



Environmental protection tax in Vietnam - problems and solutions

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Abstract

Although the renovation policy of Vietnam has recently achieved certain successes in hunger eradication and poverty alleviation, a reasonable level of GDP growth, it also faces challenges of environmental pollution and wasteful exploitation, resource exhaustion, deforestation ... This has a great impact on the environment. This challenge requires early finding effective solutions to curb environmental pollution in Vietnam. The Law on Environmental Protection Tax was introduced in 2010 and came into effect in 2012. After 7 years of implementation, the tax law also revealed some limitations. This paper proposes a number of solutions to perfect the environmental protection tax policy. The main solutions include expanding taxable subjects, calculating tax rates suitable to the level of environmental pollution and issuing more detailed regulations about taxable subjects and non-taxable subjects.

Key words: Environmental protection tax, tax policy, Vietnam



1. Overview of the environmental protection tax policy in Vietnam

In recent years, the process of accelerating industrialization, modernization and urban development has caused negative impacts on the ecological environment. The amount of industrial waste, domestic wastewater, solid waste in daily life and industry has increased dramatically. Pollution levels are getting worse. It can be seen that the current state of environmental degradation is a great challenge to the country's development. Recognizing this problem, the Government of Vietnam has enacted and implemented strategic measures to both address the task of environmental protection and increase economic growth. Among those measures, the system of laws and regulations on environmental protection tax is considered as one of the most important tools of the State.

Environmental protection tax is an indirect tax. It contributes to the revenue of the state budget. It regulates activities that affect the environment and control environmental pollution. Environmental taxation is a form of restricting a product or activity that is not good for the environment.

The goal of environmental taxes is to generate revenues from the state budget from polluters to offset social costs such as raising funds for pollution remediation or remediation activities. Environmental tax has the effect of regulating production, guiding rational consumption. Development of the Environmental Protection Tax is based on the principles of sustainable development goals and national specific environmental plans. In addition, it is essential to ensure that polluters pay. Tax rates and tariffs must be based on national environmental standards and international practices. The most important legal basis for the application of environmental protection tax in Vietnam is the Law on Environmental Protection Tax passed by the National Assembly on November 15, 2010. The law regulates taxable subjects including 8 groups: Gasoline, oil, grease; coal; Hydrogen-chlorofluorocarbon liquid (HCFC); taxable plastic bags; Herbicide; Pesticides; forest product preservative; warehouse disinfectant. The documents guiding the implementation of the Law include Government decrees and circulars such as Decree No. 67/2011 / ND-CP, Resolution No. 1269/2011 / UBTVQH12, Circular 153/2011 / TT-BTC.

According to Resolution No. 579/2018 / UBTVQH14 on the Environmental Protection Tariff, the environmental protection tariff is adjusted to increase compared to the previous regulations.



Table 1: Tariff table of Environmental Protection Law

No	Goods	Calculation unit	Tax rate
I	Gasoline, oil, grease		
1	Gasoline, except ethanol	Liter	4,000
2	aircraft fuel	Liter	3,000
3	diesel oil;	Liter	2,000
4	Petroleum	Liter	2,000
5	Fuel oil	Liter	2,000
6	lubricants	Liter	2,000
7	Grease	kg	2,000
II	Coal		
1	Lignite	Ton	15,000
2	Anthracite Coal (anthracite)	Ton	30,000
3	Fat coal	Ton	15,000
4	Other coal	Ton	15,000
III	Hydrogen-chlorofluorocarbon liquid (HCFC).	Ton	5,000
IV	Taxable-plastic bag	Ton	50,000
V	Herbicide which is restricted from use	Ton	500
VI	Pesticide which is restricted from use	Ton	1,000
VII	Forest product preservative which is restricted from use	kg	1,000
VIII	Warehouse disinfectant which is restricted from use	kg	1,000

Source: National Assembly (2010)



2. Some assessments of environmental protection tax

a) Achievements

After 7 years of implementing the environmental protection tax law, the following results have been obtained:

Firstly, Environmental protection tax has contributed to raising public awareness about environmental protection. The production and importation subject to environmental protection tax has encouraged the production and consumption of environmentally friendly goods. Enterprises are more aware of seeking measures to minimize adverse impacts on production and business activities, paying more attention to the application of clean and advanced technologies, using raw materials instead of chemical raw materials to produce environmentally friendly goods, using resources economically and effectively. Many supermarkets and hotels have used paper products, environmentally friendly products instead of plastic bags products. People have become more aware in choosing consumer products that cause less environmental pollution. A research conducted by UNDP in 2017 showed that the application of environmental protection tax on gasoline has reduced greenhouse gas emissions by 5 to 15%.

Secondly, the enactment of the Law on Environmental Protection Tax has demonstrated the commitment of the Vietnamese Government to environmental protection. Taxable products such as gasoline, oil, and grease, coal, and HCFC solution have contributed to the implementation of Vietnam's commitment to implementing the "Clean Development Mechanism" (CDM) in the fields of energy and industry, transportation, waste management according to the Kyoto Protocol on controlling greenhouse gas emissions. HCFC solution with environmental protection tax has contributed to the implementation of Vietnam's commitment to complete the elimination of HCFC by 2030 under the Montreal Protocol on substances depleting the ozone layer. In addition, Vietnam has now actively participated in other multilateral conventions and treaties on environmental protection. Therefore, the enactment of environmental protection tax contributes to the completion of the environmental legal system, demonstrating Vietnam's efforts with the international community's environmental commitments.

Thirdly, it has increased the state budget revenues to finance socio-economic tasks and environmental protection expenditures. The revenue from environmental protection tax has been steadily increasing over the years from 2012 to 2017. The total revenue from environmental protection tax in the period of 2012 to 2017 is about VND 150,810 billion, an average of VND



44,831 billion per year, accounting for about 1.36% to 4.27% of total state budget revenue and about 0.34% to 0.98% of annual GDP. 99% of environmental tax revenues come from gasoline. However, if including import tax, excise tax and VAT, the contribution of petroleum industry is about 9.8% of total budget revenue. And this rate will increase to 15% when the new frame rate is applied and import tax is removed according to the integration schedule.

Table 2:

	2012	2013	2014	2015	2016	2017
Revenue from EPT	11,160	11,512	11,970	27,020	44,323	44,825
Revenue from EPT/total revenue	1.36%	2.7%	3.2%	3.9%	4.1%	4.27%
Revenue from EPT/GDP	0.34	0.46%	0.65%	0.81%	0.9%	0.98%

Source: The General Department of Taxation

b) Limitations

Firstly, the taxable objects of the Law on Environmental Protection Tax are still limited. In fact, there are many products that pollute the environment when being used but not yet covered by the Law on Environmental Protection Tax such as industrial emissions, cigarettes, substances radioactive emissions. It can be seen that, for the first time the Law on Environmental Protection has been applied in Vietnam, so the developers have selected the most recognizable groups to have clear and transparent management measures. Therefore, in the list of non-taxable subjects, there are still a number of substances that are harmful to the environment, such as chemicals (including inorganic acids, caustic soda, plant protection chemicals, organic solvents, etc.); electronics (generating electronic waste); rubber (tubers, tires) and polymers.

Secondly, the imposed tax rates are still affected by budgetary pressure. The Ministry of Finance has recently proposed increasing environmental protection tax on goods including gasoline, oil ... Specifically, from January 1 2019 environmental protection tax with gasoline will



increase by VND 1,000 per liter in order to ensure the stability of policies, to supplement revenue sources when import tax must be gradually reduced according to international commitments. However, this new tax rate will push gasoline prices in Vietnam to increase while the average income of people is still quite low. As a result, the interests of people and businesses are adversely affected

Thirdly, according to the Law on Environmental Protection Tax, the absolute rate of plastic bags that are not environmentally friendly is 50,000 VND per kg. Because there are no specific criteria and regulations to determine what is environmentally friendly plastic bags, some of the plastic bag manufacturers do not know whether they are subject to environmental protection tax or not. Specifically, due to the wide concept of packaging, there are different interpretations that make it difficult to apply taxes. In fact, the distinction of bags or packaging of specialized agencies is not clear.

Finally, the sales invoice does not separate the environmental tax and selling price. This makes it difficult for businesses to pay taxes. For example, if a company buys plastic packaging bags to do a few more steps, then sells it to another company, it must declare and pay environmental protection tax again. If the company doesn't want to pay taxes, it must prove it. However, the proof is not simple because the company's input invoice does not show that the company has paid the input environmental protection tax.

3. Some suggestions

First, it is time to have regulations to clarify what are plastic bags taxable, environmentally friendly plastic bags. In fact, determining whether a commodity is subject to environmental protection tax is now very complicated. It depends not only on the goods entity but also on other factors such as the constituents of the goods, the period of goods circulation, the purpose of using commodity. The full and detailed provisions on taxable subjects as well as the method of determination will ensure accurate tax collection; avoid cases of fraud, errors in tax declaration, calculation as well as tax administration. The role of environmental protection of this tax is promoted.

Second, the government needs to expand its environmental protection tax base to increase state budget revenues and limit polluting items. Taxable objects can include industrial emissions, cigarettes, substances radioactive emissions, inorganic acids, caustic soda, plant protection



chemicals, organic solvents, electronics (generating electronic waste), rubber (tubers, tires) and polymers. The expansion of taxpayers also helps reduce the dependence on the revenue from gas and oil. There should be more detailed regulations on cases not subject to environmental protection tax.

Third, the Government should review, calculate and evaluate the pollution levels of taxable goods in order to formulate suitable tax rates for each goods. It is necessary to ensure that the tax rates are built in proportion to the level of pollution of the goods. The government should review the provisions of similar taxes such as environmental protection tax, excise tax as well as environmental protection fees to ensure consistency, uniformity and avoid duplication. In addition, the regulations also need to ensure conformity with the main principles and purposes of each tax and fee.

Finally, the Law on Environmental Protection Tax only stipulates that trans-border goods, goods in transit are not subject to environmental protection tax. During the implementation process, there were problems about whether or not to collect environmental protection tax on transshipped goods. According to the Law on Export Tax, Import Tax, transshipment goods are not subject to export tax and import tax. Therefore, it is necessary to supplement the transshipped goods to non-taxable objects.

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