A Comparative Study on Individual Income Tax Burden of Vietnam and China

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Abstract

The individual income tax is one of the most important taxes in Vietnam and China, but determining its optimal burden is a difference in both two countries. The purpose of this paper is to analyze and compare the individual income tax burden between China and Vietnam. The findings show that Vietnam's burdens were higher than China during the period of 2002 - 2011. To come up with these findings, the authors use a combination of the descriptive and empirical method. The descriptive statistics method point out that the growth of Vietnams' GDP per capita and individual income tax revenue per capita was respectively 17.32% per year and 36.26% per year. These two indicators of China were 17.61% and 19.93%, respectively. The empirical method shows that Vietnam's GDP per capita increased 1 unit, the individual income tax revenue per capita would raise from 0.0126787 units to 0.0312373 units. In China, they were respectively from 0.0093344 units to 0.0180096 units.

Keywords: Tax burden, Individual income tax, Individual income tax burden

1. Introduction and background

In economics, the Laffer curve shows a relationship between tax rates and government's tax revenue. From 0% tax rate with government's zero revenue to an optimal tax rate with government's maximum revenue, but exceeds an optimal tax rate to 100% tax rate, government's tax revenue will decrease to zero. However, the actual existence and shape of the curve is uncertain and disputed (Tucker, 2010). The objective practice shows that the application of taxes occurs in two trends: firstly, if the tax burdens are reasonable, it will be likely to stimulate economic growth and increase the state budget revenues; secondly, if the tax burdens are excessive and exceed the tolerance of the economy, it will constrain economic growth (Liu at al, 2012) and a decrease of government's tax revenue. A paper found that for every 1% increase in tax rates above the peak, as a percent of GDP, will cause a 3% decrease in GDP (Romer at al, 2010). Due to actual development conditions between countries are different, so determining the optimal tax burden is also different. Vietnam and China are also selecting and applying a system of taxes, in which the individual income tax is one of the most important duties that the two countries do not miss the opportunity to apply. But the application of this tax between two countries is not the same from the number of the reforms to the tax burdens.

For the number of reforms, in Vietnam, which associated with the first step of tax reform is the formation of the income tax ordinance on high income earners was issued on 12/27/1990 (The State Council of Vietnam, 1991). In the second step of tax reform (1996 – 2000), this ordinance was amended and supplemented two times. The first time was in early 1997 (The Standing Committee of Vietnam National Assembly, 1997). The second time was in mid 1999 (The Standing Committee of Vietnam National Assembly, 1999). In the period of the administrative reform of taxation (2001 – 2005), some articles continued to be amended and supplemented with the changes from the tax rates to the rise of the starting point of taxable income, specially widened taxable income gap (The Standing Committee of Vietnam National Assembly, 2004). From 2006 to present, the individual income tax ordinance on high income earners was replaced by the individual income tax law, passed on 11/21/2007 and came into effect on 1/1/2009 (Vietnam National Assembly, 2007). But due to the socio-economic development conditions were changed, so this tax law continued to be amended and supplemented in 2012 (Vietnam National Assembly, 2012), and came into effect on 01/01/2014. In China, the individual income tax law was passed by the 3rd Conference of the National Assembly Deputies course 5 dated on 09/10/1980. And then it was reformed six times, namely: the first reform was

passed on 10/31/1993; the second reform was passed on 08/30/1999; the third reform was passed on 10/27/2005; the fourth time was passed on 06/29/2007; the fifth time was passed on 07/29/2007; the sixth time was passed on 06/30/2011 (Nguyen at al, 2012).

For its burden levels, the research results show that an annual average burden of Vietnam was nearly 0.57% and lower than China during the period of 2002 – 2008. But when the ordinance was replaced by law, so far revenue from this tax is increasing more and more, so lead to Vietnam's burdens were higher than China from 2010 to 2011 (Liu at al, 2012). Vietnam and China are not desirable that the excessive burden of taxation is placed on the shoulders of the people, although the objective of increasing the state budget from taxation is always pursued by these two countries. But what is the excessive burden of taxation? The excessive burden of taxation is the efficiency cost, or deadweight loss, associated with taxation (James R. Hines Jr., 2007). Tax-induced reductions in economic efficiency are known as deadweight losses or the excess burdens of taxation, the latter signifying the added cost to taxpayers and society of raising revenue through taxes that distort economic decisions (Auerbach et al 2001). A report estimated the economic cost of higher tax rates, what economists often refer to as the "excess burden" or "deadweight loss" of taxes (Carroll, 2009). There are two questions that the individual income tax burden of Vietnam and China during the period 2002 - 2011 was excessive or not? Which country was the individual income tax burden higher than?

The purpose of this study will deeply analyze the individual income tax burden of Vietnam and China, which is the main reason affecting on saving, consumption and investment. From here, we can compare the burden of the individual income tax between two countries.

2. The individual income tax burden: An overview

2.1. Revenue structure and equitable distribution

Regarding the revenue structure, in case of China, the change of revenue structure is becoming clearer. As a percentage of total revenue from the individual income tax, revenue from salary and wages gradually reduces over time and accounts for nearly 45% - 50%. This also means that revenue from other sources is being increased. In case of Vietnam, salary and wages are the main revenue sources of the individual income tax and accounts for a relatively high percentage compared with other revenue sources. For example, based on the statistical data in 2009, revenue from salary and wages was about VND 9,868.9 billion, accounted for 68.93% of total revenue from the individual income tax. Meanwhile other revenues were only about 31.07%, such as transfer of real estate (20.12%), prize winning (5.42%), production and business (4.71%), inheritance and gift (excepted real estate) (0.10%), capital investment (0.03%), capital transfer (0.03%), and others (0.66%). In 2010, revenue from salary and wages increased to VND 18,289.7 billion and accounted for 69.59% of total revenue from this tax, and other revenues by 30.41%. In 2011, the revenue structure of Vietnam's individual income tax still had no any positive change, even a revenue percentage of salary and wages tended to rise and accounted for 74.83%, while other revenues dropped to 25.17%. From this analysis, we can confirm that the revenue structure of Vietnam's individual income tax has not yet ensured equitable distribution of income. What is the cause?

The inequitable income distribution of Vietnam's individual income tax includes four causes. Firstly, revenue from salary and wages is relatively easy. Inspection can be made by the tax authorities through the labor users. Meanwhile, revenue from small business households, individuals and others is relatively difficult in Vietnam's actual conditions. Secondly, in Vietnam, trading of goods or services is primarily done by cash, so it is not easy to control individual incomes from the above activities. Thirdly, the professionalism of tax collection and management is not ensured as practical requirements. Fourthly, the appearance of collusive behaviors between tax officers and taxpayers, causing loss of revenue from the individual income tax. From this analysis, we can give two conclusions: firstly, Vietnam's individual income tax burden was mainly endured by individuals having earnings from salary and wages; secondly, equitable distribution of income was not guaranteed.

2.2. Tax burden rate

In this paper, the authors will mainly analyze the impact of GDP per capita on the personal income tax revenue in Vietnam and China. Because even if other factors are perfected as articles of the tax law, organizational structure of tax collection and management, no collusion between tax officers and taxpayers, etc., but GDP is not reached a high growth rate, income of citizens is also difficult to cover for both the full living expenses and tax payment (Nguyen, Zhou & Liu, 2013).

During the period of 2002 - 2008, Vietnam had still applied the ordinance on individual income tax, the revenue growth rate was about 34.3% per year. If analyzing the growth of the latter year compared with the previous year,

specific data for each year of this period is 20.21% in 2001, 17.03% in 2003, 22.56% in 2004, 20.54% in 2005, 17.12% in 2006, 43.17% in 2007, 74.51% in 2008. In 2009, Vietnam started to apply the law on individual income tax. Taxable objects have been extended more and organizational structure of tax collection also has been consolidated more than the previous ordinance. So the growth of revenue was nearly 45.21% per year during the period of 2009 - 2011, higher than the period of 2002 - 2008. In China, due to the individual income tax law was applied for a long time, so that its revenue stability was higher than Vietnam. The growth rates of revenue were from 16.87% to 25.16%. Only one year, this rate was relatively low and about 6.09% in 2009. These figures partly can answer us which country has a higher burden of the individual income tax. However, to have the most accurate answer in comparing the burden of the individual income tax between two countries, the authors will continue to analyze the following contents.

In Vietnam, during the period of 2002 – 2008, revenue from the individual income tax ordinance was VND 38,578 billion, an annual average by VND 5,511 billion, and accounted for a very low percentage of total tax revenue (2.86%). During the period of 2009 – 2011, due to the ordinance was replaced by the law, so its revenue was increased rapidly, an annual average by VND 25,922.33 billion, and accounted for 5.21% of total tax revenue. In particular, in 2011, revenue from this tax reached VND 37,161 billion, which is nearly equal to the period of 2002 - 2008. As the whole period of 2002 - 2011, the annual average growth was approximately 36.16%, accounted for 3.57% of total tax revenue. In China, due to the law on individual income tax was applied since 1980, earlier than Vietnam and it was reformed 6 times, so it can be more perfect. The organizational structure is gradually professional. The ability to check and supervise the activities of tax collection more strict. Hence, the role and position of the individual income tax law in China's tax system is becoming clearer. It is one of 5 primary taxes of about 17 taxes (Nguyen, Liu & Tran, 2012). As a percentage of total tax revenue, its revenue was over 6.5% per year in the period 2002 - 2011 (Liu, 2011). These analytical results show that a percentage of this tax in China's total tax revenue was higher than Vietnam. But it cannot affirm which country has a higher burden of the individual income tax. To get a more precise answer, we further analyze the factors that their demonstration level is relatively strong.

The fluctuation of GDP per capita and CPI is closely related to the deductible level of the individual income tax. Supposedly, the deductible level was suitable to the socioeconomic situation of both two countries in 2009. But due to there were the changes of the socioeconomic fields in 2010 and 2011, so the suitability of the deductible level would be changed. Which country is more suitable? The most recent reform time in both countries is in 2007. Vietnam did not change the deductible level until the end of 2013. China amended and supplemented some articles of the individual income tax law since 06/30/2011, included an increase of the deductible level for taxable objects. Moreover, China's CPI was increased lower than Vietnam from 2009 to 2011. For example, in 2010, the growth of Vietnam's GDP per capita was 1.98 times higher than CPI, meanwhile China's ratio was about 5.48 times. In 2011, the ratio of Vietnam and China was about 1.43 times and 3.32 times, respectively. If only consider the impact of CPI, the compatibility of the deductible level for taxable objects in Vietnam was lower than in China. Because Vietnam's CPI increased by a total of 16.07% in 2009 - 2010, 34.65% in 2009 - 2011, meanwhile these Chinese figures were 2.6% and 8%. This also means that the backward speed of Vietnam's individual income tax law is faster than China. From this analysis, we can give some causes as: firstly, Vietnam could not estimate exactly about the changes of macroeconomic indicators; secondly, the calculation of Vietnam's deductible level was able to not based on the scientific and practical base; thirdly, in Vietnam, the intervention of the State on the economy is relatively deep and wide, the budget demand is relatively large, the State can be for the purpose of increasing the state budget revenue, so an excessive tax burden was placed on citizens' shoulders. Through analyzing this content, we first can confirm that the burden of Vietnam's individual income tax was higher than China during the period of 2009 - 2011.

Analyzing the individual income tax burden through the relationship between two indicators are the growth of GDP per capita and the individual income tax revenue per capita. In Vietnam, during the period 2002 - 2011, the growth of GDP per capita was approximately 17.32% per year, while the growth of the individual income tax revenue per capita was quite high and reached 36.26% per year, 2.1 times higher than the growth of GDP per capita. In China, the two above indicators were respectively 17.61 and 19.93%, the growth of the individual income tax revenue per capita was just 1.13% greater than the growth of GDP per capita. Through these figures can confirm that the burden of Vietnam's individual income tax was higher than China during the period of 2002 - 2011.

3. An empirical analysis

3.1 Data

To enhance the persuasiveness, we will use the empirical method to compare the burden of the individual income tax between Vietnam and China and demonstrate the conclusions in the above analysis overview. The time period is used

by the authors is 10 years (from 2002 to 2011). Individual income tax revenue per capita and GDP per capita of Vietnam and China are in this period (see Table 1). The data sources of Vietnam are from the Ministry of Finance and the General Statistics Office. The data sources of China are from the General Department of Taxation and the General Statistics Office.

Table 1. GDP per capita and individual income tax revenue per capita during the period of 2002 - 2011

	GDP per capita		Individual income tax revenue per capita	
Year	Vietnam (VND)	China (CNY)	Vietnam (VND)	China (CNY)
2002	6,736,428	7,972	29,395	94
2003	7,623,497	9,030	36,673	110
2004	8,780,730	10,502	43,236	134
2005	10,185,576	13,944	51,388	160
2006	11,688,596	16,456	62,165	187
2007	13,583,880	20,117	88,045	241
2008	17,372,152	23,648	152,023	280
2009	19,277,989	25,125	166,440	296
2010	22,788,064	29,676	300,412	361
2011	28,859,381	34,999	423,053	449

Source: The author's calculations based on data of the General Statistics Office and Ministry of Finance, Vietnam; the General Statistics Office and General Department of Taxation, China

3.2 Method

An empirical analysis with this model will undergo two steps. Step 1, the application of the OLS method to perform an analysis of the simple linear regression between the personal income tax revenue per capita and GDP per capita. The regression results show that the effect of GDP per capita on the personal income tax revenue per capita was so strong in the period of 2002 – 2011. But this step appears a coincidence. Based on the results of Durbin-Watson test, the regression model of Vietnam and China is not appropriate. This means that the regression model of both two countries has an autocorrelation phenomena grade 1. Step 2, the authors will add an independent variable is the time trend variable. The regression model has two independent variables. The regression results of this step are statistically significant. Based on the results of R^2 and F-statistic, the regression model is appropriate for both the case of Vietnam and China. The value of Durbin-Watson test shows that it is not the autocorrelation phenomena grade 1. Due to *p_value* so small and t-Statistic so large, this means that the effect of independent variables on the dependent variable is really clear.

3.3 Model

In the method, the authors have introduced two steps to identify a most appropriate model. Corresponds to these two steps are the following two models:

The regression model 1: $Y_t = \hat{\beta}_0 + \hat{\beta}_1 X_t + \mu_t$ (1)

The regression model 2: $Y_t = \hat{\beta}_0 + \hat{\beta}_1 X_t + \hat{\beta}_2 T_t + \mu_t$ (2)

In which:

$t = 1 \rightarrow 10$ (from 2002 to 2011)

Y = Individual income tax revenue per capita

β_0 = Y intercept

β_1 = Slope of GDP per capita

β_2 = Slope of time trend

X = GDP per capita

T = Time trend (Year)

Unit: VND (Vietnam), CNY (China)

3.4 Results

3.4.1 In case of Vietnam

After performing the operations, the regression results are in Table 2 and Table 3 below:

Table 2. The regression results of the model (1) in Vietnam

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-123450.3	24369.76	-5.065715	0.0010
X	0.017613	0.001502	11.72350	0.0000
R-squared = 0.944995		Durbin-Watson stat = 0.779940		
Adjusted R-squared = 0.938119		F-statistic = 137.4405		

Table 3. The regression results of the model (2) in Vietnam

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-137298.9	13590.93	-10.10225	0.0000
X	0.031007	0.003095	10.01726	0.0000
T	-33253.62	7413.364	-4.485632	0.0028
R-squared = 0.985803		Durbin-Watson stat = 2.354317		
Adjusted R-squared = 0.981747		F-statistic = 243.0298		

The regression equation of the form:

$$Y = -137298.9 + 0.031007\ X - 33253.62\ T \quad (3)$$

According to the regression results in Table 3, the value *d* of Durbin-Watson test by 2.354317, while the sample size n = 10, number of independent variables in the model k' = 2, deciliter $d_L = 0.697$ and $d_u = 1.641$. Due to $d_u < d < 4 - d_u$, the model has not autocorrelation phenomena. The table of the regression results also shows us, $R^2 = 0.985803$, this means that the change of the GDP per capita explained 98.5803% the fluctuation of the individual income tax revenue per capita. The remaining is due to the impact of other factors as the professionalization of the tax collection system, awareness of taxpayers, collusive behavior between tax collectors and taxpayers, and others. The values of R^2 and F-statistic are great, so this model is appropriate.

The negative result of β_0 and β_2 is consistent with economic theories. When GDP per capita is by 0, the government gains nothing. In case of the positive result of β_1, it is also in line with economic theories. The relationship between the GDP per capita and the individual income tax revenue per capita is a positive sign. To identify how many units the personal income tax revenue per capita increases when GDP per capita increases 1unit, the authors will use the confidence interval tested method to demonstrate the suitability or unsuitability of the regression coefficients for β_1. Specifically:

Reliability $\alpha = 5\%$, deciliter $t_{(\alpha/2;\ n-k-1)} = t_{(0.025;7)} = 2.365$.

$$\hat{\beta}_i - t_{(\alpha/2;n-3)} \times S_e(\hat{\beta}_i) \le \beta_i \le \hat{\beta}_i + t_{(\alpha/2;n-3)} \times S_e(\hat{\beta}_i) \quad (4)$$

$$(i = 0 \rightarrow 2)$$

Symmetry confidence interval of β_1:

$$\hat{\beta}_1 - t_{(\alpha/2;n-3)} \times S_e(\hat{\beta}_1) \le \beta_1 \le \hat{\beta}_1 + t_{(\alpha/2;n-3)} \times S_e(\hat{\beta}_1) \quad (5)$$

$$0.023687325 \le \beta_1 \le 0.04034875 \quad (6)$$

When $\beta_0 = -137298.9$, the economy does not work, GDP per capita by 0, the individual income tax revenue by 0. With 95% reliability, considering an average year during the period of 2002 - 2011, in terms of other factors are constant, when GDP per capita increased by 1 unit, the personal income tax revenue per capita of Vietnam would be increased from 0.023687325 units to 0.04034875 units.

3.4.2 In case of China

After performing the operations, the regression results are in Table 4 and Table 5 below:

Table 4. The regression results of the model (1) in China

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	- 10.23441	7.845964	-1.304417	0.2284
X	0.012610	0.000373	33.79360	0.0000
R-squared = 0.993044		Durbin-Watson stat = 1.133967		
Adjusted R-squared = 0.992174		F-statistic = 1142.007		

Table 5. The regression results of the model (2) in China

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-20.22615	8.150745	-2.481509	0.0421
X	0.016925	0.002095	8.077887	0.0001
T	-13.20738	6.340007	-2.083181	0.0757
R-squared = 0.995706		Durbin-Watson stat = 1.683299		
Adjusted R-squared = 0.994479		F-statistic = 811.5420		

The regression equation of the form:

$$Y = -20.22615 + 0.016925\ X - 13.20738\ T \quad (7)$$

According to the regression results in Table 5, the value *d* of Durbin-Watson test by 1.683299, while the sample size n = 10, number of independent variables in the model k' = 2, deciliter $d_L = 0.697$ and $d_u = 1.641$. Due to $d_u < d < 4 - d_u$, the model has not autocorrelation phenomena. The table of the regression results also shows us, $R^2 = 0.995706$, this means that the change of the GDP per capita explained 99.5706% the fluctuation of the personal income tax revenue per capita. The remaining is due to the impact of other factors.

Like the case of Vietnam, the negative result of β_0 and β_2 is consistent with economic theories. In case of the positive result of β_1, it is also in line with economic theories. Similarly, the authors will use the confidence interval tested method to demonstrate the suitability or unsuitability of the regression coefficients for β_1. Specifically:

Reliability $\alpha = 5\%$, deciliter $t_{(\alpha/2;\ n-k-1)} = t_{(0.025;7)} = 2.365$.

Symmetry confidence interval of β_1:

$$0.011970325 \leq \beta_1 \leq 0.021879675 \quad (8)$$

The sign of the parameters is consistent with economic rules. When $\beta_0 = -137320.4$ means that GDP per capita is zero, the individual income tax revenue per capita is also zero. With 95% reliability, considering an annual average during the period of 2002 - 2011, in terms of other factors are constant, when GDP per capita increased by 1 unit, the individual income tax revenue per capita of China would be increased from 0.011970325 units to 0.021879675 units.

3.5 Discussion

This is a new research topic and the research results have an important significance for theory and practice. In practice, in recent years, excessive burden of Vietnam's individual income tax is one of the most important causes affecting the people's savings and investment, at the same time it has a negative impact on economic growth. This is also consistent with the theory of taxation, especially the Laffer curve theory (Liu, H., Nguyen, C.H. and Tran, H.T., 2012). In the future, the authors will expect that this article will be developed by two contents. Firstly, the authors will compare the burden level of the individual income tax between Vietnam and other countries in the area, especially with the countries have the same development conditions. Secondly, the authors will research and collect the data to add the other independent variables in the regression model, from which will compare the impact level between GDP per capita and other independent variables on the personal income tax revenue.

4. Conclusion and Policy Implication

In this paper, the authors have analyzed the impact of GDP per capita on the individual income tax revenue in Vietnam and China. At the same time, the authors have also compared the burden level of the individual income tax between Vietnam and China. The analytical results of the descriptive statistics method and empirical method have a same conclusion that the burden of Vietnam's individual income tax was higher than China during the period of 2002 - 2011. To improve standard of living, savings and investment of the people and stimulate economic growth, Vietnam is necessary to reduce the individual income tax burden by reforming some articles of the tax law. Due to the

individual income tax law of Vietnam has been applied since 2009, while the CPI has relatively risen high and economic crisis in recent years, so the reform contents are an increase of the taxable income level and family circumstances deductions.

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