



Presumptive taxation for household businesses – International experiences from Indonesia, South Korea and lessons for Vietnam from the legal perspective

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Abstract

The presumptive tax regime has long been a traditional tax administration method applied to millions of household businesses in Vietnam. However, due to existing drawbacks such as causing budget revenue losses, lacking fairness and transparency, and hindering the development of the private sector, the Party and the State have decided to abolish this method from January 1, 2026. The rapid transition of millions of household businesses from the presumptive tax regime to the declaration-based tax regime presents significant challenges for tax administration and raises questions about the feasibility of the proposed roadmap. This paper focuses on analyzing the presumptive tax policies of several countries in the region that share similarities with Vietnam, such as Indonesia and South Korea. From these comparative insights, the paper derives lessons learned and proposes legal reforms to ensure effectiveness for the upcoming transition to the declaration-based tax method.

Keywords: Law, presumptive taxation, declaration method, tax administration

Introduction

Presumptive tax (short for the presumptive taxation method) is defined as a method of determining tax liability through indirect measures, such as a fixed periodic tax based on industry and scale, or a percentage of total revenue/gross income. It is applied to “hard-to-tax” entities, including micro-enterprises, small and medium-sized enterprises (SMEs), household businesses, individual traders^[1], etc. In Vietnam, for over three decades, presumptive taxation has served as the primary management tool for household businesses due to its simplicity and low compliance costs. However, amidst demands for political, economic, and social reform, this method has revealed significant limitations, including budget revenue leakage, business inequality, and a lack of fairness and transparency. Consequently, the complete abolition of presumptive tax effective January 1, 2026, is a sound policy step, demonstrating the Party and State’s determination to reform. Nevertheless, the aggressive timeline poses major feasibility challenges, particularly given the limited accounting capabilities of millions of household businesses.

In this context, it is essential to reference the experiences of countries with cultural, economic, and political conditions similar to Vietnam regarding the application of presumptive taxation. Identifying inadequacies in current regulations regarding the abolition of presumptive tax in Vietnam requires benchmarking against international experiences. This comparison will serve as the basis for proposing comprehensive solutions to ensure feasibility and effective implementation.

Indonesia’s Experience in Regulating Presumptive Taxation for Household Businesses

Currently, Indonesia is home to over 64 million Micro, Small, and Medium Enterprises (MSMEs), which contribute 61% to the nation’s GDP and generate employment for more than 117 million workers^[2]. Despite playing a pivotal role, this business model faces significant constraints regarding capital, management capacity, and tax

compliance. This reality necessitates that the Government implement appropriate tax policies to both regulate the sector and foster its development. Accordingly, the “Final Income Tax” (PPh Final) policy -a form of turnover-based presumptive tax is regarded as a central solution aimed at simplifying administrative procedures and broadening the tax base. This mechanism was most recently codified in Government Regulation No. 55/2022 (PP 55/2022), pursuant to Law No. 7 of 2021 on the Harmonization of Tax Regulations (UU HPP).

Regarding the scope and subjects of application: PPh Final applies to individuals and organizations with an annual revenue not exceeding 4.8 billion Rupiah, including individual traders, cooperatives, limited partnerships, village-owned enterprises, and limited liability companies (Article 56, 57, 59)^[3]. Notably, entities with an annual turnover below 500 million Rupiah are fully exempt from tax. This policy aims to simplify tax obligations, encourage compliance, and protect micro-enterprises.

Regarding the tax calculation method: The tax is calculated directly on gross revenue without expense deductions, eliminating the need for complex accounting and reducing compliance costs for businesses. According to Article 57 PP 55/2022, MSMEs are eligible for a preferential tax rate of 0.5% for a period of 3 to 7 years, after which they transition to the standard Corporate Income Tax rate (22%) or enjoy a 50% reduction if revenue is below 50 billion Rupiah (approximately 808 million VND). While this calculation method ensures simplicity and ease of implementation, it has limitations regarding equity, as it does not accurately reflect the taxpayer’s actual ability to pay.

Regarding tax management and enforcement: Currently, Indonesia’s management system relies on a self-assessment mechanism and comprehensive digitalization (e-filing, e-payment, DJP Online)^[4], which helps enhance

transparency, reduce administrative costs, and broaden the tax base. However, many MSMEs face difficulties in accessing technology, leading to compliance limitations. This necessitates the implementation of consulting and training programs to support taxpayers.

In conclusion, it is evident that the PPh Final policy has successfully simplified procedures and expanded tax coverage. However, it also raises concerns regarding equity and development incentives, as some businesses intentionally suppress their revenue below the prescribed threshold to continue enjoying preferential tax rates. Therefore, Indonesia's current direction is to refine rather than abolish PPh Final, while simultaneously modernizing tax administration based on digital technology and big data, aiming for a transparent, fair, and sustainable tax system for small and medium-sized enterprises

South Korea's Experience in Regulating Presumptive Taxation for Household Businesses

In South Korea, household businesses bear unlimited liability for all financial obligations arising from their business activities. In the context of a rapidly expanding informal sector in the post-war economy, the Korean government developed a tax management mechanism aimed at broadening the tax base and effectively controlling this group of taxpayers^[5]. As a result, a deemed taxation system (equivalent to Vietnam's presumptive tax method) was established and applied when taxpayers are unable or fail to maintain adequate accounting records.

Regarding the legal basis, this mechanism is primarily stipulated in the 2023 Korean Income Tax Act and its implementing decrees. Pursuant to Article 80.3 of the 2023 Income Tax Act, the tax authority is empowered to assess taxable income in cases where a taxpayer fails to file a tax return, files an incorrect return, or lacks reliable supporting documentation. The assessment must ensure reasonableness and objectivity, based on industry data, business scale, and business location.

The deemed assessment method in Korea consists of two main forms: the basic expense ratio and the simplified expense ratio^[6]. In essence, these are indirect methods used to estimate tax liabilities and are classified as presumptive taxation under the perspectives of the IMF (1996)^[7] and the OECD (2023)^[8]. Businesses with higher revenues or those able to substantiate part of their expenses apply the basic expense ratio method, under which taxable income is calculated as revenue minus actual expenses and a standardized deemed expense portion. For small businesses lacking documentation, the tax authority applies the simplified expense ratio, determining taxable income by multiplying revenue by an expense ratio annually announced by the Korean National Tax Service (NTS). These ratios are calculated based on statistical data and are regularly adjusted by industry, thereby reducing compliance costs while maintaining relative fairness.

A notable feature of the Korean model is its data-driven tax administration mechanism. The NTS's HomeTax and SonTax systems enable comprehensive monitoring of tax filings, invoices, and transactions of household businesses. This data is analyzed using algorithms to detect discrepancies, assess risks, and automatically identify cases requiring deemed assessment. As a result, tax authorities can make prompt decisions, limit subjective intervention,

and publicly disclose tax calculation criteria to ensure transparency.

In addition, South Korea has established a tax appeal and reassessment mechanism that allows taxpayers to challenge deemed assessment results. This process strengthens trust and encourages voluntary compliance. Overall, Korea's deemed taxation system demonstrates an effective combination of the flexibility of presumptive methods and the accuracy of modern tax administration, thereby minimizing administrative burdens for both the State and taxpayers.

In conclusion, the deemed tax assessment mechanism applicable to household businesses in South Korea is not merely a tool for determining tax obligations in the absence of accounting records, but also an advanced tax governance approach grounded in big data and risk management, aimed at achieving a fair, transparent, and efficient tax system.

Key Findings from the Study of Presumptive Tax Regulations for Household Businesses in Indonesia and South Korea

Based on the examination of presumptive tax regulations for household businesses currently applied in Indonesia and South Korea, several key insights can be drawn:

First, regarding the status of application. Presumptive tax mechanisms or their equivalents continue to exist to varying degrees; however, their scope and duration of application are increasingly being narrowed. Indonesia maintains a fixed 0.5% tax rate only during the initial stage of operation, while South Korea applies temporary tax assessments for households lacking proper accounting records.

Second, regarding the target subjects. Presumptive taxation is applied exclusively to households, individuals, or MSMEs of very small scale that lack the capacity to implement standard accounting and tax filing procedures. This serves as a transitional management tool, helping to simplify procedures, reduce compliance costs, and maintain budget revenue at a reasonable level.

Third, regarding practical challenges. All mentioned countries face issues regarding a lack of transparency and equity due to the subjective nature of revenue assessment and expense ratios. In some instances, household businesses with high actual costs are disadvantaged, while cases of fraud such as splitting businesses to avoid tax liabilities still occur. To address these issues, countries have adjusted expense ratios by industry, shortened the application period, and intensified the integration of information technology and electronic invoices (e-invoices) in tax administration.

Fourth, regarding policy trends. The general trend among nations is shifting from manual management to management based on digital data and actual reporting. Both Indonesia and South Korea are digitizing their tax systems, mandating e-invoices, and significantly narrowing the scope of presumptive taxation.

In conclusion, international experience suggests that the presumptive tax mechanism should only be maintained within a narrow scope, applied temporarily to micro-household businesses or during the initial stages of economic development. In the long term, countries aim to establish a fair and transparent tax system based on digital data, ensuring both facilitation for taxpayers and enhanced effectiveness of state management.

The current legal provisions on the abolition of the presumptive tax regime for household businesses in Vietnam.

The current provisions on the abolition of the presumptive tax regime have been shaped through a relatively coherent legal framework, reflecting a clear roadmap toward modernization and enhanced tax fairness. Decree No. 70/2025/ND-CP serves as a strategic transitional measure, allowing household businesses with annual revenue below VND 1 billion to continue applying the presumptive tax method until 31 December 2025. The key policy decision is set out in Resolution No. 68-NQ/TW of the Politburo and Resolution No. 198/2025/QH15 of the National Assembly, which stipulate that from 1 January 2026, all Household businesses will terminate the presumptive tax method and shift to the declaration-based method, together with the mandatory use of electronic invoices.

To implement these instruments, the Ministry of Finance issued Decision No. 3389/QD-BTC approving the Project on “Transforming the Tax Administration Model and Methods for Household Businesses upon the Abolition of the Presumptive tax Tax Regime,” committing to a 30% reduction in administrative processing time and compliance costs, alongside the application of modern technologies (AI, chatbots) to support tax filing. Notably, the Project clearly classifies Household businesses into three groups subject to different tax administration methods, reflecting policy adjustments to ensure fairness and alignment with small enterprises^[1]:

1. **Group 1:** Household businesses with annual revenue below VND 200 million are exempt from VAT and personal income tax (increased from the previous threshold of VND 100 million per year);
2. **Group 2:** Household businesses with annual revenue from VND 200 million to under VND 3 billion apply the direct tax calculation method based on revenue;
3. **Group 3:** Household businesses with annual revenue exceeding VND 3 billion for two consecutive years are subject to a management regime similar to small enterprises and pay corporate income tax at a rate of 17% on profits (revenue minus deductible expenses).

In addition, on 31 October 2025, the General Department of Taxation operationalized this transition through the “60-Day Peak Action Plan for Converting from Presumptive tax to Declaration-Based Taxation for Household Businesses” (issued together with Decision No. 3352/QD-CT), ensuring a nationwide synchronized transition before 1 January 2026. This marks a significant policy milestone, demonstrating the Party and State’s commitment to digital transformation in public finance, fostering a level playing field, and enhancing transparency.

On 10 December 2025, the National Assembly passed the amended Personal Income Tax Law (effective from 1 July 2026), together with various amendments to the Law on Tax Administration. A notable change widely welcomed by the household businesses community is the increase of the tax exemption revenue threshold from VND 200 million per year to VND 500 million per year, with this amount deductible before applying the percentage-based tax calculation on revenue.

On 31 December 2025, the General Department of Taxation further issued Decision No. 3789/QD-CT promulgating the

Action Program “Accompanying Household and Individual Businesses in Complying with Tax Law,” directing provincial and municipal tax departments and relevant units to strengthen support for household businesses and individual businesses after their transition to self-declaration from 1 January 2026, ensuring consistent, coordinated, and practical implementation of tax filing and payment obligations.

Most recently, Circular No. 152/2025/TT-BTC officially took effect on 1 January 2026, replacing Circular No. 88/TT-BTC guiding the accounting regime for household and individual businesses. Of particular note are the specific provisions applicable to the group of household businesses not subject to VAT and not required to pay personal income tax.

General Assessment of the Current Legal Provisions on the Abolition of the Presumptive Tax Regime for Household Businesses in Vietnam from a Legal Perspective

The newly promulgated legal provisions on the abolition of the presumptive tax regime have established a new legal framework characterized by coherent political determination, from the Politburo down to implementing authorities at all levels, ensuring adequate resources for reform.

From a technical perspective, these regulations create an initial legal stepping stone through Decree No. 70/2025/ND-CP, allowing small household businesses to continue applying the presumptive tax method until the end of 2025, thereby minimizing the risk of policy shock. The most notable strength lies in the scientific and internationally compatible approach of Project No. 3389, which abandons the uniform approach and classifies household businesses into three groups based on revenue. The establishment of a tax exemption threshold of VND 200 million per year (subsequently raised to VND 500 million per year) fundamentally addresses the compliance capacity constraints of micro-households (Group 1), while applying a simplified declaration method (percentage-based tax on revenue) to Group 2 and a management regime similar to small enterprises for Group 3 (with revenue exceeding VND 3 billion), consistent with international practice and encouraging formalization. Furthermore, the commitment to provide free accounting software represents a practical solution to offset compliance costs and remove the most significant psychological barrier for household businesses. However, as of now, the regulations still reveal several limitations.

First, the implementation roadmap is relatively compressed, while the coherence of the legal framework has not yet been fully ensured. This is the most evident limitation of abolishing the presumptive tax regime. Decree No. 70/2025/ND-CP, which allows household businesses with annual revenue below VND 1 billion to continue paying presumptive tax until 31 December 2025, is considered a reasonable transitional measure. Nevertheless, a period of just over half a year is arguably too short for most small-scale businesses, especially in rural and mountainous areas to adapt to electronic invoices, revenue declaration, and accounting software. Moreover, the “60-Day Peak Action Plan for Converting from Presumptive to Declaration-Based Taxation for Household Businesses” further underscores the urgency of the timeline. National Assembly delegate Tran

Thi Hien (Ninh Binh delegation) noted that for livelihood-based household businesses with limited accounting systems and personnel, an immediate shift to declaration-based taxation may impose significant compliance costs. This burden is not merely theoretical; it directly affects a massive population of approximately 5.2 million household businesses nationwide. Without a pilot phase or phased implementation, a sudden transition imposed on millions of unprepared entities could create policy shock, cause confusion for both tax authorities and taxpayers, and potentially foster resistance, non-compliance, or a retreat into the informal sector to evade taxes.

In the Vietnamese context, although high-level policy documents have been promulgated, detailed implementing legal instruments guiding the transition from presumptive to declaration-based taxation remain incomplete. In particular, specific regulations on simplified accounting regimes for household businesses, declaration forms, electronic revenue control procedures, and transitional support mechanisms are still under development. Affected subjects have not been given sufficient time to prepare and adapt. This undermines the coherence and practical feasibility of the legal framework when implemented on a large scale.

Second, concerns arise regarding the quality of forecasting and shortcomings in the legislative process. A notable issue during the drafting process was the abrupt adjustment of key thresholds within a short period. For example, the initial tax exemption threshold proposed in Project No. 3389 was VND 200 million per year; however, following strong practical reactions, the National Assembly subsequently revised it upward to VND 500 million per year in the newly adopted amended Personal Income Tax Law. The substantial increase from VND 200 million to VND 500 million (a 2.5-fold rise) clearly indicates that the original proposal diverged considerably from reality. This reflects insufficient research, surveys, and impact assessments during the initial drafting stage, with a lack of reliable quantitative data. Although last-minute adjustments demonstrate legislative responsiveness, they have inadvertently caused disruption and uncertainty within the HB community, as policy instability discourages long-term planning and investment.

Third, from the perspective of state administration, the simultaneous transformation of the tax management model for millions of household businesses (as of the end of 2025, approximately 3.6 million household and individual businesses are under tax administration, of which 2.2 million are actively operating under presumptive or declaration-based methods) requires robust technological infrastructure and significant data-processing capacity. However, current conditions indicate that Vietnam's electronic tax data management system is still being refined. A 2023 report by the General Department of Taxation recorded that the eTax system operates stably mainly for enterprises, while HB data remains fragmented, outdated, and heavily reliant on manual investigation by tax officers. Additionally, the integration of population databases, business registration data, and electronic invoices for all household businesses has only reached pilot stages in certain localities such as Hanoi and Ho Chi Minh City. Therefore, the system has not undergone extensive real-world testing to ensure that large-scale implementation would avoid system bottlenecks or data inaccuracies. Under such circumstances, rapid nationwide application carries

tangible risks of technological overload, service disruption, and increased data errors.

In conclusion, the central issue in Vietnam today is no longer whether to abolish the presumptive tax regime, but how and within what timeframe to do so in order to ensure feasibility. The identified shortcomings ranging from the accelerated roadmap and incomplete implementing guidelines to last-minute adjustments of exemption thresholds demonstrate that reform should proceed under a conditional and phased roadmap, aligned with the implementation capacity of both taxpayers and tax authorities.

Recommendations for Improving the Legal Framework to Ensure the Effective Implementation of the Abolition of the Presumptive Tax Regime for Household Businesses

Drawing from international experience and based on an analysis and assessment of the current state of Vietnamese law in light of recent practical implementation, several recommendations for legal improvement may be proposed as follows:

First, the roadmap for transitioning household businesses (Household businesses) from the presumptive tax method to the declaration-based method should be adjusted toward an extended and more feasible timeline.

It is advisable to consider 1 January 2026 as the starting point of the transition roadmap rather than the final deadline for abolishing the presumptive tax regime. At the same time, the amended Law on Tax Administration should clearly provide for a "transitional period" of 1–2 years (2026–2027) to allow household businesses to adapt to the new compliance requirements. The current timeline is widely regarded as compressed and not fully aligned with Vietnam's practical conditions.

International experience shows that even countries with advanced tax administration systems, such as South Korea and Indonesia, continue to maintain presumptive mechanisms for managing small-scale businesses. Indonesia, for instance, applies a "graduation roadmap" that MSMEs to pay a preferential tax rate of 0.5% for a period of 3–7 years before transitioning to mandatory declaration-based taxation. In Vietnam, where digital infrastructure is still in the early stages of development and pilot implementation, a complete and immediate abolition of the presumptive tax regime may create significant shock and risks for household businesses. Therefore, introducing a 1–2 year transitional period, similar to Indonesia's model, would provide small household businesses with necessary time to adapt and mitigate negative reactions.

Second, it is necessary to enhance the quality of regulatory impact assessment and ensure tax policy stability.

The recent adjustment of the tax exemption threshold from the initially proposed VND 200 million to VND 500 million per year - offers an important lesson for future tax policy reforms. On the one hand, the legislature's responsiveness in incorporating public feedback should be acknowledged, as it prevented the adoption of an impractical regulation. On the other hand, to address policy instability and the uncertainty it creates for household businesses, stricter impact assessment procedures are essential before introducing quantitative thresholds (such as tax rates or revenue thresholds). Drafting authorities should conduct comprehensive quantitative surveys and engage in

substantive consultation with affected groups at an early stage, thereby avoiding a “draft-and-revise” approach.

Furthermore, there should be a formal commitment to policy stability. Key tax policies such as the newly adopted VND 500 million exemption threshold should remain stable for a sufficiently long period (for example, 3–5 years). Such stability would strengthen public trust in the tax system, encourage household businesses to plan long-term investments with confidence, and promote voluntary compliance.

Third, effective implementation and policy support are decisive factors in ensuring the feasibility of abolishing the presumptive tax regime.

Institutional coherence must be ensured, avoiding large-scale implementation when guiding regulations and support software remain incomplete. The State should promptly issue regulations on simplified accounting regimes, electronic declaration procedures, and compliance cost standards. At the same time, enhanced coordination and data sharing among tax authorities, local governments, social insurance agencies, and banks are necessary to establish an integrated database.

In addition, communication and technical assistance should be strengthened through hands-on guidance, advisory points at markets and commercial centers, and electronic feedback channels. To reduce pressure on household businesses, the State should provide free accounting software and electronic invoice solutions, encourage affordable tax agent services, implement a 1–2 year transitional period, and limit administrative penalties during the adaptation phase. This approach would facilitate gradual adjustment, foster a culture of voluntary compliance, and ensure that tax reform proceeds in a stable and effective manner.

Conclusion

Overall, the abolition of the presumptive tax regime reflects a sound policy orientation of the Party and the State. However, international experience from Indonesia and South Korea indicates that presumptive taxation should be maintained within a limited scope and, in the long term, if this method is to be abolished, it should be phased out according to a clear roadmap with an appropriate scope and target groups, rather than eliminated entirely within a short period. Accordingly, to ensure the success of the reform process, Vietnam should adopt a flexible transition roadmap, incorporate a suitable transitional period, and implement synchronized technical and communication support measures. Only by ensuring these conditions can the shift from the presumptive method to the declaration-based method in Vietnam be truly effective, thereby contributing to the development of a modern, fair, and transparent tax system.

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