Value-added tax incentives after Covid-19 pandemic in Vietnam: Unveil advantages and disadvantages from a microeconomic perspective

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Abstract

Introduction: Understanding the effectiveness of value-added tax (VAT) reduction policies from a business perspective is crucial, as it provides insights into whether such fiscal measures achieve their intended objectives, such as easing financial burdens, stimulating economic activity, and enhancing business resilience. The VAT reduction policy has been a key fiscal measure in Vietnam, implemented in several phases since 2022 to mitigate economic challenges and stimulate domestic consumption.

Objectives: This study aims to evaluate the effectiveness of the policy, which reduced the VAT rate from 10% to 8% for various goods and services, by adopting a qualitative research approach. The study investigates the benefits and drawbacks of VAT reduction in Vietnam from enterprise perspectives.

Methodology: Data were collected through in-depth interviews with six responses from small and medium-sized enterprises. The qualitative approach is to deeply understand how businesses perceive the benefits and drawbacks of this policy. The study interviews six people from diverse positions in small and medium enterprises (SMEs).

Result and Discussion: The findings reveal positive impacts and practical challenges associated with the VAT reduction policy. On the benefits side, businesses reported reduced production costs, increased liquidity, enhanced competitiveness, and improved cash flow, particularly for SMEs. Additionally, lower prices stimulated consumer demand, creating short-term economic relief. However, several challenges were identified, including administrative complexity, inconsistent policy application, compliance burdens, and difficulties adjusting accounting systems. Respondents also raised concerns about the short implementation timeline and lack of clear guidance, which limited the policy's effectiveness in practice.

Conclusions: This study contributes to the existing literature by providing micro-level insights into how VAT reduction policies affect businesses. The practical implications include recommendations for policymakers to improve communication, simplify administrative procedures, and extend implementation timelines to enhance the effectiveness of future tax incentives. These findings offer valuable lessons for balancing fiscal relief with sustainable economic outcomes.

***Keywords**: Microeconomic Perspective, Advantages and Disadvantages, Value-added Tax, Value-added Tax Incentives, Vietnam*

1. Introduction

Tax incentives are strategic tools used by governments to stimulate economic growth, attract investments, and promote specific industries or behaviors within a country's economic landscape. These incentives often take the form of tax credits, exemptions, deductions, or reduced tax rates, designed to influence the decisions of businesses and individuals such as Devereux, Maffini, and Xing (2018), which show a relationship between tax incentives and corporate capital structure. The primary goal of implementing tax incentives is to foster innovation, boost employment, and enhance global market competitiveness while also addressing social objectives such as environmental sustainability or regional development (OECD, 2010; Zolt, 2015) because tax policies have direct or indirect impacts on economy and society, such as competitiveness or foreign direct investment (Ha, 2025). For example, the United States offers the research and development tax credit to encourage companies to invest in innovation, providing a dollar-for-dollar reduction in tax liability for qualified expenses (Hall & Van Reenen, 2000). Similarly, Singapore implements the productivity and innovation credit scheme, granting enhanced tax deductions for businesses adopting technology or improving productivity (IRAS, 2018). In Ireland, a low % corporate tax rate of 12.5% has been instrumental in attracting multinational corporations like Google and Apple, transforming the country into a tech hub. However, the effectiveness of tax incentives depends on a country's economic context, administrative capacity, and the balance between revenue loss and long-term gains. This interplay shapes the landscape of tax policy and its role in achieving national objectives (James, 2013; Klemm & Van Parys, 2012; OECD, 2010; Thaçi & Gërxhaliu, 2018). Explore how different nations design and evaluate these incentives, and consider their broader implications for economic equity and fiscal stability.

The Vietnamese Government has implemented several fiscal measures, including tax incentives, to alleviate the economic burden on businesses and individuals, particularly in response to the economic disruptions caused by the COVID-19 pandemic and global challenges. Vietnam government has carried out a tax incentive policy with value-added tax (VAT) by a 2% reduction in the VAT rate, lowering it from 10% to 8% for various goods and services, as part of Resolution No. 11/NQ-CP issued in 2022 (Vietnamese Goverment, 2022). This incentive, detailed in Decree No. 15/2022/ND-CP, targeted sectors like aviation, tourism, and manufacturing, excluding areas such as telecommunications, finance, and real estate. Post-pandemic, the Vietnamese Government extended this VAT reduction policy multiple times, with Decree 72/2024 prolonging it until mid-2025 to sustain economic stability amid global uncertainties. The results indicate that approximately 98% of businesses benefited from the VAT reduction policy, reflecting a significant uptake of this economic recovery policy (World Bank, 2021). By Quarter 3 of 2023, Vietnam's GDP growth reached over 5%, partly attributed to these fiscal policies, though below the 6.5% target (Government, 2024). These achievements highlight Vietnam's adaptive tax strategy to mitigate the pandemic's economic impact and foster resilience.

Despite the growing body of research on tax incentives, most studies have focused on their macroeconomic impacts, such as promoting economic growth, fostering innovation, and attracting foreign direct investment (OECD, 2010). These studies emphasize the role of tax incentives in shaping fiscal policies and enhancing national competitiveness (Danzman & Slaski, 2022; James, 2013). However, there remains a significant research gap in understanding the micro-level effects of tax incentives, particularly how businesses implement and benefit from these policies. While macro-level evaluations provide valuable insights into economic outcomes, fewer studies examine the challenges and opportunities businesses face in complying with and leveraging tax incentives, especially those related to VAT reductions. This is particularly relevant in Vietnam, where the government has implemented VAT reduction policies as part of its post-pandemic recovery strategy. Although these VAT cuts aim to stimulate domestic consumption and support business recovery, limited evidence exists on their impact at the enterprise level. Existing studies often overlook practical issues, such as administrative burdens, compliance costs, or firm-specific benefits, which may affect the effectiveness of VAT incentives, especially for small and medium-sized enterprises (SMEs). Addressing this gap by exploring the micro-level dynamics of VAT policy implementation could offer critical insights for refining tax policies and enhancing their practical impact on businesses.

This study aims to explore the micro-level impacts of VAT incentives, with a specific focus on the practical advantages experienced by SMEs in Vietnam. Given that VAT reductions have been implemented multiple times in Vietnam as part of post-pandemic recovery strategies, this research can contribute to a deeper understanding of how enterprises, particularly small and medium-sized enterprises (SMEs), perceive and respond to tax incentives. The findings will offer practical implications for refining future VAT policies and add to the broader literature on the microeconomic impacts of tax incentives in developing economies. The remainder of this paper is organized as follows. The next section provides a comprehensive review of the implementation of the VAT reduction in Vietnam. The methodology section follows this. The results and discussion section presents the key findings, and the final section summarizes the key contributions.

2. Objectives

The objectives of the study include:

1) Investigate the micro-level impacts of VAT incentives, with a specific focus on the practical benefits and drawbacks experienced by SMEs in Vietnam.
2) Explore the perceived effectiveness of the VAT reduction policy and enterprise's recommendations

3. Materials and Methods

3.1. Implementation of the value-added tax reduction after the Covid-19 pandemic in Vietnam

After the COVID-19 pandemic, businesses have encountered various operational difficulties, including cash flow constraints, supply chain disruptions, and so on. To support economic recovery and development, the government must implement assistance measures. In Vietnam, various levels of government have issued several documents to aid economic recovery, such as a 0.5% reduction in social insurance contributions to the occupational accident and disease fund. Specifically, the implementation of VAT incentives by the government began with Decree No. 92/2021/ND-CP, which introduced a reduction in the VAT rate from 10% to 7%. Then, the Vietnamese government adjusted the VAT rate from 10% to 8% for nominated goods and services. This VAT incentive policy has been applied over an extended period to support the economy. A summary of the timeline and details of these policies is presented in Figure 1.

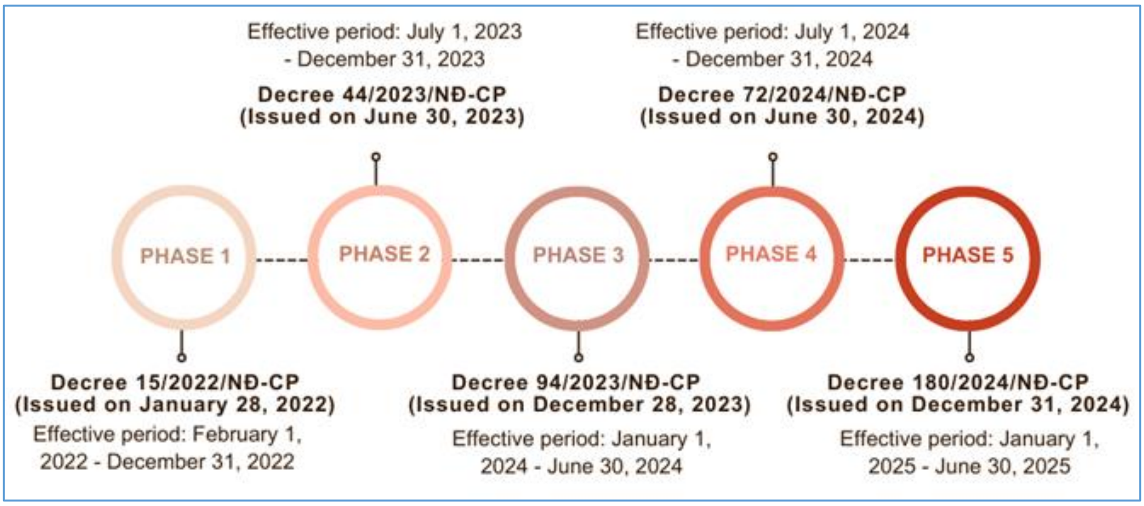

Figure 1 Timeline of value-added tax incentives policies in Vietnam during 2022-2025

Figure 1 shows that the policy of reducing the VAT rate from 10% to 8% is stipulated in Decree No. 155/2022/ND-CP. There are five phases of the VAT reduction policy, with five issued decrees by Vietnamese Goverment. Among these periods, the 2% reduction in the value-added tax**,** effective from July 1, 2023, under Resolution 110/2023/QH15, has yielded significant results. According to Report No. 178/BC-CP (2024), the VAT reduction positively impacted domestic consumption by stimulating demand across various sectors, including retail, manufacturing, and services, which were heavily affected by the pandemic. By lowering VAT from 10% to 8% on essential goods and services, the policy enhanced household purchasing power and mitigate inflationary pressures, contributing to price stability. For businesses, particularly SMEs, this reduction in VAT improved cash flow, reduced operational costs, and facilitated recovery and reinvestment. This measure complements earlier fiscal policies, such as tax payment extensions and corporate income tax reductions, which benefited over 700,000 enterprises, approximately 98% of businesses, in 2020, helping to maintain employment and stabilize business operations during the pandemic. The combined effects of these tax incentives illustrate the critical role of well-targeted fiscal policies in promoting economic resilience, sustaining consumption, and supporting long-term recovery (World Bank, 2021).

3.2. Methodology

Data and data collection: This study employs a qualitative research approach to explore the micro-level impacts of VAT incentives on businesses. Qualitative research is particularly suitable for understanding complex, context-specific experiences and perceptions, making it appropriate for investigating how businesses perceive and implement VAT reduction policies. Data for this study were collected through in-depth interviews with representatives from firms eligible for VAT incentives. The study interviewed representatives of SMEs that sell goods listed under the category eligible for VAT incentives with a 2% VAT reduction policy. A total of six individuals were interviewed. The summary of the interviewees' information is presented in Table 1.

Table 1 Demographic of respondents

Individual characteristics	No.	Organizational characteristics	No.
Position		Company types	
Chief accountants	*4*	*Limited company*	*4*
Business owner	*1*	*Joint stock company*	*2*
CEO	*1*	Business sector	
Experience		*Manufacturing and contruction*	*3*
Under 10 years	*3*	*Trading*	*1*
Above 10 year	*3*	*Services*	*2*
Qualification			
Bachelor or engineer's degree	*5*		
Master degree	*1*		

Table 1 shows that the research data was collected from six interviewees holding various positions, including four chief accountants, one owner, and one CEO. In terms of work experience, the interviewees have between 10 and 16 years of experience, with three individuals having 10 years of experience, while the others have 13, 14, and 16 years, respectively. Regarding educational background, four participants hold a bachelor's degree (3 people), along with one holding a master's degree and one holding an engineer's degree. The organizational demographics include different types of enterprises, such as four limited companies and two joint-stock companies. The business sectors include trading, construction, and manufacturing. This diversity in individual and organizational demographics offers a comprehensive perspective for evaluating the policy of VAT reduction.

Data analysis: The interview process involved recording, transcribing, and organizing the data to ensure accuracy and consistency. The transcribed interviews were then compiled and systematically organized in Excel to facilitate data management and analysis. A thematic analysis approach was employed to analyze the qualitative data. This method involves identifying, coding, and categorizing recurring patterns or themes that emerged from the interview responses. The data analysis process includes three steps. Step 1 is to conduct interviews and pre-process data by removing redundancies and irrelevant content. Step 2 aims to translate the interview data into English for consistent analysis. Step 3 is to identify, code, and categorize recurring patterns or themes using thematic analysis. By applying thematic analysis, the study aimed to extract key insights related to the perceived advantages, challenges, and practical implementation of VAT incentives at the enterprise level. This analytical approach allowed the research to generate in-depth findings and uncover nuanced perspectives on the impact of tax policies on business operations.

4. Results and Discussion

The qualitative analysis of the interview data reveals several key themes related to the benefits and challenges of implementing the VAT reduction policy in Vietnam. The findings provide valuable insights into how businesses experience and respond to the policy, highlighting both its advantages and disadvantages. The summary of the findings of this policy is depicted in Figure 2.

Figure 2. Word cloud for VAT reduction policy benefits and drawbacks in Vietnam

The Figure 2 shows that some keywords relating to VAT reduction policy during the period of 2022-2025. The major achievements of this policy are analyzed in the next phases, illustrating the advantages and disadvantages of the policy.

- **The advantages of value-added tax incentives policy**

The analysis identified several sub-themes that illustrate the perceived benefits of the VAT reduction policy in Vietnam during the five phases of this policy.

Cost Reduction and Competitiveness*:* A recurring theme in the interviews is reducing production costs and increasing market competitiveness. Many businesses illustrate that the VAT cut allowed them to reduce product prices, making their offerings more attractive to consumers. One interviewee stated, *"The VAT reduction helped lower production costs, allowing us to offer competitive prices and attract more customers"*

[Response 1]. Similarly, another participant emphasized that *"reducing VAT by 2% allowed us to lower the price per hotel room by 20,000-30,000 VND per night, which helped attract more domestic customers"* [Response 2]. Figure 2 also demonstrates that reduced costs are the critical benefit of VAT reduction policy in Vietnam. This findings also consistent with previous studies, such as Li and Yang (2021), that stated about the advantage of tax reduction in reducing operating costs.

Increasing Consumer Spending: Another prominent sub-theme is the policy's impact on consumer behavior. Lower prices due to the VAT cut directly increased consumers' disposable income, stimulating consumption. As one respondent noted, *"The reduction from 10% to 8% in VAT increased customer demand and improved cash flow by 5-7%"* [Response 2]. This indicates that the policy effectively boosted domestic consumption, benefiting both businesses and consumers.

Enhancing Business Liquidity and Investment: Many businesses, particularly SMEs, report that liquidity is improved as a result of the VAT reduction. This policy enhances cash flows, reduces financial pressure, and allows them to reinvest in production and innovation. A participant explained, *"The VAT reduction improved liquidity, reduced financial stress, and encouraged investment in production expansion"* [Response 4]. Another participant echoed this sentiment, highlighting that *"the saved tax amount helped us reinvest in improving product quality and upgrading production technology"* [Response 3].

Enhancing Operational Efficiency: The VAT reduction policy also leads to more efficient allocation of resources, as businesses save on tax expenses and reinvest the savings into core activities. One business representative noted, *"The policy allowed us to allocate savings from tax cuts into improving our production processes and expanding business scale"* [Response 5].

- **The disadvantages of value-added tax incentives policy**

Despite these benefits, the analysis also uncovered several challenges businesses faced during the implementation of the VAT reduction policy.

Administrative challenges: One of the most frequently mentioned difficulties is the complexity of administrative procedures. Businesses report that the process of applying for VAT incentives involves extensive paperwork and time-consuming compliance requirements. One interviewee said, *"The administrative procedures are too complex, and applying for VAT incentives takes a lot of time and effort"* [Response 3]. Another participant adds that *"the process of determining which items qualified for VAT reduction was unclear, leading to time delays"* [Response 5].

Compliance costs: The transition to the new VAT rate also imposes compliance costs on firms. Many firms had to adjust their accounting systems, internal processes, and pricing mechanisms to comply with the policy. A respondent explained that *"we had to update our accounting systems and adjust pricing, which increased initial costs, especially for small businesses with limited resources"* [Response 4]. Another challenge is the short implementation timeframe, which left businesses with insufficient time to adapt effectively. Several interviewees express concern that *"the short implementation window didn't allow us enough time to adjust our internal processes, limiting the long-term impact of the VAT reduction"* [Response 1]. The term "compliance cost" also is shown in Figure 2. Tax administration policies specified in the Vietnamese Law on tax administration, as well as in related decrees and guiding circulars, include strict penalties for businesses that make incorrect tax declarations. The high level of fines imposed creates significant compliance pressure. Additionally, the regulations in five phases of VAT reduction policies are not uniformly applied to all goods poses challenges for firms in determining which items are eligible for tax incentives. If firms mistakenly declare a non-eligible item as eligible, it is penalized for each incorrect declaration. As a result, firms are bearing a compliance cost.

Policy Clarity and Consistency Issues: Firms highlight a lack of clarity and consistency in the policy's implementation. This issue leads to confusion in determining which goods and services are eligible for VAT reductions. One business owner noted that *"there wasn't enough clear guidance on which products qualified for the reduced VAT rate, causing inconsistency in how businesses applied the policy"* [Response 6].

Risk of Legal Compliance: Finally, businesses raised concerns about potential legal risks associated with the incorrect application of the VAT reduction. Misinterpretation of the policy could result in non-compliance and penalties, adding to the regulatory burden. A respondent explained, *"If the VAT policy is misapplied, it could lead to legal risks, fines, and increased scrutiny from tax authorities"* [Response 2].

In general, the implementation of the 2% VAT reduction policy in Vietnam has yielded both positive outcomes and challenges. On the positive side, businesses benefited from reduced operational costs, lower product prices, and improved cash flow, which collectively enhanced competitiveness and stimulated consumer demand. Many firms reported increased sales volumes and liquidity, enabling them to reinvest in production or sustain operations. This result aligns with global findings that tax reductions can provide short-term economic relief and boost market activity (World Bank, 2021). However, smaller businesses struggled with adapting their invoicing systems, managing new documentation requirements, and navigating ambiguities regarding eligible products, which added to administrative complexity. Despite its short-term benefits, the policy's effectiveness was constrained by practical implementation issues and potential fiscal risks. Frequent VAT adjustments disrupted business planning and compliance, raising concerns about long-term impacts on government revenue and market dynamics.

Enterprise's evaluation and recommendations

The survey results also demonstrate the the perceived effectiveness of the 2% VAT reduction policy in Vietnam. The evaluation of this policy shows mixed perspectives from businesses. The firms perceive that the policy has a positive impact on stimulating demand, aligning with the macroeconomic goal of the initiative. However, firms with microeconomic perspectives indicate that the policy does not fully achieve its effectiveness. While consumers benefit directly from the tax reduction, businesses experience increased compliance costs related to identifying eligible items and filing declarations, as reflected in the feedback: "The policy creates a compliance burden for businesses, especially those with diverse product portfolios." Additionally, certain goods are considered unsuitable for this tax incentive, with concerns such as: "Mineral extraction products do not benefit from the VAT reduction. Meanwhile, these items incur resource and environmental fees, keeping prices high, and steel prices continue to rise."

Based on these findings, businesses propose several actionable solutions to enhance the effectiveness of the VAT reduction policy. From the regulator's perspective, they recommend extending the policy timeline to give businesses more time to adapt and ensure smoother implementation. Standardizing VAT rates across product categories is also emphasized to reduce confusion and streamline compliance processes. As one participant suggests, "Reducing VAT on essential materials like steel and cement would lower construction costs, benefiting both businesses and consumers in the long term." From the perspective of tax agencies, businesses stress the importance of clearer tax guidelines and greater support in automating tax calculations. Digital transformation, particularly through the adoption of electronic invoicing and automated tax systems, is viewed as essential to easing administrative burdens. Additionally, many respondents advocate for complementary tax measures, such as corporate income tax reductions and enhanced tax deduction mechanisms, to maximize the policy's impact. As one business owner observes, "Lowering VAT alone is helpful, but to truly strengthen business resilience, we need broader support, including corporate tax relief and assistance with technological upgrades."

These insights highlight that while the VAT reduction policy contributes to stimulating short-term economic activity, its long-term success depends on a more holistic approach that addresses administrative complexities and provides broader financial support to businesses.

5. Conclusion

This study evaluates the effectiveness of the VAT reduction policy, which lowered the VAT rate from 10% to 8% for various common goods, implemented in Vietnam across multiple phases from 2022 to 2025. The findings from this study highlight the mixed impact of the 2% VAT reduction policy in Vietnam, demonstrating both its benefits and challenges. On the positive side, the policy successfully reduced operational costs, improved business cash flow, and increased consumer purchasing power, collectively enhancing market competitiveness and boosting short-term consumption. These outcomes were especially beneficial for SMEs that experienced increased liquidity and reduced financial pressure. However, administrative complexity, adaptation challenges, and inconsistent implementation partly constrained the policy's effectiveness. Many businesses faced difficulties adjusting their accounting systems, complying with new tax filing requirements, and navigating policy guidelines ambiguities, adding to compliance burdens and operational disruptions. These findings contribute to a deeper understanding of the micro-level effects of VAT incentives and offer practical implications for policymakers aiming to improve the effectiveness of tax relief measures.

Based on these findings, several practical implications emerge for policymakers aiming to enhance the effectiveness of future VAT reduction policies. First, improving communication and providing more precise guidance to businesses, particularly SMEs, is essential regarding eligibility criteria, documentation, and procedural requirements. This guidance can include targeted outreach, online resources, and hands-on training to help businesses adapt smoothly. Second, extending the implementation timeline or adopting a phased approach may reduce administrative disruptions and allow enterprises more time to plan and adjust, thereby enhancing the policy's impact. Finally, simplifying tax filing procedures through digital tools and automated systems could minimize compliance costs and improve efficiency. By addressing these challenges, future VAT reduction policies can achieve a more balanced and sustainable impact, benefiting both businesses and consumers while maintaining fiscal stability.

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