DISADVANTAGES ON THE MANAGEMENT OF NATURAL RESOURCES TAX IN VIET NAM STATE BUDGET - A CASE STUDY OF QUANG NINH PROVINCE

Nguyen Nga[*]; Pham Kien Trung

Hanoi University of Mining and Geology, 18 Vien street, Bac Tu Liem, Hanoi, Viet Nam

*Corresponding author: nguyenthihoainga@humg.edu.vn

Abstract: *Royalties tax contributes to the Viet Nam state budget of approximately 30,000 billion VND (approximately 1.2 billion USD), accounting for about 3 % of the total state budget collection (estimated in 2020). Revenues from this tax are insufficient to offset the cost of natural resources management in many provinces. Quang Ninh, which gains annually over 4,000 billion VND (about 170 million USD) of royalties, was piloted of natural resources tax before the current Law on Royalties is promulgated in the entire country. However, there is no mechanism for controlling extractive outputs and actual sales prices. Moreover, companies complain that royalty rates are significantly high and unreasonable due to different points of view among municipal governments and entrepreneurs. The rates have been fixed individually by the People's Committees of provinces, causing huge differences between actual sales prices and regulated prices among regions. This inadequate and inappropriate situation creates losses in state budget revenues from 2011 to 2019. This article analyzes the disadvantages of managing natural resources tax in the national state budget and suggests solutions for the Viet Nam government to control natural resource tax management problems.*

Keywords: *Natural resources tax, state budget revenues, taxable prices, resources management.*

1. OVERVIEW OF THE VIET NAM ROYALTIES

Natural resources tax is one of the financial instruments in performing the state governance of mining activities of corporations and individuals in Viet Nam. The better the government manages the natural resources tax, which contributes to protecting, exploiting, rationally, and effectively using and saving natural resources, the higher the contribution of tax revenues to the state budget.

Previously, there was no clear guideline or policy in natural resources tax in Viet Nam except for some collections from natural resources exploitation activities. In 2009, the Law on Royalties was promulgated. The Government and the National Assembly Standing Committee of Viet Nam have enacted many decrees and decisions to implement this law. However, there are still many omissions and losses on tax revenues and other collections of royalties. Moreover, the disadvantages in coordination among levels of government, management agencies, functional departments, and tax authorities are causes of losses in the state budget.

In royalty management, determining the yield of natural resources is essential to calculate the tax amount on mining

activities. The tax payment amount is calculated by volume, quantity, or weight of natural resources, corresponding taxable price, and royalties' rates in a tax period.

$$\text{Royalty in a tax period} = \text{Natural resources output liable to tax} \times \text{Imposing tax per unit of natural resources}$$

Imposing natural resources tax is based on a database of provincial tax authorities, following tax assessing provisions that are applied to companies without implemented accounting systems, invoices, and regulation on tax fraud and taxable prices by each provincial People's Committee.

At the stage of evaluating natural resources output, many unsolved problems have been discovered, which are:

+ Mining companies try to lobby tax authorities to determine the quantify of natural resources in each ore lower than the actual proportion or even omit some kinds of resources after inspection. For example, some copper and nickel ores have been detected to have a high proportion of gold but have never been mentioned in calculating the taxable amount. This situation is quite popular, and in this case, while profits go to companies, the loss belongs to the state budget.

+ Mining companies rely on their disadvantages of having no accounting method, inability to tally, low sales to impose the tax, and avoiding paying natural resource tax. These disadvantages cause a massive loss of natural resources and the national budget and lead to environmental destruction or high environment fees for natural resources excavation if remedial measures are required.

+ Nowadays, the royalties are calculated on the exploitation output, but not the minable mineral reserves. This weakness might cause an increase in resource losses during mining and simultaneously cause tax losses.

If a local government imposes royalties per natural resources unit, tax payment will be determined as follow:

+ Besides, the excavation output is enumerated by mining companies. In many cases, to evade the royalties, companies might list a lower quantity than the actual production. Being the representative of the unique owner of the national mineral resources, the government cannot control the income from the royalties.

Royalty-liable prices for tax calculation are the price per mining unit of the product, excluding the Value Added Tax (VAT). It cannot be less than the price for tax calculation prescribed by the Provincial People's Committee. Thus, the price for tax calculation includes the mineral sorting and enriching value; the higher the sorting and enriching costs are, the higher the price for tax calculation. Consequently, mining companies tend neither to exploit the resources section of low quality nor to in-depth process the mineral.

For a specific kind of mineral, an exact royalty-liable price for tax calculation is set, which usually differs from provinces. This fault causes unfair competition among mining companies in different provinces and tax losses.

Mining companies will sell excavation products via affiliate companies with lower prices than the imposing prices of the People's Committee. This disadvantage is also domestic transfer pricing to minimize their tax payments, and investigation of these cases is not simple. The difference between the royalty-liable price of local governments creates gaps in the collection of taxes when one firm has mining activities in at least two provinces.

The current royalty rate is applied almost in the same or insignificantly different way for deposits of the same type of mineral. However, they have significant differences in mining conditions. For example, under Resolution No. 1084/2015/UBTVQH13, the current rate for all underground anthracite mines is 10 % and for all open-pit anthracite mines is 12 %. Fundamental differences in mining underground and on the surface, given geological conditions, technologies, safety conditions, etc., are insufficiently considered.

The tax rate primarily increases and is derived from balancing the government budget without considering the real mining efficiency. This trend of modification contrasts with the characteristics of the mining process in a life of mine (the mining conditions become increasingly complex; the price of the products increases with the mining depth). For instance, the price of anthracite coal raised from 1 % (underground mining) and 2 % (open-pit mining) (under Ordinance on Royalties in 1998) to 7 % and 9%, respectively, and to 10 % and 12 % respectively from the promulgation of Resolution No. 1084. In this context, mining companies must find ways to survive, including exploiting only the rich-mineral sections of the reserve and leaving the poor-mineral areas behind. The royalty rates and collected taxes increase, but a part of mineral reserves will be lost. These results are against the policy of considering mineral resources as essential resources that must be mined with the maximum amount.

Those are the primary shortcomings of the royalties policy of Viet Nam, which have a significant impact on the target of exploiting the maximum amount of coal resources. Therefore, it is necessary to develop the policy by encouraging or enforcing complete mining coal resources.

2. ROYALTIES COLLECTION IN QUANG NINH: THE STATE-OF-THE-ART AND THE DOWNSIDES

2.1. Natural resources tax management in Quang Ninh province

Quang Ninh is a province located in the northeast of Vietnam, well-known for its diverse natural resources with massive reserves and top quality. Two hundred fifty mines have been discovered, covering 33 minerals such as coal, limestones, clay for the cement, bricks, tiles productions, sand, gold, iron ore, antimony, ilmenite, phosphorite, mineral water, etc. Coal and limestones are essential minerals in this province. Anthracite is principally distributed in Quang Ninh coal basin, nearly 250 kilometers from Dong Trieu to Cam Pha city. The most expansive place is Yen Tu - Trang Bach, with 15 kilometers, while the narrowest one is in Cai Bau Island, far lower than the average size, 8 to 10 kilometers.

Three main mining areas are Mao Khe - Uong Bi - Hoanh Bo, Ha Long, and Cam Pha. According to reports of Viet Nam National Coal - Mineral Industries Holding Corporation Limited (VINACOMIN), the total coal reserves of this province are estimated at 10.5 billion tons, of which 3.5 billion tons has already been geographically explored and mined. It reaches the highest rank of coal mining in the entire country and stands for 67 percent. Annually, more or less 60 million tons of coal have to be separated from 300 million tons of topsoil. The strip of soil impacts the environment, landscape, and urban planning and becomes one of the top concerns of both mining companies and local government.

Moreover, building materials are also considerable in Quang Ninh, given limestones, clay, kaolin and pyrophyllite, white sand, supporting ceramics, refractory bricks, tiles, and glass construction. There

are iron ores, phosphorite ores, ilmenite ores, gold ores, antimony ores, granite, etc., but in a small quantity. Additionally, there are underground springs of mineral water for drinking and treatment.

Hoang Nga (2014) confirms that 384 factories are manufacturing products from natural forests and plantations, of which 127 units belong to state-owned, limited, and joint-stock companies. The rests are small-sized sawmills and furniture manufacturing with low quality and supply to local consumption only (household business). Most of them are woodchips workshops.

Natural resources tax contributes over 3,700 billion VND (over 157 million USD) to local government revenues, nearly one-fifth in total domestic turnover.

The proportion of royalty revenues from 2011 to 2019 illustrated in Table 1 shows that mining coal's natural resources tax revenue contributes a significant part to total royalty revenues.

Table 1. The proportion of royalty revenues by types of natural resources

(VND million)

No	Types	Natural resources tax								
		2011	2012	2013	2014	2015	2016	2017	2018	2019
1	Coal	1,338,269	2,478,376	2,933,710	3,330,016	3,535,540	3,889,618	3,996,709	4,214,032	4,381,736
	Percentage of contribution	98.73 %	97.92 %	98.49 %	98.53 %	95.09 %	96.14 %	96.25 %	95.04 %	97.25 %
2	Water resources	8,284	14,804	4,751	16,193	31,148	29,939	34,050	35,315	36,045
	Percentage of contribution	0.61 %	0.58 %	0.50 %	0.48 %	0.84 %	0.74 %	0.82 %	0.83 %	0.80 %
3	Natural forests and plantations	36	36	13	5.2	2.1	4.05	4.16	4.25	4.45
	Percentage of contribution	0.0027 %	0.0014 %	0.0004 %	0.0001 %	0.0001 %	0.0001 %	0.0001 %	0.0001 %	0.0001 %
4	Other natural resources	8,837	37,713	30,168	33,457	151,423	126,224	121,661	175,722	87,855
	Percentage of contribution	0.6520 %	1.4901 %	1.0128 %	0.9900 %	4.0726 %	3.1199 %	2.9299 %	4.1299 %	1.9499 %
	Total	1,355,426	2,530,929	2,978,641	3,379,672	3,718,114	4,045,785	4,152,425	4,254,879	4,505,641
	1000 USD	56,476.1	105,455.4	124,110.0	140,819.7	154,921.4	168,574.4	173,017.7	177,286.6	187,735.0

(Source: Quang Ninh Department of Taxation)

From 2011 to 2019, royalties' revenues declared by companies increased gradually, mostly rising in 2012. Thanks to a significant increase in the number of mining companies, expansion in scales of production, equipment investment, and modern technologies, which improve productivity dramatically, royalties' revenues had been increasing throughout the years.

It can be confirmed that coal is a substantial resource that brings about the most proportion of total natural resources tax revenues of Quang Ninh province. Thus, the authors focused on this resource from

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2011 to 2019, finding the downsides and problems, and recommending some practical solutions.

2.2. The downsides of natural resources tax governance in Quang Ninh province

First, the tax department uses data from resource mining companies, which errors coal quality to apply the corresponding tax rate and royalty-liable prices. Those errors result in faulty calculation according to the regulations of the People's Committee. Due to the lack of a reliable IT system, the tax department fails to accomplish the given workload. It cannot monitor mining, inventory, or assess the quality of coal inventory, categorize, or examine coal. Those issues caused a massive loss to the national budget.

Second, there is a lack of cooperation between the tax department and the resources and environment department. Although government departments can issue licenses of mining resources to organizations or individuals, they do not provide such documents to the tax department for administration and tax collection. If the documents are provided, they often do not include essential information such as an address, phone number, and tax code of extractive companies, resulting in difficulties for tax agencies in enumeration and tax collection.

Third, there is conflict in the tax collection procedure. Different departments of tax agencies have not agreed about tax collection management in general and natural resources tax in particular. The conduction and taxation management in tax departments of districts and cities in the province are not strict; tax agencies do not actively provide instruction to local authorities. Besides, the implemented procedure applies primarily for natural resources tax management of organizations or companies paying tax with tax collection,

not individuals who mine resources on a small scale or in different periods.

As mentioned previously, these downsides originate from the inability to determine the amount and taxable price. To tackle those limits requires revealing the causes and the consensus of the General Taxation Department, Ministry of Environment and Resources, Ministry of Science and Technology, and the transparency and responsibility of local authorities.

3. SOLUTIONS AND RECOMMENDATIONS

Firstly, it is necessary to check the method to determine resource tax payer from tax collection procedure, resource regulations, clearly define types of resources liable to tax in accordance with its quality and use value and in order to avoid conflicts in law and to increase state budget.

Secondly, the royalty-liable price for tax calculation is the price per unit of the mining products, exclusive of Value Added Tax (VAT);

Thirdly, royalty liable price and output should be applied for crude resources products. The determination of crude resources is based on license provided by the authorities to accurately calculate royal liable price and price in mining license. For some mineral resources, royal liable price is the selling price; for processed resources, the price will be excluded cost of processing or is defined by regulations province level People's Committee. This is also applied to export resources to encourage processing, limit crude exportation, and encourage companies to invest in technology and make use of resources which is granted permit to exploit.

Fourthly, exported resource is liable to export tax and non Second, those who are

authorized to exploit resources must complete their tax duties. License for individual mining should be limited to ensure the quality of participants and help increase management to prevent cost shifting. In case the seller could not pay tax, the buyer must take on the responsibility.

Fifthly, calculating the economic rent of all available mines is necessary to specify the royalty rates for each group of mines based on economic rent per revenue. Thanks to the development of IT, the calculation has become more manageable than before. However, the specification of the royalty rate for each period of a mine is more complicated. Nevertheless, in the circumstance of an increase in tax and fee that becomes a liability for companies, it is indispensable to determine the average royalty rate for each mine based on economics rent per revenue to ensure the target of maximizing mined coal resources.

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