Fundamentals Level – Skills Module

Taxation (Vietnam)

Monday 6 December 2010

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.

Paper F6 (VNM)

ACCA

The Association of Chartered Certified Accountants

The Ministry of Finance of the Socialist Republic of Vietnam

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%
Reduced rate	5%

Corporate income tax (CIT)

Standard rate for enterprises	25%

Foreign contractor tax (FCT)

	Value added rates as a percentage (%) of taxable turnover:	%
1.	Services, leasing of machinery and equipment, 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 (VND million)	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 calculator

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

Personal deductions (per month):

	VND
Self	4,000,000
Dependant	1,600,000

Social insurance, health insurance and unemployment insurance

Rates

Social insurance (SI)	6%
Health insurance (HI)	1·5%
Unemployment insurance (UI)	1%

Base salary
From 1 January to 30 April 2010: VND13,000,000 per month
From 1 May to 31 December 2010: VND14,600,000 per month

Business individuals who can determine turnover but who are not conducting cost accounting for expenses

General Department of Tax ratio of fixed taxable income over turnover 15%

Rates of exchange

The following rates of exchange are to be used in answering all questions in this paper (unless otherwise stated):
Euro 1 = VND25,000
USD1 = VND19,500
SGD1 = VND15,000

ALL FIVE questions are compulsory and MUST be attempted

1 Le Tran Ltd (Le Tran) is a limited liability company established in Vietnam in 2005. Le Tran specialises in manufacturing and selling telecom equipment, and provides telecom services. The following is an extract from Le Tran's audited income statement for the year ended 31 December 2010:

Description	Note	VND million
Sales revenue	1	750,000
Sales reduction	2	(10,000)
Net sales		740,000
Cost of sales	3	(580,000)
Gross profit		160,000
Selling and distribution expenses	4	(15,000)
General and administration expenses	5	(10,000)
Operating profit		135,000
Finance expenses	6	(20,000)
Financial income	7	1,500
Other non-operating income	8	3,500
Profit before tax		120,000

Notes:

1. Sales revenue includes an invoice issued in 2009 for VND3,500 million for services which were delivered and completed in January 2010. As required under the tax regulations in 2009, Le Tran properly declared this invoice as taxable revenue in its 2009 tax return.
2. Sales reduction consists of a special cash discount of VND500 million given to a customer for a bulk purchase of goods. As the customer did not want to show the discount on the invoice, the invoice states only 'Net selling price: VND4,500 million' before VAT charge.
3. Cost of sales include the following items:
   - The cost of sale for the invoice referred to in Note 1 of VND2,500 million. The cost of sale was properly declared as a deductible expense in Le Tran's 2009 tax return.
   - Depreciation expense for a machine that Le Tran did not use and had let to a related party for free of charge from 1 January 2010. The machine had originally cost VND1,000 million and had an expected useful life of ten years.
   - Depreciation expense of VND400 million for a four seat car which was purchased on 1 January 2010 for VND2,400 million.
   - Expenses of VND2,000 million for materials without any supporting invoices/vouchers.
   - Estimated expenses for the 13th month salary for Le Tran's employees of VND1,000 million and performance bonuses of VND2,500 million. The collective labour agreement states that employees will be entitled to a 13th month salary but is silent about the performance bonuses. The labour contracts of the employees are also silent about the performance bonuses. However, at the year-end the General Director issued a decision giving the performance rating of each employee, and the eligible level of performance bonus for each rating. The 13th month salary and performance bonuses were all paid in January 2011.
4. Selling and distribution expenses include the following items:
   - Advertising, marketing and promotion expenses of VND1,500 million, supported by proper invoices.
   - Expenses of VND400 million for brokerage commission, not supported by invoices.
   - Payment discounts of VND300 million for early payments received from customers.

5. General and administration expenses include the following items:
   - Golf membership cards for key executives of the company for business development, amounting to VND600 million.
   - Audit fee payable of VND300 million. The invoice for this fee was dated 31 December 2010 but only received by Le Tran on 2 January 2011.
   - Administrative fines of VND50 million for late payment of import duty.
6. Financial expenses include an accrual for six months interest expense for a loan that Le Tran had entered into on 1 July 2010. The loan was for VND100,000 million, and is payable over three years at an interest rate of 8%. The interest is to be paid on an annual basis.
7. Financial income consists of an unrealised foreign exchange gain of VND350 million from the translation of receivables on 31 December 2010.
8. Other non-operating income includes the following items to be noted:
   - Disposal gain from a fixed asset with an original cost of VND3,000 million. The asset was disposed of on 4 January 2010 and the disposal proceeds were VND1·5 million. The asset had been purchased on 1 January 2008 with three years useful life, which is in accordance with the regulations on depreciation. Le Tran uses the straight-line method for both tax and accounting depreciation, and accounts for depreciation on a monthly basis. The disposal was correctly accounted for in Le Tran's books.
   - Net proceeds of VND300 million from the recovery of a bad debt, which was written off in 2009. The total debt written off in 2009 was VND500 million. The debt written-off was properly declared in Le Tran's 2009 tax return. The amount collected of VND300 million is the net cash proceeds received by Le Tran after paying a fee to an individual debt collector of VND50 million. The debt collection fee was not supported by any document, but the cash proceeds were supported by proper documents between Le Tran and the debtor.

Additional information:

1. Proper supporting vouchers/invoices are available for all items unless otherwise stated.
2. All amounts not described in notes 1 to 8 are taxable/deductible in accordance with the current tax regulations.
3. Le Tran pays corporate income tax at the standard tax rate of 25%.

Required:

(a) Briefly explain the principles for the deductibility of advertising, marketing and promotion expenses.
(4 marks)

(b) Compute Le Tran Ltd's corporate income tax liability for the year ended 31 December 2010.

Notes:
1. **You should commence your computation with the accounting profit before tax, and list all of the individual adjustment items specifically referred to in notes 1 to 8, indicating with '0' those items for which no adjustment is required.**
2. **You should make all calculations to the nearest VND million.**
3. **You should ignore any implication of value added tax (VAT).** (19 marks)

(c) Briefly explain your treatment and adjustment (if any) of the following items:

(i) The invoice issued in 2009 (Note 1) and its respective costs; (2 marks)

(ii) Depreciation of the machine that was let free of charge (Note 3); (1 mark)

(iii) The 13th month salary and performance bonuses (Note 3); (2 marks)

(iv) The accrued interest expense (Note 6); (1 mark)

(v) The disposal gain on the fixed asset (Note 8). (1 mark)

(30 marks)

2 Ms Van Anh, a 35-year-old Vietnamese, is a single mother with a five-year-old son. She is a senior executive of a large local bank in Vietnam (V-Bank). She lives with her son and her mother, who is 54 years old and retired early from work last year to look after Van Anh's son. Van Anh's mother has no income except for a monthly pension of VND 2 million. Van Anh also supports the university cost of her foster brother (adopted by her mother), Van Duong, by sending him VND5 million per month. Van Duong who is 23 years old and has no income, is currently living with Van Anh's aunt in Ho Chi Minh City where he attends university.

Every year on 1 January, Van Anh receives an annual contribution of VND60 million from her ex-husband for taking care of their son. The contribution in 2010 was made from her ex-husband's 2009 after-tax bonus. However, as Van Anh does not really want to spend or use her ex-husband's money, she has been accumulating the contributions received in a savings account at V-Bank. Before Van Anh deposited the 2010 contribution, the account balance was VND60 million, and the account earned interest at the rate of 15% in 2010.

In 2010, Van Anh received the following gross income and benefits from V-Bank. Van Anh will bear all taxes and other compulsory contributions on her part regarding this income:

– Salary: VND100 million per month.

– Performance bonus: equal to four months contract salary, paid on 31 December 2010 pursuant to a decision from V-Bank's directors.

– Overtime in excess of salary for normal working hours (calculated and paid in accordance with the Labour Code): VND40 million.

– Annual spa-membership: VND36 million. The membership card is in Van Anh's name.

– Life insurance premium for 2010 paid on 31 December 2010: VND24 million.

– Reimbursement of tuition fees for a two-year special training course for banking executives of VND300 million that Van Anh had paid to the tuition provider in April 2010. The reimbursement was made in May 2010 when the official invoice issued by the tuition provider was available to V-Bank.

In 2010, Van Anh was assigned by V-Bank to work in a correspondent bank in Singapore from 1 July to 30 September 2010. The correspondent Singaporean bank will bear and pay a salary of SGD8,500 per month (net of Singaporean tax) during this period to V-Bank, which will in turn transfer the money to Van Anh's account. V-Bank did not pay any salary to Van Anh for the months that she worked in Singapore, however, Van Anh and V-Bank agreed that all compulsory contributions would still be made for the whole year. Van Anh's Singapore income was taxed at the flat rate of 15% applicable to non-residents in Singapore.

On 1 January 2010, Van Anh received a remittance of USD100,000 from her father, an overseas Vietnamese who is residing in the United States. The money was automatically converted into VND at the exchange rate of USD1 = VND19,500 before crediting to her account. She immediately invested all of the money in a V-Bank bond earning annual interest of 18%. The bond, which is a security according to the prevailing regulations, pays interest in the month of December 2010.

Additional information:

(1) Van Anh has properly registered for all her qualified dependant(s).

(2) Vietnam will give relief for double taxation for Van Anh's income taxed in Singapore using the tax credit method. Assume the credit is calculated based on employment income only.

Required:

(a) Calculate the total taxable and non-taxable employment income and total other income of Ms Van Anh for the year 2010.

Note: your calculation should list all of the items of income mentioned in the question indicating clearly which are taxable and which are not taxable in Vietnam. (13 marks)

(b) Calculate Ms Van Anh's tax liability and tax payable for the year 2010 taking into account all available deductions, as well as the social insurance, health insurance and unemployment insurance payable during the year. (12 marks)

(25 marks)

3 SMC is a famous Japanese company specialising in the manufacture of and trading in special machinery and equipment. SMC has no legal presence in Vietnam but is considering bidding for a large telecom project in Vietnam, whereby the successful bidder will provide telecom equipment, as well as installation, commissioning and training services to VCT, a Vietnamese project owner.

SMC requires advice with regard to the Vietnamese tax implications of the project. The following information is available:

– If the bid is successful, SMC will be the main contractor in the project and in charge of the supply of equipment (both onshore and offshore equipment supply).

– The proposed bidding price for the contract is as follows:

Items	Value USD	Notes
On-shore equipment supply	5,000,000	To be purchased from local suppliers
Offshore equipment supply	30,000,000	To be supplied by SMC
Installation, commissioning, supervisory and other related services	7,500,000	To be sub-contracted to TLC (another unrelated Japanese company).
Training in the use of the equipment	7,500,000	To be sub-contracted to QLS (a US company). The training will all be performed outside Vietnam and QLS will not send any employees to Vietnam.
Total	50,000,000	

– TLC will sub-contract 50% of its share of the contract value to Vietnamese sub-contractors.

– The contract value that SMC intends to quote for the bid will be inclusive of corporate income tax (CIT) but net of value added tax (VAT) and import duty, if any. VCT will be responsible for importing the equipment and paying any import VAT and import duty.

– The value of each activity will be separately stated in the contract.

– None of the sub-contracted values or the local purchase values includes the VAT, if any, that may be charged by the respective sub-contractors.

Required:

(a) For each of the THREE methods available for the filing and payment of foreign contractor tax (FCT) under the Circulars 134/2008/TT-BTC and 197/2009/TT-BTC, briefly describe:

- **the basis for the calculation of value added tax (VAT) and corporate income tax (CIT); and**
- **the conditions for the application of the method.** (10 marks)

(b) Assuming that SMC and TLC select to apply the hybrid method (under Circular 197/2009/TT-BTC) for filing and paying FCT, calculate the VAT and CIT portion of the FCT payable by each of them in Vietnam.

Notes:

1. **You should make all calculations to the nearest USD.**
2. **You should assume the following:**
   - **All taxable activities by both foreign and local contractors are subject to VAT at 10%.**
   - **TLC and SMC have obtained specific approvals from the local tax authorities that TLC will declare both VAT and CIT separately from SMC, and that SMC can exclude the value sub-contracted to TLC from its taxable revenue for FCT purposes.**
   - **Foreign contractors applying the hybrid method are allowed to exclude the VAT charged in Vietnam by their sub-contractors (if any) from their taxable revenue for FCT purposes.**
3. **You should ignore the implications of any double tax avoidance agreements.** (9 marks)

(c) State, giving reasons, whether or not QLS will be subject to tax in Vietnam and, if so, on what basis. (1 mark)

(20 marks)

4 Ms Hoang Lan is the Chief Accountant of T-Soft JSC, a company specialising in the provision of customised hardware and software solutions for businesses. The following is a summary of invoices and bills that T-Soft JSC received or issued in the month of June 2010 (sorted by date of receipt/issuance).

Item number	Date of receipt/ issue	Date of invoice	Issued by	Description	VND amount (exclusive of value added tax (VAT))	Additional information
1	1 June 2010	13 April 2010	Gia Hung Co	Purchase of ten new laptops for new employees	150,000,000	Bank transfer/VAT invoice
2	4 June 2010	15 March 2010	Bach Khoa Co	Repair of air-conditioners	2,000,000	Cash/Sales invoice
3	7June 2010	7 June 2010	T-Soft JSC	Disposal of five used laptops	25,000,000	Cash receipt/VAT invoice
4	8 June 2010	15 October 2009	Tran Anh Co	Purchase of file server system	250,000,000	Bank transfer/VAT invoice
5	9 June 2010	12 February 2010	Quang Minh Co	Purchase of a five-seater BMW car	2,000,000,000	Bank transfer/VAT invoice
6	15 June 2010	15 June 2010	T-Soft JSC	Sale of customised software to Hong Anh Co	700,000,000	Bank transfer/VAT invoice
7	15 June 2010	15 June 2010	T-Soft JSC	Sale of associated computer hardware to Hong Anh Co	200,000,000	Bank transfer/VAT invoice
8	19 June 2010	16 June 2010	Sunsoft Co (a US company)	Training services conducted in Vietnam	300,000,000 (converted from USD)	Bank transfer on 21 June 2010. Foreign contractor tax (FCT) declared on 22 June 2010
9	20 June 2010	20 June 2010	T-Soft JSC	Sales of special computer hardware to CFS Co, an export processing enterprise	3,000,000,000	Bank transfer/VAT invoice
10	23 June 2010	15 May 2010	Cool-All-Day Co	Purchase of new air conditioners	50,000,000	Cash payment/VAT invoice

Note: all suppliers and customers referred to are Vietnamese organisations unless stated otherwise.

Required:

(a) Calculate the amount of output VAT and input VAT applicable to each of items 1 to 10 issued/received by T-Soft JSC in the month of June 2010.

Note: you should list all of the items by number and for each item state the amount exclusive of VAT, the applicable VAT rate, output VAT/input VAT and where appropriate, give a short explanation for the treatment. (10 marks)

(b) Assuming T-Soft JSC can separately account for the input VAT on VAT-exempt and VAT-taxable items, and that all the input VAT for the month of June 2010 relates to both VAT-exempt and VAT-taxable activities:

- **for each item of deductible input VAT identified in your answer to part (a), state, giving reasons, whether apportionment between exempt and taxable activities will be required; and**
- **calculate the total amount of deductible input VAT that T-Soft JSC will declare in its June 2010 VAT return.** (5 marks)

(15 marks)

5 Note: you should answer all parts of this question in accordance with the current regulations on Tax Administration and Management.

(a) In a self review before tax audit, Mr Hanh, Chief Accountant of a Vietnamese company, has detected that the tax return he submitted to the tax authorities contains errors that affect the tax payable amount.

Required:

(i) State the actions that Mr Hanh can take to correct the errors, together with any time limit or restrictions as to when he may do so; (3 marks)

(ii) State the actions that Mr Hanh must take if the errors detected will result in an increase in the amount of tax payable; (2 marks)

(iii) State the actions that Mr Hanh should take if the errors detected will result in a decrease in the amount of tax payable. (2 marks)

(b) State by when a company must submit its quarterly and annual corporate income tax declarations. (3 marks)

(10 marks)

End of Question Paper