT.

2.3.2. *Characteristics of corporate income tax administration*

Coming from characteristics of CIT, CIT administration has its own distinctive characteristics: the basis of CIT administration is law on CIT, tax administration and other related legal regulations; CIT administration is mainly done mainly by administrative methods and in combination with other

administration methods; CIT administration is a strictly technical and professional activity.

2.3.3. Objectives of corporate income tax administration

The objectives of CIT administration is only are only parts of and somewhat narrower than the general goal of tax administration, but they are also among the common goals that tax administration must achieve

CIT administration aims to achieve the following objectives: strengthening the concentration, adequate and timely mobilization of revenues for the state budget on the basis of constantly nurturing and developing revenue sources; strengthening control, redistribution of income and macro-economic regulation of the economy and society.

Thus, CIT administration will contribute to ensuring the efficiency, clarity and flexibility to limit loss of state budget revenue. Through that, both mobilizing resources and contributing to preventing corruption and wastefulness can be achieved.

2.3.4. Principles of corporate income tax administration

Firstly, abiding to the law; *Secondly*, ensuring effectiveness; *Thirdly*, being public and transparent; *Fourthly*, abiding to and conform with international standards and practices.

2.3.5. Contents of corporate income tax administration

Within the thesis's scope, the writer focuses on studying the implementation of tax administration functions: disseminating and supporting taxpayers, disseminating CIT law; managing CIT declaration and payment; managing tax debt and enforce CIT debt payment.

2.4. Influencing factor of corporate income tax

2.4.1. Influencing factors of corporate income tax policy

Firstly, international commitments and practices; *Secondly*, the government's spending need; *Thirdly*, domestic economic development trends and socio-economic characteristics of each country.

2.4.2. Influencing factors of corporate income tax administration

2.4.2.1. Subjective factor

Firstly, data and information sources of enterprises; *Secondly*, compliance with CIT laws of taxpayers; *Thirdly*, IT application level, facilities of tax authorities; *Fourthly*, the factor of tax authorities: tax administration apparatus organization; building the human resources; tax administration mechanism

includes: mechanism of tax administration and tax notification and administration mechanism of self-declaration - self-payment of taxes.

2.4.2.2. Objective factors

Firstly, the system of legal documents; *Secondly*, co-operation of related agencies; *Thirdly*, influencing factor from enterprises

2.5. Trends in corporate income tax policy and administration reforms in countries and lessons for Vietnam

2.5.1. About corporate income tax policy

Firstly, reform CIT policy in accordance with the context of international economic integration and find effective solutions to increase the proportion of CIT revenues. *Secondly*, CIT reform aims to emphasize the goal of economic neutrality and increase revenue rather than the goal of income redistribution and ensure the progressive of CIT policy. *Thirdly*, simplify the structure of tax rates and reduce CIT rates. *Fourthly*, ensure the harmony between CIT common tax rate, making it not different from the highest tax rate of personal income tax. *Fifthly*, apply high tax incentives to some priority areas.

2.5.2. About corporate income tax administration

2.5.2.1. Paying attention to dissemination and support to taxpayers

Analyzing experiences of countries like Indonesia and Philippines to draw experience lesson for Vietnam

2.5.2.1. Reform of administration mechanism of tax declaration and payment

Stepping up the electronic transaction mechanism, specifically: In the electronic tax declaration, payment and refund, a new system is in place to replace traditional paper transactions; it allows taxpayers to make tax declaration and payment transactions electronically via the internet.

2.5.2.2. Stepping up tax supervision and inspection

Experience of OECD countries: *Firstly*, organizing supervision and apparatus according to risk administration mechanism; *Secondly*, planning tax supervision and inspection according to risk administration mechanism; *Thirdly*, tools to support supervision and inspection

2.5.2.3. Strengthen tax debt administration and enforcement

Regarding tax debt administration and tax enforcement: Flexible forms of tax inspection depend on compliance acts such as reviewing tax history, compliance history, business history of enterprises when conducting the inspection. The Australian Taxation Office also creates favorable conditions for

businesses to voluntarily declare to reduce the amount of tax fines before the inspection is carried out.

The measures to collect debt are based on two criteria: tax debt level and compliance level to tax obligations..

2.5.3. Lessons for Vietnam

2.5.3.1. Corporate income tax policy

Firstly, about the scope of application; *Secondly*, about the basis of tax calculation; *Thirdly*, about CIT rate; *Fourthly*, about CIT incentives; *Fifthly*, about international transfer pricing.

2.5.3.2. CIT administration

Based on studying experiences of some OECD countries and some other countries on CIT administration contents, the thesis points out contents that can be applied to gradually improve the quality of application of risk administration. in CIT administration activities in Vietnam in the near future.

2.6. Assessment of corporate income tax's impact

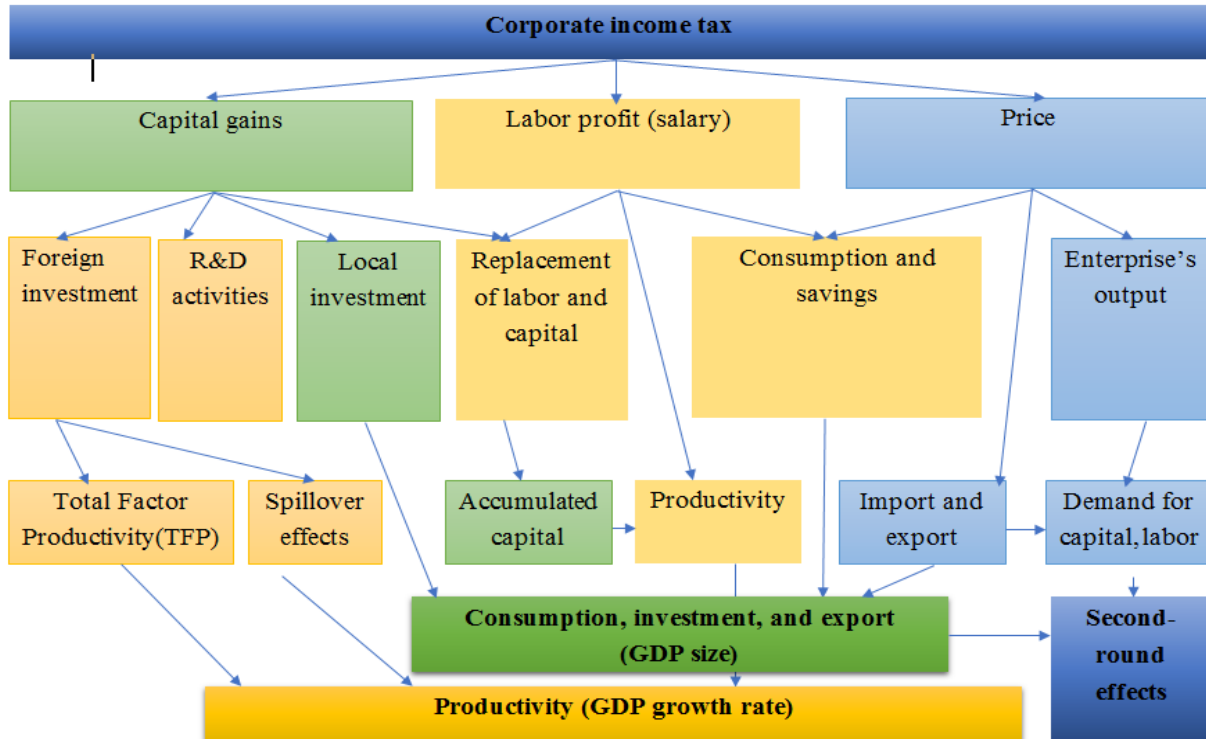
2.6.1. Theoretical basis of assessing corporate income tax's impact

The objectives of this content are to point out the theoretical basis of CIT impact channels and build a model to assess CIT's impact on economic and corporate growth through macro and micro approaches. With the macro approach, it is seen that economic growth depends on factors such as CIT, government spending, FDI and CPI. With the micro approach, the impact of CIT on the output of enterprises such as revenue and labor productivity and a number of other factors can be seen. Thereby, CIT policy needs to be adjusted appropriately for enterprises to promote production and business, and increase CIT revenues for the state budget. To implement policies effectively and fairly, it is necessary to have practical solutions to improve the efficiency of CIT administration.

2.6.1.1. Impact channels of corporate tax administration

The impact of CIT on economic growth via different channels is show as follows:

Diagram 2.1: Corporate income tax administration



According to the chart above, CIT will affect economic growth through three main channels: capital profit, income (salary) and price, and from there will have an impact on other channels. For example, a CIT reduction will increase capital gains, income, and lower prices.

2.6.1.2. *Main approaches for analyzing the impact of CIT*

From the theoretical basis above, it can be seen that there are three approaches used to analyze the impact of CIT as follows: The first approach is to analyze the impact of CIT according to the macro aspect (macro impacts); the second approach is to use micro-data to analyze the impact of CIT on output, labor productivity, investment and R&D activities of enterprises (micro impacts).

2.6.2. *Develop corporate income tax's impact assessment model*

2.6.2.1. *Impact model of corporate income tax: Macro approach*

Based on the theoretical basis discussed above, those in appendix 3, and studies of Mansouri (2005) [116], Fossu and Magnus (2006) [104] and Sakyi (2011) [124], the writer develops a model to analyze the impact of CIT as follows:

$$GDP_t = A_t K_t^\alpha L_t^\beta \quad (1.1)$$

Equation (4) can be re-written as follows:

$$\begin{aligned} \ln(GDPL)_t = c + \alpha \ln(r)_t + \gamma_1 \ln TAXCOP_t + \gamma_2 \ln TAXOTH_t + \\ \gamma_3 \ln FDI_t + \gamma_4 \ln GOC_t + \gamma_5 \ln CPI_t + u_t \quad (1.6) \end{aligned}$$

The above equation is a form of production function model and is very useful in analyzing influencing factors of economic growth. In particular, Ln represents the logarithm of the variables.

2.6.2.2. *Impact model of corporate income tax: Micro approach*

The writer develops a model to assess the impact of CIT on the output of enterprises.

From the analysis of factors affecting enterprise productivity and the studies of Theodore Papadogonas and Fotini Voulgaris (2005), Firouz Fallahi, Sakineh Sojoodi and Nassim M. Aslaninia (2010), the writer develops a model to assess the impact of R&D on labor productivity as follows

$$\begin{aligned} \ln Prod_{i,t}^j = \beta_0 + \beta_1 \ln r_{i,t}^j + \beta_2 \ln w_{i,t}^j + \beta_3 \ln taxcop_{i,t}^j + \beta_4 \ln age_{i,t}^j + \beta_5 \ln sector_{i,t}^j + \\ \beta_6 \ln ownership_{i,t}^j + \beta_7 \ln size_{i,t}^j + u_{i,t} \quad (2.11) \end{aligned}$$

In which:

Prod is labor productivity. In particular, labor productivity in the enterprise is calculated by the value added of the enterprise (VA) divided by employees.

r is the level of capital equipment on labor, calculated by the total assets of the enterprise divided by the total labor.

w is the average total expense per employee including categories such as salaries, bonuses and other items.

Taxcop on revenue: CIT payable tax compared to revenue

Size is the size of the business

age is the number of operation years of an enterprise in the industry

sector is a variable that specifies the industry of the business

ownership is a variable that indicates the type of production of an enterprise

size is a variable indicating the size of the business

t is the time variable, i and j denotes enterprise i in industry j .

CHAPTER 3: REALITY OF CORPORATE INCOME TAX IN VIETNAM

3.1. Vietnam's socio-economic situation during the 2000 - 2018 period

In the context where our country is enhancing the development of market economy and integrating more and more deeply into the world economy, the fourth industrial revolution was strongly affecting all aspects of life, the requirements for existence and development of each enterprise as well as the requirements of socio-economic development of the country today and in the coming years were on the rise, it was practical and urgent to improve CIT policy and administration during the 2000 - 2018 period. According to the writer, the socio-economic situation of this period should be reviewed to see the important role of CIT in the administration and construction of tax policies.

The thesis mentions Vietnam's socio-economic situations during 2000 - 2006, 2007 - 2011, and 2012 - 2018.

3.2. Reality of corporate income tax policy during 2000 - 2018

During 2000 - 2006: This was a period of impressive economic growth in business and production. Therefore, there were changes in tax policy, especially CIT to be in line with this development stage. During 2007 - 2011: Taxpayers are enterprises of all economic sectors, organizations established under the Law on Cooperatives, non-business units legally established in Vietnam and other organizations engaged in production and business activities. Since 2009, business individuals no longer have to pay corporate income tax but is regulated by the Law on personal income tax. During 2012 - 2018: According to the provisions of the CIT Supplement Law, in 2013, the common tax rate was reduced from 25% to 22%

from January 1, 2014. From 1 January 2016 a CIT rate of 20% is applied for all enterprises. .

3.3. Reality of corporate income tax administration during 2000 - 2018

During 2000 - 2006: Through assessment of the general situation of CIT administration, especially the supervision and inspection against tax revenue loss from 2000, it can be seen supervision and inspection was one of the key tasks in tax administration. During 2007 - 2011: Tax administration has undergone fundamental reforms since the Law on Tax Administration took effect on July 1, 2007. The mechanism of self-declaration and self-payment of taxes is legalized and officially applied to all taxpayers that are enterprises nationwide, regardless of economic sectors, fields, industries, and business scale. During 2012 - 2018: General tax administration process and CIT administration process have been more complete. In addition to the four basic functions of tax administration, almost all of the tax administration content has a process such as: process of tax registration administration, tax exemption and reduction administration process, tax refund process, one-stop shop process of administrative taxation; invoice checking process.

3.4. Assessment of corporate income policy during 2000 - 2018

3.4.1. *Obtained results*

CIT policy contributes to income redistribution, ensures social equity and ensures revenue for the State Budget

- . CIT policy has contributed to the implementation of the Party and government's development orientations.

- . CIT policy is increasingly public, transparent, simple, synchronized with the relevant legal system and practical, contributing to ensuring the rights and favorable conditions for taxpayers.

- . The CIT incentive policy is in line with the general international practice and the country's development process

3.4.2. *Shortcomings*

3.4.2.1. *Scope of application:*

The scope of application does not cover all taxpayers and any generated income. The limitation of CIT policy is that the criteria for determining residents as Vietnamese enterprises and foreign enterprises and Vietnamese enterprises investing abroad are not clearly defined..

3.4.2.2. *Deductible expenses in calculating taxable expenses of corporate income tax*

Firstly, for fixed asset depreciation cost: the regulations on depreciation costs in Vietnam are so complicated, assets are grouped into many categories with different life cycles; method of rapid depreciation;

Secondly, for salary expenses

3.4.2.3. *Corporate income tax rate*

In the context of international economic integration, countries tend to reduce CIT tax rates in order to improve tax competitiveness.

The Law on Support for Small and Medium Enterprises stipulates the application of low CIT rates to micro and small and medium enterprises. Therefore, it is necessary to amend CIT law to make it suitable for the current context and law.

3.4.2.4. *About corporate income tax incentives*

Firstly, the preferential level is high, the preferential area is still relatively high, thus reducing the state budget revenue. *Secondly*, the impact of CIT incentives on the allocation of investment resources in the areas and areas encouraged by the State is limited. *Thirdly*, CIT incentives mainly bring benefits to FDI enterprises while Vietnamese enterprises are less entitled to tax incentives. *Fourthly*, CIT incentive policies tend to attract short-term investment projects instead of long-term investments. *Fifthly*, the implementation of CIT incentive policy is quite complicated, involving many administrative procedures. *Sixthly*, because CIT policy sets too many ambitions and different goals for each kind of incentives such as encouraging the use of capital, using a lot of labor, using resources, transferring technology ... so sometimes there is conflict among the goals. *Seventhly*, incentives for tax exemption and reduction and tax rates are among the least effective forms of incentives. *Eighthly*, the current CIT policy in Vietnam also allows businesses operating in fields that are encouraged for investment to enjoy reduced tax rate of 10%.

3.4.2.5. *About transfer pricing*

Anti-transfer pricing is the act of coordinating with tax administration bodies and authorized state agencies of a country or many countries to take measures to detect, prevent or control the act of transferring profits not in accordance with the provisions of laws of multinational companies, corporations or companies operating under the parent-subsidiary model. The focus of anti-profit transfer activities is good control of transfer pricing. However, in practice, this issue still reveals some limitations and shortcomings.

3.4.3. Reasons for shortcomings

During these times, there still exist a number of limitations due to the following reasons: the Vietnamese economy is still weak in terms of production, management and competitiveness of domestic enterprises; the legal system and mechanism is incomplete and not synchronized; experience from many countries shows that the process of improving the legal system and mechanism must be ahead of market opening and integration process; the ability and organization of the tax administration apparatus as well as the qualifications of tax officials are still limited.

3.5. Assessment of corporate income tax administration

3.5.1. Obtained results

3.5.1.1. Propagating tax laws and providing taxpayer support services

In a nutshell, tax law propaganda is considered to be proactive activities of the tax administration agencies in accessing taxpayers while taxpayer support services are considered as services to meet the requirements. Although both types of activities have the same goals, the nature of each type of activity will determine their content and the form that tax administration agencies can use to achieve the highest efficiency in management.

3.5.1.2. Managing corporate income tax declaration and payment

At present, following the mechanism of self-declaration and self-payment of tax under the Prime Minister's Decision, enterprises generally base on the current CIT policies and regimes to declare and calculate CIT themselves to pay to the state budget.

3.5.1.3. Supervision and inspection against corporate income tax losses

In general, efforts in tax administration of the tax industry have contributed significantly to building a good relationship between tax administration bodies and taxpayers, creating favorable conditions for tax administration activities to be solved in a quick, timely and legal manner, thus avoiding harassment and trouble for taxpayers and helping to improve the effectiveness and efficiency of CIT administration in the area recently.

3.5.1.4. Debt management and enforcement of corporate income tax debt collection

Recognizing the importance of CIT administration for businesses, in recent years, tax departments throughout the country have been actively implementing many measures to promote tax collection with special attention paid to tax administration and tax collection enforcement.

3.5.2. Shortcomings

3.5.2.1 Propagating tax laws and providing taxpayer support services

Firstly, contents of dissemination and support have not meet the requirements. *Secondly*, the frequent change in standard forms cause troubles for taxpayers.

3.5.2.2. Managing corporate income tax declaration and payment

Firstly, reasons for limitations in declaration management have not been explored; declaration management has not been reviewed properly, leading to tax avoidance and difficulties in following CIT activities. Enterprises tend to delay tax payment until it is very close to the deadline of tax settlement period.

Secondly, the number of enterprises frequently changes (due to new establishment and dissolution) so it is very hard to manage enterprises with small capital size.

3.5.2.3. Supervision and inspection of corporate income tax

Firstly, the contents of tax inspection and examination are overlapping, duplicated and have signs of non-transparency, thus being less effective. *Secondly*, activities of finding and handling tax fraud and evasion have not matched with the reality due to the absence of a tax investigation department. *Thirdly*, there are limitations in applying risk management in tax supervision and inspection. *Fourthly*, the level of IT application in CIT administration is still low.

3.5.2.4. Debt management and enforcement of corporate income tax debt collection

In summary, the management of CIT taxpayer accounts is not sufficient. Whether it is done intentionally or unintentionally, many enterprises do not fully understand the regulations on tax registration (additional registration for tax registration information), so they do not register all bank accounts, which leads to tax administration bodies' failure to manage their bank accounts. In fact, over the past time, the measure of enforcing CIT debt collection to through blockade or direct deduction from bank accounts has not been effective because accounts for tax enforcement have small, insignificant balances, or do not generate transactions.

3.5.3. Reasons for shortcomings

Firstly, the classification of taxpayers to apply suitable forms of propaganda and support for taxpayers has not been implemented. *Secondly*, information of taxpayers' account inadequate; *Thirdly*, there is no clear regulation on inheritance of contents, results of supervision and inspection.

CHAPTER 4: A NUMBER OF SOLUTIONS TO IMPROVE CORPORATE INCOME TAX IN VIETNAM

4.1. Socio-economic context and issues in studying the improvement of corporate income tax in Vietnam.

4.1.1. Socio-economic context

a) Chances: Vietnam has a stable political system. The Party and the government are determined to renovate policies and consolidate the financial and monetary system to promote sustainable economic growth. This is a good premise for the Tax industry to accelerate tax policy reform and modernize tax administration,

Challenges: The biggest issue is transfer pricing - one of the key CIT issues that countries have to face with multinational corporations.

4.1.2. Issues when studying the improvement of corporate income tax in Vietnam

Firstly, CIT must ensure the implementation of international commitments and practices, while ensuring the characteristics of each country; Secondly, CIT must aim to ensure the stability of budget revenue; Thirdly, improvement of CIT policy and mechanisms must be done to engage in international trade in goods and services; Fourth, international price transfer has become one of the key CIT-related issues that countries face with multinational companies..

4.2. Objectives and requirements for improving corporate income tax

4.2.1. Objective for improving corporate income tax

Building a synchronized, fair and effective tax policy system in line with the socialist-oriented market economy institution to facilitate domestic production; serving as one of effective and effective macroeconomic management tools of the Party and the government.

Requirements for reform of tax policy and administration:

4.2.2. Requirements for improving corporate income tax

4.2.2.1. Improving corporate income tax policy

Firstly, continue creating a favorable investment and business environment, ensuring fairness and equality in competition. *Secondly*, reforming tax incentives in the direction of ensuring an attractive investment environment, selectively attracting investment and improving investment quality. *Thirdly*, CIT must contribute to creating stable revenue for the State Budget. When the state budget revenue increases, it will create necessary financial resources for the government

to finance economic restructuring programs. *Fourthly*, it is necessary to ensure the clarity, fairness, openness and transparency of CIT policy to encourage investment, contributing to the implementation of the goal of economic growth. *Fifthly*, CIT policy must be consistent with the administrative and moral competency of taxpayers.

4.2.2.2. Improving corporate income tax administration

Firstly, requirements for comprehensiveness; Requirements for rationality; Requirements for specificity, clarity and ease of determination; Requirements on uniformity; Requirements on legality. *Secondly*, CIT administration ensures a comprehensive source of revenue, ensuring correct, reasonable and timely collection. *Thirdly*, CIT administration goes hand in hand with tax administration reform.

4.3. Solutions to improve corporate income tax policy in Vietnam during 2020 - 2025

4.3.1. About the application of corporate income tax

Firstly, add the identification of new taxpayers in a timely manner.

Secondly, the method of taxing by residency status must be specified, including domestic enterprises and foreign-invested enterprises or foreign companies doing business through permanent establishments in Vietnam, in order to define clearly the obligations of tax declaration and payment and bases for calculating taxes..

Thirdly, redefine the scope of CIT subjects to ensure the nature of the tax is adhered and it conforms to the system of income tax according to world practices.

4.3.2. About deductible expenses when calculating taxable income

Firstly, study to complete the mechanism of depreciation of fixed assets;

Secondly, declining-balance method of depreciation allows the aggregation of the residual value of assets of the same group (i.e., properties with the same depreciation rate) to calculate depreciation as if it were a single asset, thereby greatly simplifying the accounting requirements; salary expenses

Thirdly, about non-cash payment documents

4.3.3. About corporate income tax rate

Firstly, it is necessary to continue to step by step lower tax rates; *Secondly*, the guarantee of State budget collection is mainly done through tax policies; *Thirdly*, like many other countries, in Vietnam, SMEs play an important role in socio-economic development and the percentage of SMEs in Vietnam is also high in the total number of businesses (97% -98 %) they are identified as the "growth engine", the "backbone" of the economy.

4.3.4. Regarding CIT incentives, exemption and reduction

It is necessary to continue reducing circumstances of CIT incentives

Replace the tax incentives, tax exemption and reduced tax rates with tax offset - determined in proportion to the value of investment in the sectors or areas where investment is encouraged. This allows enterprises to enjoy incentives according to actual investment activities.

4.3.5. About transfer pricing

Firstly, it is necessary to supplement the price transfer regulation in CIT Law to ensure that it is suitable for the context of international economic integration, when the transfer pricing become a key issue in countries that have multinational companies.

Secondly, it is necessary to amend and supplement the regulations on transfer pricing control

4.4. Solutions to improve corporate income tax administration during 2020 - 2025

4.4.1. Solutions to improve the management of corporate income tax declaration and payment

In order to perform the management of tax declaration and payment successfully, the following criteria must be supplemented: Number of false declarations in the year; Number of times to explain the tax declaration data in the year; Average number of days of delayed tax payment;

Average daily amount of late tax payment.

4.4.2. Solutions to improve corporate income supervision and inspection

Firstly, increase human resources for inspection, risk classification to assign inspection teams in line with professional capacity.

Secondly, focusing on exploiting data on the system of tax authorities, exchanging information about enterprises with sources of information inside and outside the tax industry such as information from inspection and pre-inspection teams, transaction information through links from other agencies, international cooperation data websites of General Department of Taxation, MPI; *Thirdly*, building inspection and examination programs suitable to each group of taxpayers according to some main grouping criteria; *Fourthly*, cooperation of inspected enterprise is required; *Fifthly*, international cooperation on taxes need t be strengthened.

4.4.3. Solutions to improve tax debt management and collection enforcement

Firstly, paying attention to risk analysis and forecasting; Secondly, strictly controlling the tax declaration, deduction, exemption and reduction, tax payment extension, tax finalization, detect and promptly handling cases of inadequate declaration of payable tax amounts; Thirdly, strengthening coordination among departments in tax authorities; Fourthly, developing regulations to coordinate with the State Bank in tax debt management and collection.

4.5. Additional solutions

- Improve tax law propaganda and support services for taxpayers
- Enhance information technology application in CIT administration
- Promote the use of electronic invoices with authentication codes of tax authorities
- Develop tax services, especially private tax services.

CONCLUSION

Through theoretical research on CIT, CIT policy and administration and CIT reality in Vietnam, the thesis draws some basic conclusions:

Firstly, the thesis has assessed the status of CIT policy and administration in Vietnam during of 2000-2018 and clarify the positive impact of this tax type on the economy. In particular, the thesis has pointed out the limitation in the specific content of tax policy and CIT administration in Vietnam.

Secondly, the thesis has applied the theoretical basis and built an impact assessment model of CIT to analyze data and assess the impact of CIT on tax revenue of enterprises paying taxes on labor, and labor productivity, profitability; economic growth, and CIT revenues and total taxes in general by quantitative methods to approach the research problem in two aspects: macro approach (applying the research of Mansouri, Fossu & Magnus and Sakyi) and micro approach model (applying the two-factor production model of Varian and Fuss & McFaden and the Cobb-Douglas technology production function model). The conclusions of the model results have been integrated into the situation analysis in chapter 3 and on that basis have implications for the improvement of CIT policy in chapter 4.

Thirdly, the thesis has proposed a number of solutions to improve and implement CIT policy.. Notable proposals that have been carefully analyzed are: Amending regulations on deductible expenses; amending regulations on depreciation of fixed assets (enhancing the application of depreciation according to

the reducing balance and accelerating depreciation; increasing the maximum historical cost to be deducted above VND 1.6 billion ...); amending deducted expenses for wages, house rent (deducted for all salaries of members of the Board of Directors and founders; owners of one-member limited liability companies and owners of private enterprises; deducted house rent under contracts , proof of tenancy); amending the regulation on interest expenses: not exceeding 150% of the basic interest rate of commercial banks does not exceed a certain number of times compared to the charter capital; having uniform regulations on expenses contributing to the formation of administration expenses of the higher level.

Fourthly, the thesis has set out requirements about CIT administration, specifically about risk management in tax supervision and inspection activities for enterprises, proposing risk assessment criteria such as the level of compliance of taxpayers and tax debt criteria of taxpayers in tax inspection activities to implement CIT administration effectively. In addition, a number of other notable solutions are: strengthening the application of information technology in tax administration, in particular: developing software to support risk analysis; investment in construction and development of information technology infrastructure and electronic transactions; renewing training and retraining of cadres for tax administration; strengthening coordination among departments in tax authorities; strengthen international cooperation on taxes.

To ensure that the above solutions are feasible, additional solutions should be implemented such as: implementation of "segmentation" of taxpayers; solutions to enhance information technology application in CIT administration; solutions to promote the use of electronic invoices with authentication codes of tax authorities; solutions to develop tax services, especially private tax services.

Last, but not least, in order to improve CIT policy and administration successfully, in addition to breakthrough solutions, it is also very necessary to have the government's commitment and co-operation.

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