

# Examiner's report

## F6 Taxation (VNM)

December 2011

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### General Comments

The exam consisted of five compulsory questions:

- Question 1 for 30 marks about Corporate Income Tax ("CIT")
- Question 2 for 25 marks about Personal Income Tax ("PIT")
- Question 3 for 20 marks about Foreign Contractor Tax ("FCT")
- Question 4 for 15 marks about Value Added Tax ("VAT")
- Question 5 for 10 marks about tax administration

The exam introduced some issues that were not traditional (such as the Advertising & Promotion (A&P) and Loss carry forward issues in Question 1, P/E issues in Question 3), however the questions were generally well answered, especially Questions 1, 2 and 4. Examination techniques were remarkably improved, and most candidates adopted a clear and concise format (such as a table) in their presentation of the answer. Time management appears to be effective in this sitting.

As always, full credit was still given for all answers that are not in line with the standard answer, if the answer shows that the candidate had sufficient knowledge of the topic discussed.

### Specific Comments

#### Question One

Part (a) about depreciation was satisfactorily answered. Although in part (a)(i) many candidates failed to add the non-deductible input VAT paid in cash in the depreciable amount, most candidates were aware of the cap of VND1.6 billion for the car. In part (a)(ii), some candidates still used the lease payments for the depreciable amount which were not quite in line with the current tax depreciation regulations.

In part (a)(iii) with an unfamiliar question on A&P cap, many candidates were confused between A&P expenses which are subject to the cap and those which are not. The most common mistakes included:

- Market research costs, booth rental, display fees are either non-deductible or subject to cap, while according to Circular 130 they are not
- Payment discount, promotion hiring are fully deductible

Performance on part (b) was moderate. The presentation (in table form) was widely used, which is highly appreciated. However, various candidates failed to utilise the choice for loss-offsetting offered in CIT regulations to utilise the loss to "Other income" first (which was core in this question). A smaller number of candidates mixed the income from transfer of real property with other activities, which are not allowed under the CIT regulations.

Some candidates tried to use the traditional "Adjustment and Reconciliation" form (i.e. Add back non-deductible expenses) with little success, as this was not an appropriate form for questions of this kind.

#### Question Two

This question was very well answered. Most candidates could specify at least the key requirements for dependant relief, and successfully calculated the dependant relief for Ms Bich Hanh (although mistakes were still found here and there. The most frequent missing was relief for the son and the husband. Candidates can note that the son was studying and the husband had no income so they both qualified for the relief).

The identification of taxable and non-taxable items in Part (c) was a pleasant surprise: many candidates could correctly identify those. A vast majority of candidates replaced the long table form with the short-cut formula provided for PIT calculations, which is quite encouraging as it is more time efficient. Some immaterial mistakes were identified, however:

- Tuition fee for the second child was not taxable (it should be taxable as Ms Hanh was not an expatriate)
- Private car allocation of the personal usage (passage from home to office is still taxable)
- Gym membership was not allocated or not taxable
- Additional costs in US were taxable on Ms Hanh (it should be noted that she borne these costs on her own so they should not be taxable on her again)
- Missing Social and Health Insurance computation.

### **Question Three**

A majority of candidates failed to answer this question satisfactorily.

In part (a), many candidates unknowingly confirmed the issue asked in the question that when a foreign contractor has a Permanent Establishment in Vietnam, they will have to file tax as a company in Vietnam. However, the fundamental idea of this question was the “implicit choice” that the Government gave to foreign contractors for tax filing of their business activities in Vietnam.

In part (b) and (c), it was sometimes a surprise that candidates did not perform a gross-up of the CIT portion in taxable revenue though the question specifically indicated that the contract was “net of CIT”. Also, almost no candidates could correctly add back the non-recoverable VAT charged by local sub-contractor in calculating the tax costs.

### **Question Four**

In part (a)(i), many candidates correctly specified the invoices in case 1 and 5, but failed to correctly identify the types of invoices used in case 2, 3 and 4.

An even higher number of candidates incorrectly stated the allowable forms (not types) of invoices in part (a)(ii) into VAT invoices, sales invoices and vouchers, while the correct answer was: self-printed, electronic and customized (or printed invoices). The same situation happened in part (b), with many candidates recommending to split the transaction into many payments to avoid the VND20 million cash payment threshold in VAT regulations. Such recommendation would not get any credit in the exam.

Meanwhile, part (c) was properly answered, although in certain cases, candidates forgot that life insurance activity is exempt from VAT and input VAT for fixed assets of such company is non-creditable.

### **Question Five**

Many candidates would find themselves comfortable with this question as they could correctly identify the requirements for CIT administration and filing under Circular 60 (now Circular 28) by Headquarter and its units (branch, sales offices, subsidiary). However, some candidates forgot to mention either the deadline or the tax authorities for filing in the question, which cost them easy marks that would have been achieved should they read the questions more carefully.