

1. The amendment has improved and re-arranged parts, chapters, and articles as well as contents of each article to make them clearer and more stringent and comply with international standards. It concentrates on improving the following main mechanism and procedures:

- improved mechanism for deduction of taxes paid earlier (on the acquisition of raw materials, imported or home-made semi-finished products) to avoid double taxation, thus making local finished products cheaper than imported goods and promoting export;
- strengthening the procedure on the use of invoices as reference for correct accounting entry and for deduction of taxes paid earlier;
- strengthening the transparency of the presumptive tax collection with the involvement of parties concerned in the establishment of the collection level to curb the bargaining gap between tax officers and business units.

2. The amendment focuses on rates of four taxes:

3.1. Turnover tax. The previous three rates (3%, 5% and 10%) are replaced with two rates (5% and 10%, back to the 1998 version of the tax law) in preparation for the implementation of the VAT single rate of 10% in 2007-2008.

The introduction of the 3% turnover tax in the 2002 tax law amendment was aimed at promoting domestic economy, boosting exportation in import substitutes, and widening the tax base. The amendment was also designed to bring down prices of domestic products in the interest of consumers. The implementation of the 3% rate more than two years ago, did not meet the fixed aims and objectives. The change from the two-rated to the three-rated turnover tax has immediate impact on the budget revenue, causing a loss of 56.3 billion kip to the state. The new products which were expected to constitute the new tax bases, did not grow much. Prices of construction materials such as cement, steel, timber which should have gone down due to the reduced rate set by the state kept on rising, 58.8% in 2002, 42.8% in 2003, and 20% in 2004. This forced an annual increase of more than one digit in the general price index as well as the inflation rate, causing low-income people to suffer. Most taxpayers were liable to 3% and 5% tax while the number of business units subject to the 10% rate declined. Because of this phenomenon benefits received by the state are not in proportion with its investment while related business operators including wholesalers and retailers, enjoyed more profits.

3.2. Excise tax. The amendment has integrated the excise tax from the previous single and ad valorem rates into one ad valorem rate. This is aimed at making the tax clearer and easier to administer, curbing the difference between the single and ad valorem rate of previous excise tax and approaching the international practices.

3.3. Personal income and salary taxes. The amendment has reduced the progressive rate of the personal income tax from 45% to 35%, and the salary tax rate from 40%

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to 25% and has changed the categories/levels of calculation of these taxes from 8% to 5%. The reduction is aimed at promoting the small personal economy of family nature, and encouraging salaried people working in the sectors of domestic business and international organisations to file tax returns of more reasonable assessment to widen the tax base.

3.4 Rental tax of houses, land and other properties. The amendment has adopted the unique single rate at 10% for all types of houses, land and other properties.

Article 60: Rates of Income Tax

1. Income from salaries is taxed at progressive rates according to the tables below:

Table 1: Applied to Income of no more than one million and five hundred thousand kip

Level	Salary Base on each Level	Basis of Calculation	Tax Rates	Salary Tax on each Level
1	Less than 300,000 kip	300,000	0	0
2	From 300,001 to 1,500,000 kip	1,200,000	5%	60,000

Table 2: Applied to income of more than one million and five hundred thousand kip

Level	Salary Base on each Level	Basis of Calculation	Tax Rates	Salary Tax on each Level
1	From 1 to 1,500,000 kip	1,500,000	5%	75,000
2	From 1,500,001 to 4,000,000 kip	2,500,000	10%	250,000
3	From 4,000,001 to 8,000,000 kip	4,000,000	15%	600,000
4	From 8,000,001 to 15,000,000 kip	7,000,000	20%	1,400,000
5	Over 15,000,000 kip	25%

2. Income from patents, copyrights, trade, marks, or other intellectual properties of natural persons or legal entities 5%
3. Income from dividends, profit from the sale of shares, lending interests, warranty fees of natural persons or legal entities 10%
4. Profit from non-business activities by the Lao Front for National Construction, the mass organizations and social organizations 10%
5. Income from the lease of houses, or other properties ... 15%

Chapter 3

Calculations, filing of income tax returns, and payment

Article 61: Calculation of Income Tax

Income tax is calculated for an annual payment or according to contracts on the basis of all types of income received. Before the calculation, the income in foreign currencies shall be converted to the Lao currency, kip, at the exchange rate determined by the Central Bank at each period.

For those who earn salaries of less than one million and five hundred thousand kip a month are entitled to a monthly base deduction of 300,000 kip from the taxable salary amount. Those who earn salaries of more than one million and five hundred thousand kip, are liable to pay taxes by progressive rates in accordance with Table 2 of article 60 of this law.

In case taxpayers have paid Income Tax earlier in the year, the tax shall be deducted from the annual actual income tax payable.

Article 62: Income from salaries

The salary Income Tax is paid on a monthly basis by withholding the tax at the time of salary payment. The method of calculation shall be done according to the principle stipulated in article 61 of this law.

In case taxpayers receive salaries from several working places or declare incomplete income, the tax will be reconciled at the end of the year.