Taxation in Viet Nam: from a Gender Lens

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Abstract: Viet Nam has a strong record of commitment to gender equality, and has implemented legislation and gender mainstreaming practices to reduce gender inequalities between women and men in all aspects of life, including in economic status. Although women in Viet Nam have made progressively moved toward increased gender equality since the 1980s, however, global shifts in economic priorities and tax policies have produced increased income inequalities, and have reinforced or contributed to increased gender inequalities in relation to incomes and related areas. This discussion paper outlines Viet Nam's commitments to gender equality in this context, and focuses on how they apply to and can affect the status of women in the area of tax laws and policies. Drawing on the growing literature documenting the many linkages between gender equality and taxation, this discussion paper examines the gender impact of tax laws and tax incentives in Viet Nam, including personal income taxes, corporate income taxes, and value added taxes.

Key words: Taxation; Gender equality; Taxes law; Women.

Viet Nam has made important achievements in gender equality during the past decades through improvements in policies, legal frameworks, and national institutional mechanisms responsible for promoting gender equality and the advancement of women. However, efforts to pursue the implementation of gender equality and the advancement of women continue to face persistent challenges and newly emerged issues in the context of regional integration and globalization. Issues arising from gender

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inequality could be effectively resolved if we apply appropriate policy tools. Gender Responsive Budgeting (GRB) is one of those tools. GRB is an approach that integrates gender equality into a government's planning and budgeting processes and analyses how budgets can promote gender equality and the empowerment of women. To date, GRB tools are most often used to examine the adequacy and gender impact of budgetary expenditures. The tax and general revenue side has received less attention from both academic and government policy units due to lack of funding for such work and also due to lack of the specialized skills, statistical data, and revenue data that are needed for this form of fiscal analysis. Based on the desk review and analysis of tax laws, this paper contributes to help policymakers and relevant stakeholders understand the linkages between gender inequalities, tax laws, and tax policy options.

1. Gender Impact of Personal Income Taxation (PIT) in Viet Nam: Gender issues in the Viet Nam PIT system

Tax residents are subject to Vietnamese PIT on their worldwide taxable income, wherever it is paid or received. In Viet Nam, employment and business income are taxed at graduated or progressive tax rates. Other income is taxed at a variety of different rates. PIT rates ranging from 5% to 35% apply to both Vietnamese and expatriate residents (PIT Law 2007).

In the Viet Nam PIT system, the **individual is the basic tax unit** or tax filer. This means that each income earner is individually responsible for filing taxes based on their earnings, regardless of marital status or household structure. This system keeps the tax liabilities of spouses and members of households separate from each other at least to the extent that no one's income is added to any other person's tax return. This avoids the types of lifelong tax biases faced by women in joint tax systems.

The PIT rates are graduated, with the lowest taxable incomes being taxed at the rate of 5%, and the highest, at the rate of 35% (PIT Law 2007). This means that the Viet Nam PIT is progressive in structure, and respects the principle of ability to pay tax. The poor and women have less ability to pay tax than men because they earn less than men do.

The Viet Nam PIT system ensures that it respects the principle of ability in two ways. First, it applies the lowest PIT rates to low incomes, and applies higher rates to increased amounts of incomes. Second, it provides tax exempt allowances for each individual taxpayer. Each individual may earn up to VND108 million on a tax-exempt basis each year. The personal allowance for an individual taxpayer is VND 108 million/year or VND 9 million/month (PIT Law 2007, ammended 2012). So long as the VND108 million can secure the basic necessities of living, the PIT is not considered to violate the fundamental principle of ability to pay taxes. And at present, the first band of taxable income over the VND108 million allowance is taxed at the low rate of 5% (PIT Law 2007).

However, **tax-exempt dependent allowances** may still violate the principle of gender equality even if they are designed to protect the ability to pay. The Viet Nam PIT provides dependent allowances for a wide category of persons, which can include children, elderly members of the household, a financially dependent spouse, or other qualifying individuals. These tax allowances can be claimed for an unlimited number of persons: VND 43.2 million/year or VND 3.6 million/month per dependent (PIT Law 2007, ammended 2012). These allowances are not automatically granted; the taxpayer needs to register qualifying dependents and provide supporting documents to the tax authority to obtain permission to claim this exemption.

These allowances can violate the principle of gender equality in two types of situations.

First, if an individual is not able enough to work for pay, and can qualify as being a disabled spouse, then the other spouse may be able to obtain permission to claim the dependent spouse allowance for that individual. And that dependent allowance can also be enough of an incentive for such a person to withdraw from paid work, especially if it is part-time or poorly paid work. For example, according to the article 22, PIT Law 2007, if the supporting earner has an income of more than VND 960 million for the year, then the value of the VND 43.2 million tax allowance might be as much as VND15.3 million to the spouse who has permission to deduct that dependent allowance. And if the dependent adult is able to perform valuable unpaid work, either caring for children and thus saving on the cost of childcare expenses, or caring for older family members, or performing unpaid business or agricultural work and thus saving the cost of hiring others for those roles, then the dependent adult is driven out of paid work and financial self-dependence as the result of the tax allowance system.

Second, even with two able spouses in paid work, the allocation of the tax allowances can have negative gender impact. If the higher earner is usually the husband and the husband is the spouse who is authorized to take all of the dependent allowances (and they must all go to the same person), then it may pay for the married woman to work only in the home or household business, and to perform valuable unpaid care or business work to save the cost of paying a third party for those services. Either scenario imposes disparate negative gender effects on women in paid work and thus would violate substantive equality guarantees. The fact that the dependent allowances will be more profitable for the spouse with the higher income will then always discriminate against women to the extent that their incomes are not higher than their spouse's incomes. Even if two spouses have exactly equal incomes, one will be able to claim the benefit of the tax allowances for dependents, and the other cannot. This will then create a comparative disadvantage to paid work for the second earner, even when they start out with equal pretax incomes. Depending on the bargaining power between the two spouses, only one may continue in paid work in this situation.

Detailed sex-disaggregated administrative and tax data showing which spouses claim the PIT tax allowances would make it possible to assess the degree of gender inequality caused by this provision. Women, of course, are much more vulnerable to this effect because unpaid domestic, care, and business work still remains the primary responsibility of women. According to the most recent Viet Nam data on unpaid work by gender, women were found to spend an average of 314 minutes per day doing housework, while men reported spending 190 minutes (Action Aid, 2016). These figures mean that women perform 62% of all unpaid work. But even more importantly, these figures reveal that while men work slightly more than three hours per day in unpaid work, women work almost five and a half hours of unpaid work per day. This is a lot of work time, which cuts down on time and energy left for equal hours of paid work with men. And this also means that women will on average be counted on to perform a great deal of unpaid work if they are not in paid work. All of these gender realities mean that women remain more vulnerable to being pressured to let their spouse apply for the dependent tax allowances.

Even with an equal income, a married woman with average unpaid work hours would earn the same income as her spouse, but would have to pay PIT on the VND 43.2 million she could have claimed for a dependent tax allowance if she were not married – and do much more unpaid work than her spouse each day. Even with an equal income, her spouse will have this tax allowance to reduce taxable income by at least VND 2.16 million (if the spouse has a top tax rate of 5%) and thus more aftertax income – and will do much less unpaid work each day. This is a violation of substantive equality because it reinforces and magnifies social and cultural gender inequalities through the application of the tax rules. The tax rules ignore gender inequalities in hours of unpaid work for women and men, and thus unequally reduce women's aftertax incomes when they cannot obtain equal dependent allowances.

This dependent tax allowance provision could be made more gender equal in several ways. One solution would be to require the spouse with the lower income to claim the tax allowances if they can use them, in order to increase their incentive to engage in paid work. An even more effective policy would be to provide refundable tax credits that will be the same amount for either spouse so that there is no pressure for the lower income spouse to drop out of overtaxed low paid work. Or each spouse could be allowed to take a proportionate share of such allowances. Many alternative options would be tested, in gender-based analysis, to find the one that fits best with the specific Viet Nam PIT rate structure. The research literature on these options would also provide many suggestions and reports on how some of the tested options work.

In fact, because of extensive testing of these types of policies, other countries have devised many different systems to avoid or minimize this problem. Solutions range from abolishing dependent allowances to turning them into refundable tax credits, cash allowances for adult dependents, or social protection payments for low-income parents. This form of gender inequality can be minimized or eliminated completely, and it is a worthwhile change because it eliminates the risk that these allowances perpetuate gender inequalities in predictable circumstances.

Structural PIT revenue issues

Without reliable data on the actual cost of basic consumption and living needs, it is difficult to determine whether the tax allowance system in Viet Nam is too generous, or about right. However, when sex-disaggregated data is available, it would be urgent to examine this question. The greater the share of total PIT raised, as a percentage of total revenues, the more progressive the allocation of the total tax burden in Viet Nam will be. This will increase the beneficial gender impact of the PIT system and reduce the negative gender impact of the total revenue system. At the present time, the PIT has little effect on the redistribution of aftertax incomes in Viet Nam. An OECD simulation demonstrated that if all those receiving taxable incomes in Viet Nam paid their full PIT liability, it would reduce overall aftertax income inequalities by small amounts – just 0.8 to 1.5 points on the Gini coefficient (OECD, 2014). This is because Viet Nam collects a very small portion of its total tax revenues from the PIT – just 6.3% of all revenues (Ministry of Finance, 2014).

There is one other potential improvement that can be made to the PIT system. The OECD analysis resulted in the hypothesis that not all income earners pay their full tax bill. If compliance enforcement is not strong enough to secure the full payment of taxes, this would justify increasing tax compliance activities either through cross-checking with other sex-disaggregated administrative data, such as VAT return information, by increasing audit activities, or by obtaining permission in the next census to link personal and corporate tax returns with census data (on the highest level of confidentiality, of course). Women would benefit from improved compliance with the PIT because that would increase the progressivity of the total tax burden with respect to their aftertax incomes. It could also increase revenues so that the Government has more resources to devote to policies capable of promoting gender equality.

2. Gender Impact of Corporate Income Taxation (CIT) in Viet Nam

Understanding how the CIT system affects women as compared with men in Viet Nam depends on having adequate information on where women are in the paid work and business sectors of the economy, how women's roles in these sectors shape their total tax loads, and how the CIT rules may favour incorporated businesses over unincorporated self-employment or small registered businesses. Preliminary conclusions can be drawn on the basis of existing data, but far more information on both the enterprise and the tax sides of these issues is needed before firm conclusions can be drawn.

Corporate income taxation: women in corporate culture

To get a clear picture of the gender impact of CIT rules, it is important to recognize that the CIT rules only apply to businesses registered as formal corporations or companies. When properly registered as corporations, these business entities are treated as owning their own assets and have independent legal existence for contractual, property, and tax purposes under the CIT. If businesses are registered but have not been established as a company, then the personal owner or owners of such unincorporated businesses are taxed on business profits under the PIT rules, not under the CIT rules. Unincorporated businesses may take many different forms, including self-employment, small agricultural businesses, unregistered businesses, registered sole proprietorships, and registered partnerships. All of these are or should be taxed in the PIT returns filed by their owners.(1)

Because the tax rules that apply to unincorporated business and corporations are so different, it is important to understand where women are located in both corporate and unincorporated business cultures. In general, women are over-represented in the smallest unincorporated forms of business, but they are strikingly under-represented in corporations. Globally, the incorporated business sector appears to be a ‘man’s world’ little affected by gender equality considerations. As seen in the most recent global data, women have some ownership or participation connections with just 35% of all firms worldwide, and only 13.3% of all companies in the world have majority female ownership. Only 18.5% of all firms in the world have a female top manager, and corporations appear to have strong preferences for hiring men: only 33% of all permanent fulltime employees are women, and, when the focus is on permanent full-time production workers, that number drops to 26% (World Bank Group, 2019). The world of corporations is not gender-inclusive.

In the Asia Pacific region, this picture is more positive. Taken as a group, countries in the East Asia and Pacific region actually have the highest average regional levels of women’s participation in ownership (47%), top management positions (32%), majority ownership (27%), and production positions (38.4%). But, the Asia Pacific region falls third behind the high-income nonOECD, Eastern Europe, and Central Asia regions in women’s shares of permanent fulltime positions overall (38%), and is close to the bottom in shares of nonproduction jobs held by women (Lahey, 2015).

When Viet Nam is compared directly with other countries in the region, however, women appear to be significantly underrepresented in everything except rates of ownership participation, which in Viet Nam is 51%, and shares of nonproduction positions, which is 42.5% (World Bank Group, 2015). Only 22% of all Viet Nam corporations have even one female top manager, and only 34% of all permanent full-time employees in Viet Nam corporations are women (World Bank Group, 2015).

When the size of companies is taken into consideration, other gender differences become visible. Over half of all small firms in Viet Nam have female participation in ownership, and small firms have more top female managers than bigger firms. However, large firms hire many more women employees than small firms do – over twice as many female production workers than small or medium firms, and more nonproduction workers. Earnings data for employees by gender and firm size are not provided, however.

When looking at the unincorporated business sector, it is clear that large numbers of women do own businesses of various kinds in Viet Nam. But gender gaps in profits in this sector appear to be extremely large for women who own unincorporated businesses. For example, in a comparison of incomes by self-employment vs employment, women self-employed in nonagricultural work only earned 74% as much as employed women, and women self-employed in agricultural work only earned 34% as much. When women's agricultural self-employment profits are compared with urban male wages, the figure is just 22% (UN Women, 2016). The gender gaps are even greater when ethnic minority status and regional locations are taken into consideration, especially for women self-employed in agriculture (UN Women, 2016).

Information on women's self-employment suggests that large numbers become entrepreneurs not by choice, but by necessity, particularly when they cannot obtain paid employment. In rural areas, self-employed women were over 50% of total employed women in 2012, and 40% in urban areas (International Training Centre of the ILO, 2015). This type of necessity appears to increase for women, for minorities, for rural workers, for those with few assets or little capital to use in building a business, and for those with low levels of educational opportunity or attainment. These factors are identified in numerous studies of women business owners in Viet Nam. Changes in land registration rules extending title to women have helped somewhat, but vehicles, buildings, savings, and bank accounts form the largest majority of business assets used by women in Viet Nam. In contrast, the two most important assets used by male entrepreneurs are bank accounts and registered interests in land (Hampel-Milagrosa et al, 2010).

In short, embedded economic gender inequalities in Viet Nam marginalize women's businesses. Thus women are underrepresented in Viet Nam corporations and are more often found in unincorporated small businesses. 'Necessity' for self-employment or small-scale business enterprises is driven by high levels of unpaid domestic work responsibilities, barriers to formality including costs of incorporation and even registration, under-capitalization, lack of collateral, risk aversion, gender stereotypes, constraints on transportation, discrimination against women-owned businesses, and weaker business networks (Avin, 2014).

CIT rate cuts increase gender aftertax income inequalities

Because women business owners predominate in the unincorporated sector and men predominate in the incorporated sector, the differences in the PIT tax rates that apply to women-led businesses and the CIT tax rates that apply to male-predominant corporations produce different levels of tax liabilities, aftertax incomes, and accumulated capital for women and men.

Corporations are taxed as separate taxpayers to enable them to keep their investments and profits separate from the interests of their shareholders. Over the last century, the global trend has been for owners of corporations and capital to seek lower rates of taxation on these assets than is typically borne by employment and unincorporated business incomes. The basic argument of ‘taxing for growth’ is that because corporations contribute to economic activity, taxing them lightly will increase GDP growth. Since the 1950s, these views have become increasingly influential (Steinmo, 1996). In 1993, the average of all corporate income tax rates worldwide was 38%. By 2016, this average has now fallen to 22.5% (Pomerleau and Potosky, 2016).

These changes in CIT rates are not uniform. The average of all CIT rates in Africa remains higher than in all other regions. In the period 2003 to 2016, however, the largest absolute fall in average top CIT rates has been in Asia, with the regional average falling nearly 11 percentage points, from 31% to 20.1% in 2016 (Pomerleau and Potosky, 2016). Over the entire period of 1998 to 2016, however, the Viet Nam top marginal CIT rate fell from 35% in 1998 to 20% in 2016 – a total reduction of 15 percentage points. During this same period of time, the highest PIT rate started out at 40%, but as of 2016 had only fallen to 35% as regulated in PIT Law 2007.

This large difference between the top PIT marginal tax rate of 35% and the top CIT marginal tax rate of 20% means that a business owner who can choose between earning business income personally, as a self-employed entrepreneur or professional, partner in an unincorporated business, or owner of an unincorporated registered company, will choose to form a corporation and pay the CIT at a maximum rate of 20%. No matter how high taxable corporate profits in a year might be, net profits can be taxed at a maximum 20% rate. And, with special exemptions and investment tax breaks, that rate can go lower. In contrast, the unincorporated business at the highest levels of profit will bear the top marginal PIT rate of 35%.

Numerous small details of the tax and transfer system also affect the calculation of net aftertax personal and corporate incomes. But from a structural perspective, the most important gendered tax differential that has been created in Viet Nam is that while women in Viet Nam continue to face gender barriers to forming incorporated businesses, they remain in the more heavily taxed PIT business tax zone than men, and thus face PIT rates as high as 35%. In contrast, men own more incorporated businesses, which are presently taxed at a maximum rate of 20%, and for which rate reductions of as much as 10% are available.

Every time the CIT rates are cut, the gender differences between the aftertax profits earned by women-led vs men-led businesses increase as men's net wealth in the form of corporate shares and accumulate corporate assets and profits grow larger (Lahey, 2015). As aftertax profits contained in corporations grow due to CIT rate cuts, aftertax income gaps between owners of incorporated vs unincorporated businesses also grow.

Gender impact of special tax benefits for corporations and shareholders

After tax income gaps between owners of incorporated and unincorporated businesses grow through many different channels. Tax exemption of employee benefits, opportunities for family income splitting of salaries or professional fees obtained through incorporated family businesses, tax exemptions from salaries for employee contributions to mandatory social, health, unemployment insurance, and special tax treatment of private pension plans all contribute to the income security and standard of living of corporate owner-managers.

Beyond these types of provisions, however, special tax rates and concessions further reduce the CIT payable on incorporated businesses. For example, when the standard CIT rate was reduced from 25% to 20%, companies previously paying a special 20% CIT rate automatically received a reduction to 17% for the remaining period of their special CIT rate (Viet Nam National Assembly, 2013a). The Viet Nam CIT rate structure has continued to offer new incentive rate reductions for a wide range of activities. All of these rate cuts further increase the structural gender gap that exists between unincorporated and incorporated businesses. And because of more women own and work in unincorporated businesses while men predominate in incorporated businesses, the growing gap between PIT and CIT rates increases aftertax incomes earned through corporations than through unincorporated businesses – thus accelerating aftertax income gender gaps invisibly but powerfully.

Two types of special CIT rates are now provided. The first type applies generally to regulated encouraged sectors. The second applies to businesses that satisfy special gender equality conditions.

With respect to special tax rates for **regulated encouraged sectors**, eliminating tax exemptions in the corporate and personal income tax may encourage gender equality in terms of the tax burden because men tend to benefit disproportionately from such exemptions. This is mainly due to the fact that they are more likely to run a business and/or be a shareholder whose corporation will benefit from these rate reductions. Raising the contribution of the CIT to overall tax revenues not only makes tax systems in developing countries fairer, but also indirectly reduces the relative tax burden on poor women (GIZ, 2011).

In general, the special tax rate reductions offered to regulated encouraged sectors are granted to new investment projects based on the sector involved, the encouraged location, and the size of the project (Viet Nam National Assembly, 2013a). The sectors that are encouraged by the Government include education, health care, sport and culture, high technology, environmental protection, scientific research, infrastructure projects, and similar activities. Qualifying businesses can get preferential rates of 10% for fifteen years or 20% for ten years, but a new preferential 15% rate was also made available in 2015. Only socialized sectors such as health and education receive the 10% rate for the entire period of the business operation.

Businesses can also qualify for special rate reductions by investing in encouraged locations. These include qualifying economic and high-technology zones, difficult socioeconomic zones, and special export zones. Also qualifying for special CIT rates are large manufacturing projects that invest at least VND 6,000 billion within three years, achieve revenues of at least VND10,000 billion per year by their fourth year of operation, or employ at least 3,000 by that year (Viet Nam National Assembly, 2013a). This manufacturing qualification is also from 2015 available for even larger investments that will take five years to become operational, and projects that promote the high technology sector or support mass export manufacturing facilities not in operation as of 2015.

The expansion of these types of special rates risks ‘hollowing out’ the CIT by cutting tax rates on the newest sectors of the national economy. Other low medium income countries that have used this strategy have found that the existence of large numbers of special agreements with corporations makes general tax reform efforts difficult to coordinate or even to plan, because so much of the economy is subject to special rules that may not be recorded accurately, easy to amend, or capable of estimation (PWC, 2016).

From the perspective of gender impact, however, the additional problem is that as the largest corporations enjoy the lowest CIT rates, even the promotion of increased numbers of women on corporate boards will do little to equalize the economic status of women involved in businesses with that of male predominant businesses.

With respect to **business tax reductions for gender equality and ethnic minority initiatives**, both the form of the tax benefits involved and the conditions to be met are much more complex than the special tax rate reduction formulas above. These tax incentives are available to companies that carry out manufacturing, construction, or transportation activities and that employ many female staff, or that employ ethnic minority workers.

Even the definition of 'employing many female staff' is confusing: This condition is satisfied if the employer has between 10 and 100 women workers who form at least 50% of all employees, between 100 and 1,000 women workers who form at least 30% of total employees, or 1,000 or more women workers as identified in the Decree 85 (Government of Viet Nam, 2015). Given employee turnover rates, such precise formulas create the risk of becoming disqualified for these tax incentives unless considerable additional women are employed and under conditions of some job permanence. Also, there is an ambiguity in the text of the Decree itself: It does not indicate whether women on gender-related leaves remain in these quotas. If women who left are temporarily removed from the quotas, then the success of the policy increases the risk of losing these tax benefits as the result of participating in the program.

The tax implications of the policy are also confusing. The Decree article 11.2 states that any employer employing many female employees is entitled to a reduction in the CIT in accordance with the law on CIT, but no specific cross reference is made, leaving it unclear just what reductions may be permitted, nor for what time. There is a second tax benefit as well, which is that any additional expenses paid to women employees can be deducted when calculating taxable corporate income (article 11.2). This is understood as including the following types of expenses: Retraining costs for women being reassigned to other jobs, including tuition fees and full salary; the costs of establishing and operating on-site childcare facilities; maternity leave allowances (up to two children); and overtime allowances for women not taking maternity leave.

Employer eligibility for both sets of tax benefits are contingent on accepting the additional Labour Code provisions set out in the decree, childcare resources include accommodation for extraction and storing breast milk, supporting unionization of women workers, complying with gender equality in work rules, providing health and maternity accommodation, and assisting in the creation of or costs of childcare resources.

In a 2015 Consultation workshop on development or preferential policies for women–owned enterprises and enterprises using many female employees in Ho Chi Minh City, a number of concerns with these measures were identified, the most obvious being that CIT rate reductions and gender-related business tax deductions might not be very effective in this context. As shared by women entrepreneurs at the consultation, investing in the payment of additional business expenses up front in order to become eligible for CIT rate reductions is not a very strong incentive, because these expenses have been encouraged, but are not compulsory. This is particularly so because from the business point of view, the benefit of this policy is quite small when compared with the costs of qualifying for it, and it is time-consuming to go through all the accounting and management steps involved in getting a CIT deduction for out of pocket expenses. In order to enjoy the preferential enterprise income tax, corporations are required to file complex tax forms and going through time-consuming procedures. The effectiveness of this tax initiative is unclear, especially because many businesses find it a burden to employ many female workers, and may even prefer to 'dodge' hiring female workers from the outset through tacit agreement (Hawee, 2019).

The second criticism of this combination of optional gender equality actions and future tax benefits made during the consultation was that the special provisions for 'enterprises using many female employees' exclude micro-enterprises with less than 10 women employees – the very types of businesses that are most likely to be owned primarily by women. These kinds of micro-enterprises do not get any benefit from this policy even if all their workers are female. Third, CIT rate reductions can only benefit corporations that have net operating profits. In general, as shared by the entrepreneurs, they are not interested in incurring additional expenses in order to get tax reductions when they cannot be sure they will make large enough profits to have any CIT liability in future years, or may even be concerned at the value of these investments if they lose money in some tax years.

According to Decree No 85/2015, enterprises are encouraged to construct kindergarten facilities or provide support or partial support for costs of childcare (in cash or in kind). However, most of the businesses consulted reported that they are administratively unable to organize daycare or kindergarten facilities because they have no resources for such activities in terms of having suitable land, sufficient funding, or trained human resources for such projects.

The final concern that arises from this policy is that all the tax benefits flow to the corporations that are already under a legal duty to hire, train, retain, promote, and pay women on a gender-equal basis anyway. But there is nothing in the above Decree that directs how these tax benefits are to be used, and whether women have to benefit from corporations' increased aftertax profits resulting from these provisions at all. In any event, it is obvious that in terms of ownership structures of corporations in Viet Nam, shared benefits related to aftertax corporate incomes will be allocated unequally between women and men because of unequal proportions of women as owners and CEOs. In Vietnam, women account for only 7% of all CEOs and 24.8 % of businesses managed by women. The women-owned enterprises are inversely proportional to the scale of enterprises: 26.8 %, 21.4%, 19.8 %, and 13.6 % respectively of micro, small, medium and large-sized enterprises (Dan Tri Newspaper, 31/3/2014).

3. The Value-added Tax (VAT) and Gender in Viet Nam

As most countries have significantly reduced CIT and trade tax rates, they have had to find other sources of revenues. Since value-added taxes came into widespread use in Europe in the 1980s, even low income, small, and developing countries have increasingly adopted the VAT to make up for revenue shortfalls. In many countries, the liberalization of the economy has also brought a decline in social expenditures during the same period of time, due at least in part to lower CIT and trade tax rates. This combination of fiscal changes – increased taxation of consumption and reduced public spending on essential services – has affected women's and children's lives more than men's lives, because men on average have higher incomes than women. Thus as men's aftertax incomes have increased due to CIT and trade tax cuts, women's aftertax incomes have fallen due to increased payments for the VAT on everyday consumption.

The Viet Nam VAT system applies three different tax rates: 0%, 5%, and 10% (Law on VAT, 2013). There are 25 categories of goods and services exempt from VAT (Law on VAT, 2013). Many of these have social objectives and are likely to benefit those with low incomes, such as health insurance and medical services, agricultural inputs, and goods or services sold by individuals with annual revenue of VND 100 million or less (Law on VAT, 2013). The 5% VAT list includes basic goods and services such as drinking water, food, medicines and agricultural inputs (Law on VAT, 2013).

The gender impact of the VAT is found in the substantive nature of consumption taxes as compared with income-based taxes. This impact is examined in three contexts: the effect of the VAT on the costs of consumption necessities for those living at low income and poverty levels; the influence the VAT has on the capacity for financial savings and capital accumulation at high-income levels; and structural consequences of the VAT on small, agricultural, household, and women-led businesses.

Gender and ability to pay the VAT at low-income levels

The PIT and CIT have one important feature in common: Both the PIT and CIT are paid in cash. The design of income-based taxes limits tax liability to those persons or corporations with incomes or funds that 'come in.' No income means no tax. And those with low incomes are protected from income taxation by personal exemptions and the right to deduct all expenses incurred in producing business profits.

In contrast, the VAT is a tax not on income that 'comes in,' but is a tax on funds that 'go out.' This is because it is a tax on consumption. And it is a tax on consumption paid only by private individuals, not by businesses. In a theoretically perfect VAT system, businesses get reimbursed by customers or by the government for all the VAT they pay as they acquire goods and services used to run their business operations. But at the same time, VAT systems do not provide structural exemptions that guarantee the ability to pay the VAT on consumption items in the same way that PIT systems do. PIT systems usually provide a minimum tax exempt amount such as the personal allowance in Viet Nam to protect some minimum basic income for necessities from taxation. But very few VAT systems provide personal exemptions in the same way. Instead, they tend to provide lists of reduced VAT rate, exempt, or zero-rated items. Some of these items are VAT exempt or VAT reduced out of concern for those with no ability to pay the VAT and obtain some necessities. But many other VAT exemptions or reductions are designed as incentives to certain economic sectors, such as tourism or certain industries, or to attract investment. And very few countries exempt all essential consumption needs from VAT charges specifically because of concerns for ability to pay for necessities plus the VAT. Thus the VAT imposes taxes on those with low or no incomes in ways that neither the PIT nor CIT does.

The differences between the gender and poverty effects of the VAT as compared with the PIT and CIT are particularly important in Viet Nam. At the present time, Viet Nam has one of the highest tax ratios in the region, collecting revenues equal to 25% of annual GDP (IMF, 2016). This is a policy success. But, unlike most countries in the region, Viet Nam raises the largest portion of its revenues from the VAT – 29% of all revenues. When excise taxes are added to the VAT revenue share, the total rises to 36% of revenues; when trade taxes are included, to 50%. The next largest share of revenue comes from the CIT (26%), while only 4% was raised from the only progressive tax in the country, the PIT, in that same year (IMF, 2016).

Overall, the Viet Nam revenue structure means that the allocation of the total tax load is likely to be regressive in incidence. This is because unlike PIT rates, VAT rates are not graduated in accordance with income levels; VAT rates are the same for rich and poor alike. Thus the VAT takes larger shares of incomes from those with low incomes than from those with higher incomes.

Because only 4% of all revenues are raised with progressive PIT rates while 29% of revenues are raised with regressive VAT rates in the year in question (2010), the overall tax mix is flattened. The progressivity of the PIT and of some excises cannot numerically outweigh the regressive impact of such huge amounts of revenue collected through the VAT. Thus at low and no income levels, the cost of the VAT on a market basket of minimum essential needs is likely to take a larger share of incomes for payment of the tax from those with low or no incomes than it will from those with higher incomes (Min, 2004). And, until the enactment of the VAT, those at no or low income levels did not and still do not pay PIT or CIT on such low incomes.

Because the VAT is a tax on consumption, and because women and those with low or no incomes have less ability to pay for their basic consumption needs, the total tax load from the Viet Nam VAT sits most heavily on women, those living below the poverty level, and, geographically, those living in rural areas (Rodgers, 2012). And, the incomes of these groups are not improving. In fact, gender income inequalities appear to be increasing. In 2004, the earnings gender gap was only 12%. As of 2012, it was nearly 20%. The biggest identifiable factors driving the increase in the earnings gender gap are increasing time pressures and occupational segregation by gender. However, the unexplainable 'residual' drivers of the earnings gap are also increasing, and are presumed to represent general attitudes toward gender equality (Rodgers, 2012).

The overall poverty level in Viet Nam is falling. However, the vulnerabilities of poverty are still substantial, particularly where women are concerned. At least 14% of women of reproductive age are anemic, 19% of children under age five are diagnosed as stunted, and 5.7% as wasting (International Food Policy Research Institute, 2016). All of these conditions are the most severe indicators of malnutrition. Even among agricultural regions, income poverty is extremely high. This means that the full range of nutritional needs cannot be met even if daily calorie intakes do meet minimum international standards. Because women are more vulnerable to these effects of poverty than men, so are significant numbers of children.

Viet Nam does of course provide a reduced VAT rate of 5% for some essentials (clean water, medicine, residential leases and titles, and agricultural products). This lower rate does reduce the costs of essential services for women and thus helps their smaller incomes go further. However, even the 5% VAT is still regressive at the lowest income levels. Women and girls are most often the primary users and managers of water in their households, and are also most often responsible for household hygiene, food preparation, and care work. All these roles have made them more vulnerable to any increased price of basic goods and services.

Exemptions from the 5% VAT for basic commodities such as food and clean water would bring more benefits to women. And women would benefit more than men from zero rating and tax exemptions on food items, because women are likely to spend more of their incomes on food than their male counterparts. However, taking all the existing reduced VAT rates and exemptions together, it is clear that the basic market basket of minimum necessities is not rendered free of the VAT by these ad hoc adjustments.

Complete exemptions from the VAT are more effective than reduced rates or ad hoc exemptions in terms of poverty relief. Fortunately, the 10% standard rate provides exemptions for raw agriculture products, livestock, medical services, education, public transport, and sewer services. However, most of the other exemptions from the 10% rate do not appear to be particularly concerned with those living on low incomes. For example, this list of exemptions includes costly items such as technology and software, capital, land ownership, transportation equipment, and armaments. Thus it is likely that these exemptions produce more VAT reductions for male consumption expenditures and businesses than they do for women, simply because women are less likely to be able to afford to obtain such items. However, it would require a detailed analysis of appropriate expenditures data by gender and incomes to determine exactly what these gender effects are.

To the extent that the VAT does burden women’s essential consumption needs more than men’s, best practices call for increases in social protection payments to cover the costs of the VAT on nonexempt necessities. In Viet Nam, however, it appears that social assistance payments still do not target the poorest, and that most of the working poor are still excluded from such income support programs (OECD, 2014). At the same time, social insurance programs both compulsory and voluntary are aimed mainly at those in paid work, and are not taken up as often by those working in the voluntary, informal, or unregistered sectors. Women required to retire at the gender-specific age of 55 are particularly affected by low incomes, lower rates of contribution to income security programs or pensions, and lower earnings than men of the same ages (OECD, 2014) and are even more vulnerable to the costs of the VAT.

High levels of VAT revenue are sometimes justified on the basis that their large revenues increase Government budgets so that they can spend more fully on public services and social protection. However, it is not clear that the regressive impact of this type of tax has yet been offset with universal and effective social protection programs or public services. Nor does it appear that such programs as have been ameliorated in such ways take the conditions and costs of longstanding economic gender inequalities into consideration.

The VAT, capital accumulation, and gender

Because the VAT is a flat tax on consumption, those who do not have to spend their entire incomes on meeting their basic living needs and investing in education and training for themselves and family members can benefit tremendously from the prevalence of VAT taxation. In a country such as Viet Nam in which the PIT exempts large amounts of incomes and in which the CIT is at a much lower rate than the PIT, incomes not needed for basic living expenses can be invested in increasing human capital through better health, increased knowledge, and thus higher earnings or profits. In addition, excess incomes can also be saved free of the VAT to accelerate the accumulation of capital.

Because women’s incomes are on average lower than men’s in Viet Nam, and because gender earnings gaps are growing, the shift to high levels of VAT revenue, low CIT rates, and continued high exemptions from the PIT enable men to benefit from these human capital, financial capital, and other savings benefits to a greater extent than women can. Incrementally this capital accumulation gap will increase economic gender inequalities over time, because even women who can save some of their aftertax and afterconsumption funds will not be able to save at the same rate as men.

These are additional factors to consider when examining the gender effects of the tax system.

The VAT and women-owned businesses

The structural effects of the VAT on the business sector have gendered consequences. The Viet Nam VAT applies automatically to all registered business, whether incorporated or unincorporated. Small businesses are not exempt from collecting the VAT, although the VAT paid to such enterprises can be treated as a deductible expense under the CIT (Viet Nam National Assembly, 2013b). The gender issues posed by the VAT arise from the costs of business registration, the risks of noncompliance with registration and VAT filing requirements, and the nature of women's smaller businesses as compared with men's.

Overall, women-led businesses in Viet Nam are smaller, less well capitalized, employ fewer paid workers, are more localized, and have lower profits than male-led businesses (Akram-Lodhi and Staveren, 2003). At the same time, they have less access to unpaid work performed by family members, because the role of unpaid household business worker is more often assigned by gender to women than to men in such circumstances. Thus women's profits will be lower due to higher employee costs, and will be less likely to collect as much VAT on their business value-added against which to offset input VAT costs (Akram-Lodhi and Staveren, 2003).

Similar problems arise when women-led businesses acquire capital. Lacking equal access to commercial loans at documented rates or low-cost family loans, women more often than men resort to informal credit at higher rates. Thus they incur greater capital costs due to such financing differences. At the same time, with input VAT credits limited to the reasonable costs of capital, and with reasonableness tested against commercial lending rates that are documentable, women will receive lower input VAT credits for business capital. On average, this will reduce women's overall business profits as compared with men's.

With lower gross receipts and capital, less personal time, and fewer staff associated with women-led businesses, and smaller VAT-driven margins, the costs to women entrepreneurs of enterprise registration and VAT collection are relatively high when compared with more profitable male-led businesses. Thus even the inclusion of encouraged sectors in the VAT laws, such as VAT exemptions for agricultural items, may not be enough to equalize the gender effects of the VAT on small businesses. Because more women entrepreneurs are found in micro, small, and medium enterprises than in large enterprises, these disparate effects will sit more heavily on women.

At the same time, the increased emphasis on shifting revenue collection from progressive PIT and CIT systems to the VAT means that women business owners and particularly those who are self-employed will be burdened by taxes that they would not face if they were only taxed under more comprehensive PIT laws.■

Endnote

(1) So are any ‘shadow’ activities that do not report their profits to tax authorities; these are sometimes called ‘informal’ businesses, but in this report, they are called shadow or unreported businesses and the term ‘informal’ is used to refer to registered unincorporated business.

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