Answers

Marks

1 VNCE JSC

Corporate income tax liability for the year ended 31 December 2013

			VND million	Marks
A	**Accounting profit before tax**		**128,800**	
B	**Determination of taxable income**			
1	**Adjustments to increase profits before tax**		**14,965**	
1.1	Adjustments to increase revenue	Invoice issued in 2014 for deposits for construction are not taxable in 2013	0	1
1.2	Expenses related to revenue which is not taxed in this period	(W1)	3,500	2
1.3	Non-deductible expenses	(W2)	11,465	17
1.4	Income tax paid overseas for income received overseas		0	
1.5	Other adjustments to increase profits before tax	Deposit for construction works is not taxable in the year of receipt (taxable only on hand-over of the completed construction)	0	1
2	**Adjustments to decrease profits before tax**		**17,400**	
2.1	Non-taxable income	(W3)	10,500	2
2.2	Revenue which is not taxed in this period	(W1)	5,000	2
2.3	Expenses related to the revenue to be taxed in this period		0	
2.4	Other adjustments to reduce profits before tax	(W4) + (W5) (700 + 1,200)	1,900	4·5
3	**Total taxable income**		**126,365**	
C	**Determination of corporate income tax (CIT)**			
	Total CIT at common tax rate (25%)		**31,591**	0·5
				30

Workings (all amounts in VND million)

(W1) In 2012 VNCE recorded:

- Accounting profits (15,000 – 8,500) = 6,500
- Taxable profits (20,000 – 12,000) = 8,000

Hence VNCE must have made a net adjustment of 1,500 (8,000 – 6,500) to increase taxable income in its 2012 tax return, so a compensating reduction in taxable income needs to be made in 2013.

In 2013: VNCE recorded:

- Accounting profits (18,000 – 8,500) = 9,500
- Taxable profits (13,000 – 5,000) = 8,000

So, remaining taxable revenue = 33,000 – 20,000 = 13,000; and remaining deductible cost of sales = 17,000 – 12,000 = 5,000)

This results in the following adjustments:

– Reduced revenue (taxed in the prior year) by 5,000 (i.e. 18,000 – 13,000)	2
– Reduced costs of sales (related to revenue taxed in the prior year) by 3,500 (i.e. 8,500 – 5,000)	2
	4

		Marks
(W2) Non-deductible expenses:		
+ Purchase of waste materials (60% paid in cash without evidence should be adjusted) (2,400 * 60%)	1,440	*1·5*
+ Depreciation of hospital (fully deductible)	0	*1*
+ Depreciation of gym facilities (not for production)	200	*0·5*
+ Depreciation of car:		
– Excess of purchase price over cap as calculated by VNCE (2,860 – 1,600) = 1,260		
– Depreciable period used by VNCE (1,260/126) = 10 years		
– Revised excessive depreciation based on amount without VAT [(2,860/1·1 – 1,600)/10 years] = 100	100	*2·5*
+ Amortisation of land lease right (non-deductible because the land is not in use)	800	*1*
+ Clothing expenses over cap (VND5 million/staff/year)		
– Number of staff for clothing expenses: 1,200m/3m (per person) = 400		
– Expenses over cap [(3·5 + 3 – 5) * 400] staff	600	*2*
+ Salary for non-active board members:		
– Two active members received 100% salary + four non-active members received 50% salary = total remuneration of 14,400		
– Thus salary of two active members account for 50% of the total salary (14,400 * 50%) = 7,200 (deductible)		
– Adjustments for four non-active members (non-deductible) = 7,200	7,200	*2·5*
+ Uninsured goods destroyed in the fire (inventory destroyed by fire is deductible)	0	*1*
+ Penalty for violation of a business contract (deductible)	0	*0·5*
+ Advance of VAT for foreign contractor (not recorded as an expense in the accounting profits before tax, and thus no adjustment is needed)	0	*1·5*
+ Sponsorship for event (non-deductible because it is not advertising, and not for business purposes)	600	*1*
+ Expenses without proper invoices	300	*0·5*
+ Vacation trip (450 * 50% sponsored by company) (The part sponsored from the Trade Union Fund would not be recorded in the accounting profits before tax and thus no adjustment is required)	225	*1·5*
	11,465	
		17

(W3) Non-taxable income includes:

– Dividends from investment in listed shares	3,500	*0·5*
– Dividends from subsidiaries	5,800	*0·5*
– Interest income from exempt Government bonds [900/9 months * 12 months] (All interest income, including accrued income, is exempt and should be adjusted)	1,200	*1*
	10,500	
		2

(W4) Technical documents

The expense is not reflected in the profits before tax for 2013 (as it has been accounted for in 2012). For tax purposes, the purchase costs of technical documents can be amortised over a period of up to three years.

Additional deductible amortisable expenses for 2013 (2,100/3 years)	700	*2*

(W5) Foreign exchange gains/losses

– Realised gains (no adjustment)	0	*0·5*
– Realised losses (no adjustment)	0	*0·5*
– Unrealised gains from the revaluation of cash and accounts receivable (non-taxable)	1,200	*1*
– Unrealised losses from the revaluation of payables (deductible – no adjustment)	0	*0·5*
		2·5

2 Hung Phan

(a) Taxable and non-taxable income for the year 2013

		For the period 1 January to 30 June Taxable VND million	For the period 1 January to 30 June Non-taxable VND milllion	For the period 1 July to 31 December Taxable VND milllion	For the period 1 July to 31 December Non-taxable VND milllion	*Marks*
Salary	32 * 3 months + 32 * 112·5% * 3 months	204				1·5
	32 * 112·5% * 6 months			216		1
Overtime at 200% normal rate	(100% taxable, 100% exempt)					
– Overtime in Hanoi	(32/160 hours) * 20 hours	4	4			1
– Overtime in Ho Chi Minh City	(36/160 hours) * (180 hours/ 9 months * 3 months)	13·5	13·5			1·5
	(36/160 hours) * (180 hours/ 9 months * 6 months)			27	27	1·5
Bonus	32 * 100%	32				1
	32 * 112·5%			36		1
Gym club	2 * 3 months	6				0·5
	2 * 6 months			12		0·5
Income before housing		259·5	17·5	291	27	
Monthly income before housing (A)		43·3		48·5		
Monthly housing allowance (B)	15 * 3 months/6 months	7·5				1
	15/month			15		0·5
Dependent relief						
– Self relief		4		9		1
– Dependent relief	Wife (not dependent as has average income in excess of VND 1 mil/month)	0				1
	(2 sons * 3·6)			7·2		1
Insurance deductions	[23 * (7% + 1·5% + 1%)]	2·2		2·2		2
Total monthly deductions (C)		6·2		18·4		
						16

(b) Personal income tax (PIT) liabilities payable for the year 2013

Net income for housing determination (D)	A – C	37·1		30·1		1
Grossed taxable income before housing (E)	(D – 3·25)/0·75	45·2		35·8		1
Taxable income for housing determination (F)	E + C	51·4		54·2		1
Taxable housing allowance						
– 15% of income	F * 15%	7·7		8·1		
– Actual housing	(B)	7·5		15		
Taxable housing allowance (G)		7·5		8·1		2
Net taxable income including housing	A + G – C	44·6		38·2		1
Grossed taxable income incl. housing (H)	(44·6 – 5·85)/0·7	55·4				0·5
	(38·2 – 3·25)/0·75			46·6		0·5
Total assessable income (gross)	(H+C) * 6 months	369·6	+	390·0	759·6	0·5
Total deductions	C * 6	(37·2)	+	(110·4)	(147·6)	0·5
Monthly assessable income	(759·6 – 147·6)/12				51	0·5
Annual tax liabilities	(Income * 25% – 3·25) * 12 months				114	0·5
						9
						25

Marks

3 DNTV Ltd

(a) Cases 1 and 2: Foreign contractor tax (FCT) taxable income and tax payable

	Value added tax (VAT) USD	Corporate income tax (CIT) USD	Explanations	
Case 1: A1				
Taxable income	2,000,000 = [10,000,000 – (6,400,000 + 1,600,000)] *(0·5 marks)*	1,900,000 = [2,000,000 – 100,000] *(1 mark)*	Sub-contracted value can be deducted from taxable revenue. *(1 mark)*	2·5
Tax	100,000 = (2,000,000 * 5%) *(1 mark)*	95,000 = (1,900,000 * 5%) *(0·5 marks)*	Where a foreign contractor sub-contracts all of the supply to sub-contractors and only performs services, the tax rate on services applies. *(1 mark)*	2·5
Contract 2: CNAL				
Taxable income	0 *(0·5 marks)*	1,500,000 (1,700,000 + 300,000 – 400,000 – 100,000) *(1·5 marks)*	Taxable revenue should be net of refunds, and is exclusive of collection on behalf of the State. *(1 mark)*	3
Tax	0	30,000 (1,500,000 * 2%) *(1 mark)*	International transportation is exempt from VAT. *(1 mark)*	2
				10

(b) Contract 3: HZ Bank

(i) FCT treatment of interest swap agreements

An interest swap is viewed as a financial derivative for FCT purposes. The taxable revenue from an interest swap is the difference between the interest receivable and the interest payable which the foreign contractor receives within a calendar year. 3

Where there are profits after offsetting the interest receivables and payables (i.e. VCB has to pay HZ Bank), the taxable revenue (after offsetting receivables and payables) will be subject to CIT at the tax rate of 2%. 2

No tax payment is required if there are losses after offsetting the interest receivables and payables (i.e. HZ Bank has to pay VCB). 1

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(ii) CIT portion of FCT payable and net of tax amount receivable

	CIT/net amount USD	Explanation *(not required in script)*	
For 2012			
Taxable income	0	There is only one single payment by HZ Bank to VCB in the period. Thus taxable revenue and tax is 0	1
Tax	0		0·5
Net amount received	0		0·5
For 2013:			
Taxable income	1,000,000 (3,500,000 – 2,500,000)	In 2013 VCB has to pay HZ Bank a net amount of USD1 million (taxable revenue for HZ Bank)	1
Tax	20,000 (1,000,000 * 2%)		0·5
Net amount received	1,000,000 – 20,000 = 98,000		0·5
			4
			20

			Marks

4 CRDTIV JSC

Value added tax (VAT) inputs

Transaction	Creditable VAT VND million	Non-creditable VAT VND million	
(1) Input VAT for the canteen and dormitory is creditable in full.	680		1·5
(2) Input VAT for the medical station is not creditable since it is not located in an industrial park, and serves the family of employees and people in the nearby area (non-business purposes).		400	2
(3) Input VAT for promotional items is creditable in full.	80		1·5
(4) Input VAT for payment on behalf of another entity is neither creditable nor non-creditable input VAT for CRDTIV. CRDTIV will need to gather all the documents advanced for the establishment of the subsidiary and hand these over to the subsidiary when it is set up.	0	0	2·5
(5) Input VAT for the internal movement is not creditable because the assets have not been used for CRDTIV's business operations but immediately transferred to CRDT-X, and the subsidiary's activities are not subject to VAT.		520 (= 5,720/ 1·1 * 10%)	3
Tutorial note: *CRDTIV should have charged VAT on the subsidiary.*			
(6) Input VAT for production of goods for non-refundable aids to Vietnam by international organisations is creditable in full.	80 (880/1·1 * 10%)		2
(7) Input VAT for purchasing cars with less than nine seats is only creditable up to the amount of VND160 million.	160	20 (1,980/1·1 – 1,600) * 10%	2·5
			15

5 WRD

(a) Correct actions and procedures to correct the error

The revision of the expense will impact the annual corporate income tax (CIT) return for 2012, the fourth quarter return of 2013 and the annual return for 2013. 1·5

WRD should revise the 2012 return to reduce deductible expenses, and thus increase the tax payable for 2012 by VND1,000 million. 1

WRD should supplement the returns for Quarter 4 of 2013 (to increase deductible expenses and thus reduce the tax payable by VND1,000 million). This will also be reflected in the CIT annual return for 2013. 1

WRD should also self-assess and pay a penalty for late tax payment for 2012 (at the rate of 0·05% per day). 1·5

Tutorial note: *The penalty rate would not be 0·07% as per the new Circular on Tax since the tax liability relates to 2012, before the new Circular is effective.*

WRD can offset the overpaid CIT in Quarter 4 of 2013 against either the annual CIT return for 2013, or the CIT payable of Quarter 1 of 2014. 1

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(b) Implications of the value added tax (VAT) refund check for any CIT revision

WRD has the right to submit the revised CIT returns on **any working day** before the tax authorities announce a tax audit/investigation decision for that relevant tax. 1

Since at the moment, the tax authority is auditing VAT, there are no implications for WRD's right to revise its CIT returns for 2012 and 2013 until such time as the tax authorities announce a tax audit decision in respect of CIT. 1

2

	Marks
(c) Implications of overstated VAT refund	
Since it is a reduction of the refundable amount, WRD is allowed to submit a revised VAT declaration for July 2013 to reduce the VAT refundable amount.	1
As WRD has not yet received the refund, no penalty for late payment is payable. However, the tax authorities may still have the right to impose a penalty for the incorrect VAT declaration and VAT refund claim by WRD.	1
	2
	10