

Fundamentals Level – Skills Module

# Taxation (Vietnam)

Monday 1 June 2009

**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.  
Tax rates and allowances are on pages 2–3.

**Do NOT open this paper until instructed by the supervisor.**

**During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.**

**This question paper must not be removed from the examination hall.**

The Association of Chartered Certified Accountants

The Ministry of Finance of the Socialist Republic of Vietnam

# Paper F6 (VNM)

# ACCA

## SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest VND, unless instructed otherwise.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

## TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions

### Value added tax (VAT)

Standard rate	10%
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### Corporate income tax (CIT)

Standard rate for enterprises – 2009	25%
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### Foreign contractor tax (FCT)

Value added rates as a percentage (%) of taxable turnover:		%
1	Services, machinery and equipment leasing business, and insurance.	50
2	(a) Construction and assembly and installation where the tender included the supply of materials, machinery and equipment in the construction work.	30
	(b) Construction and assembly and installation where the tender did not include the supply of materials, machinery and equipment in the construction work.	50
3	Transportation and other business and production.	30

### Corporate income tax rates as a percentage (%) of taxable turnover:

1	Trading: distribution and supply of goods, raw materials, supplies, machinery and equipment associated with services in Vietnam.	1
2	Services, lease of machinery and equipment, insurance.	5
3	Construction	2
4	Other production or business activities and transportation (including sea and air transportation).	2
5	Lease of aircraft, aircraft engines, aircraft spare parts and sea going vessels.	2
6	Reinsurance	2
7	Assignments [transfer] of securities.	0.1
8	Loan interest.	10
9	Income from royalties.	10

### Personal income tax (PIT)

Regular income tax rates for Vietnamese citizens and other residents in Vietnam effective from 1 January 2009

Portion of monthly assessable income (million dong)	Tax rate (%)
Up to 5	5
Over 5 to 10	10
Over 10 to 18	15
Over 18 to 32	20
Over 32 to 52	25
Over 52 to 80	30
Over 80	35

### Net to gross calculation

$N < 4,750,000$	$G = N/0.95$
$4,750,000 < N < 9,250,000$	$G = (N - 250,000)/0.9$
$9,250,000 < N < 16,050,000$	$G = (N - 750,000)/0.85$
$16,050,000 < N < 27,250,000$	$G = (N - 1,650,000)/0.8$
$27,250,000 < N < 42,250,000$	$G = (N - 3,250,000)/0.75$
$42,250,000 < N < 61,850,000$	$G = (N - 5,850,000)/0.7$
$N > 61,850,000$	$G = (N - 9,850,000)/0.65$

Gross basis	%	Tax
$G < 5,000,000$	5	$T = 0.05G$
$5,000,000 < G < 10,000,000$	10	$T = 0.1G - 250,000$
$10,000,000 < G < 18,000,000$	15	$T = 0.15G - 750,000$
$18,000,000 < G < 32,000,000$	20	$T = 0.2G - 1,650,000$
$32,000,000 < G < 52,000,000$	25	$T = 0.25G - 3,250,000$
$52,000,000 < G < 80,000,000$	30	$T = 0.3G - 5,850,000$
$G > 80,000,000$	35	$T = 0.35G - 9,850,000$

#### Notes:

G: Gross income

N: Net income

T: Income tax

The General Department of Tax ratio of fixed taxable income over turnover for business individuals who can determine turnover but who are not conducting cost accounting for expenses is 15%.

The following rates of exchange are to be used in answering all questions in this paper:

Euro 1 = VND22,000

USD1 = VND17,000

NZD1 = VND9,000

AUD1 = VND10,000

**ALL FIVE questions are compulsory and MUST be attempted**

- 1 Heads Up Limited (Heads Up) is a New Zealand company specialising in sheep shearing equipment with a representative office in HCMC established in 2000. The representative office employs five Vietnamese staff and is the office from which the chief financial officer (CFO), Mr Bui Nua Khanh, operated, before leaving the company to pursue a career in a prestigious accounting firm in Paris. Mr Khanh is a Vietnamese national, who has in the past spent substantial time in Australia and New Zealand.

Accounting records show the following payments were made to the employees of Heads Up during the 12 months to 31 December 2009:

Name	Position	Net payments (VND)			Months employed
		Basic salary	Uniform allowance	Children allowance	
Minh	Manager	300,000,000	400,000	4,000,000	12
Tam	Receptionist	30,000,000	400,000	5,000,000	4
Thuy	Receptionist	67,500,000	400,000	3,000,000	9
Ly	Cleaner	60,000,000	0	0	12
Mr Khanh	CFO	720,000,000	0	16,000,000	4

The children allowance is a cash payment to the employees to encourage employees to have large families. Minh, Tam and Thuy, along with Mr Khanh, each have four, five, three and two dependent children respectively.

The uniform allowance is required under Heads Up's company policy, because Minh, Tam and Thuy were required under their Labour Contracts to wear the special 'Heads Up Safety Helmet' when riding their motorbikes to and from work.

Mr Khanh has been working in Vietnam as the chief financial officer for Heads Up, since the year 2005. He served the last four months of his four-year employment with Heads Up in 2009, finishing his employment on 30 April 2009. His remuneration from Heads Up during these four months comprised the following:

- Net salary of VND 720,000,000 (VND 180,000,000 per month)
- Housing allowance of NZD8,000 (NZD2,000 per month). Any unused housing allowance was paid in cash. Mr Khanh stayed in a house at a cost of USD1,000 per month from January through April 2009, which was registered pursuant to the Law on Residence.
- Children allowance which cost Heads Up VND 16,000,000 (VND 2,000,000 per month per child).
- Three free return air-tickets to any destination of Mr Khanh's choice, so long as the cost of each return trip did not exceed NZD4,000. Mr Khanh made the following return trips keeping all travel documents:

**Cost to employer  
(NZD)**

Vietnam to Christchurch flight to his parents' hometown in New Zealand	4,000
Vietnam to London, United Kingdom for a holiday	3,900
Vietnam to California, USA for a holiday	1,070

- Premiums of NZD1,000 for the period 1 January 2009 to 30 April 2009 were paid by Heads Up as compulsory pension contributions in New Zealand for Mr Khanh. Heads Up also paid NZD800 for the same period in contributions to a pension fund which was discovered to be non-compulsory.

Mr Khanh also earned the following other income in the four-month period to 30 April 2009:

- House rental revenue from his previous house in Christchurch, NZD18,000 for which he could readily substantiate the amount received. There were a few sundry expenses, which Mr Khanh estimates at NZD2,000, however, he cannot substantiate them.
- Interest income from the NZ Commercial Bank of NZD1,000.
- Sale of shares in Big Milk Company, a listed company in New Zealand for NZD1,968. The shares had originally cost NZD2,986.
- Sale of a residential property in Australia for AUD450,000. This was Mr Khanh's only residential property in Australia and he does not own residential property anywhere else. The original cost of the property was AUD400,000 and Mr Khanh incurred legal fees of AUD12,000 in selling the property. There was no Australian GST (equivalent to Vietnamese VAT) in relation to these transactions.

**Required:**

- (a) **Prepare the total personal income tax finalisation calculation for Heads Up Limited's four employees, Minh, Tam, Thuy and Ly for the year ended 31 December 2009.**

Note: you should ignore social insurance, health insurance and unemployment insurance. (9 marks)

- (b) (i) **State, giving reasons, if Mr Khanh will be subject to personal income tax in Vietnam for the first four months of 2009.** (3 marks)
- (ii) **Assuming that Mr Khanh is subject to personal income tax in Vietnam, calculate his tax liability for the four-month period to 30 April 2009. Your computation should list all of the items of income specifically listed in the question, indicating which are not taxable in Vietnam.** (11 marks)
- (iii) **Briefly explain the treatment of (1) sale of shares in New Zealand; and (2) the sale of the residential property in Australia.** (2 marks)

Note: for the purposes of this question, the provisions of any double tax treaties can be ignored, i.e. it can be assumed that they do not change the Vietnam domestic tax treatment of any of the items of income received by Mr Khanh.

**(25 marks)**

- 2 PMF Limited (PMF) is a Vietnamese company that manufactures memorabilia for international sporting events. PMF was originally licensed under the Law on Foreign Investment and to comply with the Law on Enterprise was converted to a shareholding company (joint stock company). PMF has sister companies in Malaysia and Thailand; goods are routinely sold between the Vietnamese divisions of PMF, as well as between PMF and its international sister companies. The year 2009 was PMF's sixth year in business.

Due to good sales of merchandise throughout Vietnam in 2009, the company reported a net accounting profit of VND 237,250,000. This profit represents total sales revenue and fees for the provision of services plus other income and expenses as outlined below (all net of value added tax (VAT)):

	VND
Net accounting profit	237,250,000
Income from sales of goods	300,000,000
Income received from securities transactions	35,000,000
Payment received for fines for breaches of economic Contracts	23,000,000
Newly discovered income from production omitted in previous years	2,000,000
Foreign sourced income	30,000,000
Expenses	
Cost of salaries, wages and benefits	100,000,000
Including:	
– Cash uniform allowances paid to staff [VND 1,250,000]	
– Remuneration paid to founding members who no longer participate [VND 150,000]	
Other expenses	15,000,000
Including:	
– Cost of compensation and assistance paid to employees suffering from occupational disease, not exceeding the limit stipulated in the regulations [VND 500,000]	
Expenses for advertising, marketing and promotion	750,000
Including:	
– Expenses for receptions and formal occasions [VND 50,000]	
Cost of hired services	17,000,000
Including:	
– Lease payments for assets [VND 5,000,000]	
Cost of goods sold	20,000,000
PMF pays corporate income tax at the standard rate	

**Required:**

- (a) **Compute PMF Limited's net taxable profit and corporate income tax liability for the year ended 31 December 2009. You should commence your computation with the accounting profit figure and list all the individual items specifically referred to in the question, indicating with 'O' those for which no adjustment is required (i.e. they are fully taxable or deductible).** (9 marks)
- (b) The transactions between PMF Limited and its international sister companies, constitute related party transactions under Vietnam's transfer pricing regulations.

**List the five methods of calculating market prices when considering the valuation of related party transactions for the purposes of calculating corporate income tax.** (5 marks)

- (c) Cougar Investments Ltd is an American corporation interested in investing in Vietnam by way of buying shares in PMF Limited.

**Explain the tax treatment for Cougar Investments Ltd if it invested directly in PMF Limited and six months later sold its investment to an unrelated party for a gain.** (4 marks)

- (d) (i) **State the circumstances in which interest is non-deductible for corporate income tax.** (5 marks)  
(ii) **State the criteria that tangible assets must satisfy to be deemed to be fixed assets for depreciation purposes.** (4 marks)
- (e) (i) **Define the term 'tax assessment period' for the calculation of corporate income tax.** (2 marks)  
(ii) **If DE Ltd had commenced business on the 1 October 2008, in which tax period would its first three months profits have been assessed and taxed?** (1 marks)

**(30 marks)**

- 3 (a) State the payments (as listed by the regulations) made by Vietnamese parties to foreign entities on which foreign contractor tax is not applicable. (10 marks)
- (b) Outline the value added tax and/or corporate income tax obligations that apply to the following transactions under the foreign contractor tax regulations:
- (1) Loan interest payable by a Vietnamese party in accordance with a loan agreement with an entity outside of Vietnam.
  - (2) A foreign entity earning income from investment and securities.
  - (3) A foreign entity receiving fines and penalties from a Vietnamese party for a contractual breach. (4 marks)
- (c) A foreign contractor provides a Vietnamese party with the service of supervising the construction of a manufacturing plant with a contract price (excluding tax) of USD300,000. In addition, the Vietnamese party arranges accommodation and a working place for the managers of the foreign contractor valued at USD23,000. Under the contract, the Vietnamese party is responsible to pay any corporate income tax and value added tax on behalf of the foreign contractor.

**Required:**

**Calculate in US dollars the taxable turnover for corporate income tax. (4 marks)**

- (d) Company Z acts as agent for a foreign sea transport carrier, Firm X. The contract stipulates that Company Z shall represent Firm X in receiving cargo for transportation overseas, in issuing bills of lading, in collecting transportation fees and so forth.

Enterprise B of Vietnam hires Firm X (via Company Z) to forward freight from Vietnam to the USA with total freight fees of USD 100,000.

Company Z charts the ship of a Vietnamese enterprise to transfer the cargo from Vietnam to Singapore with transportation fees of USD 20,000. The cargo will then be transported from Singapore to the USA by a ship belonging to Firm X.

**Required:**

**Calculate in US dollars the taxable turnover for corporate income tax of the foreign sea transport Firm X. (2 marks)**

**(20 marks)**



- 4 Apple-a-Day Limited (Apple-a-Day) is an inner-HCMC fruit supply company which has recently diversified into running a full range of nutrition advisory services [or 'healthy-eating promotions']. Ms Twang Twain, Apple-a-Day's chief accountant, who is also a qualified dietician, will be in China attending an international conference run by the United Nations World Food Programme this July. She has asked you to prepare the company's value added tax (VAT) declaration for the month of June 2009 as she will be at the conference when the declaration must be filed.

Ms Twain supplies you with a list of payments and receipts for the month. She tells you to assume that all of the amounts include VAT (where applicable), and that Apple-a-Day has obtained legitimate VAT invoices for all expenditure.

	Expenses (VND)	Income (VND)
Sale of fruit to inner-city supermarkets		48,000,440,000
Fertiliser supplied to selected producers	50,000,000	
Fruit processing activities (cleaning, packaging)	87,000,000	
Purchase of hygiene packaging	45,000,000	
Salaries	93,700,000	
Mineral water sales		23,500,000
Electricity bill	2,900,000	
Rent	19,000,000	
Repair of vacuum-packing machine	1,800,000	
Sale of old computer in local market		5,000,000
Provisional personal income tax	21,000,000	
Purchase of new computer	15,000,000	
Nutritional training course conducted in Ho Chi Minh City		
The income invoiced comprised VND 275,000,000 plus separate cost of course books of VND 25,000,000.	25,000,000	300,000,000
Gift of educational computer software program to training course attendees	15,000,000	
Telephone and internet	21,000,000	
Interest on loan	1,300,000	
Bank charges	55,000	

In addition to the above, Apple-a-Day also conducted a nutritional training course in Thailand for a company that is hoping to initiate a similar business in Thai cities for USD150,000. The Thai company has no legal presence in Vietnam.

**Required:**

- (a) For each item, clearly identify the value added tax (VAT) treatment/rate of tax applicable and calculate the amount that can be claimed or declared by Apple-a-Day Limited, together with the overall VAT payable by (or refundable to) Apple-a-Day Limited for the month of June 2009. (10 marks)

- (b) When an enterprise exports goods and services it must satisfy certain conditions to obtain a VAT credit.

**List the requirements for obtaining a VAT credit other than having an invoice for the purchase of the goods and services or a receipt for the payment of VAT at the import stage.** (5 marks)

**(15 marks)**

- 5 (a) **State the circumstances in which an enterprise will be eligible for a preferential (reduced) rate of corporate income tax of 10% for a period of 15 years.** (6 marks)
- (b) May Man Limited, a Vietnamese licensed limited liability company, which manufactures very strong fish sauce in Mui Ne has become aware that it will be subject to a tax inspection.

**Required:**

**In relation to the tax inspection, state:**

- (1) within how many days of the tax inspection decision issuance it must be announced to May Man Limited;**
- (2) the maximum duration of the tax inspection from the date of the announcement; and**
- (3) if the tax inspection team wishes to obtain an extension to the duration of the tax inspection, the allowable time for the extension of the inspection and by when the decision must be made.** (4 marks)

**(10 marks)**

**End of Question Paper**