Fundamentals Level – Skills Module

Taxation (Vietnam)

Tuesday 2 June 2015

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX questions are compulsory and MUST be attempted

Tax rates and allowances are on pages 2–4.

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.

Do NOT record any of your answers on the exam paper.

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

Paper F6 (VNM)

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 in Section B.

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	22%

Foreign contractor tax (FCT)

		%
	Value added rates as a percentage (%) of taxable turnover:	**%**
1.	Services (except oil drilling), leasing of machinery and equipment, and insurance.	50
2.	Oil drilling services.	70
3.	(a) Construction, assembly and installation where the tender includes the supply of materials, machinery and equipment in the construction work.	30
	(b) Construction, assembly and installation where the tender does not include the supply of materials, machinery and equipment in the construction work.	50
4.	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 (including the supply of goods in the form of on-the-spot export (except processing goods for foreign organisations and individuals); and the supply of goods under DDP, DAT, DAP terms of Incoterms).	1
2.	Services, leasing of machinery and equipment and insurance.	5
3.	Management services of restaurants, hotels and casinos.	10
4.	Leasing of aircraft, aircraft engines, aircraft spare parts and sea going vessels.	2
5.	Construction and installation regardless of whether the tender includes or does not include the supply of materials, machinery and equipment in the construction work.	2
6.	Other production or business activities and transportation (including sea and air transportation).	2
7.	Assignments [transfers] of securities, reinsurance and commissions from reinsurance.	0·1
8.	Derivatives.	2
9.	Loan interest.	5
10.	Income from royalties.	10

Personal income tax (PIT)

Regular income tax rates for Vietnamese citizens and other residents in Vietnam

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

$N < 4{,}750{,}000$	$G = N/0{\cdot}95$
$4{,}750{,}000 < N < 9{,}250{,}000$	$G = (N - 250{,}000)/0{\cdot}9$
$9{,}250{,}000 < N < 16{,}050{,}000$	$G = (N - 750{,}000)/0{\cdot}85$
$16{,}050{,}000 < N < 27{,}250{,}000$	$G = (N - 1{,}650{,}000)/0{\cdot}8$
$27{,}250{,}000 < N < 42{,}250{,}000$	$G = (N - 3{,}250{,}000)/0{\cdot}75$
$42{,}250{,}000 < N < 61{,}850{,}000$	$G = (N - 5{,}850{,}000)/0{\cdot}7$
$N > 61{,}850{,}000$	$G = (N - 9{,}850{,}000)/0{\cdot}65$

Gross basis	%	Tax
$G < 5{,}000{,}000$	5	$T = 0{\cdot}05G$
$5{,}000{,}000 < G < 10{,}000{,}000$	10	$T = 0{\cdot}1G - 250{,}000$
$10{,}000{,}000 < G < 18{,}000{,}000$	15	$T = 0{\cdot}15G - 750{,}000$
$18{,}000{,}000 < G < 32{,}000{,}000$	20	$T = 0{\cdot}2G - 1{,}650{,}000$
$32{,}000{,}000 < G < 52{,}000{,}000$	25	$T = 0{\cdot}25G - 3{,}250{,}000$
$52{,}000{,}000 < G < 80{,}000{,}000$	30	$T = 0{\cdot}3G - 5{,}850{,}000$
$G > 80{,}000{,}000$	35	$T = 0{\cdot}35G - 9{,}850{,}000$

Notes:

G: Gross income N: Net income T: Income tax

Non-resident tax rate on employment income: 20% on Vietnam sourced income

PIT rates on other income

	Resident	Non-resident
Investment income	5%	5%
Capital transfers	0·1% of selling price, or 20% on taxable gain	0·1% of selling price
Transfers of property	2% of selling price, or 25% on taxable gain	2% of selling price
Royalties/franchises	5% of the income in excess of VND 10 million	5% of the income in excess of VND 10 million
Prizes/inheritances	10% of the income in excess of VND 10 million	10% of the income in excess of VND 10 million

Personal deductions (per month)

Self	VND 9,000,000
Dependant	VND 3,600,000

Social insurance, health insurance and unemployment insurance

Rates for the year 2014

Social insurance (SI)	8%
Health insurance (HI)	1·5%
Unemployment insurance (UI)	1%

Base salary (per month) for the year 2014
VND 23,000,000 per month

Rates of exchange

The following rates of exchange are to be used in answering all questions in this paper (unless otherwise stated):

USD 1 = VND 21,500

Section A – ALL 15 questions are compulsory and MUST be attempted

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.
Each question is worth 2 marks.

1 On 1 January 2014, company CRS Co purchased a 16-seat car for VND2,640 million (including value added tax (VAT)) with proper invoices. The car will be depreciated for five years.

What is the amount of the adjustment for non-deductible expenses which CRS Co should make for the car in its tax return for the year 2014?

A VND0 million
B VND208 million
C VND320 million
D VND528 million

2 **Which of the following items of income would NOT be subject to personal income tax in Vietnam?**

(1) Medical support for fatal disease from the employer to the parent-in-law of an employee
(2) One time round trip home leave air fares for the family of an expatriate employee
(3) Kindergarten tuition fees for the children of a Vietnamese employee working abroad
(4) Voucher issued by the employer to an employee for lunches in the canteen operated by the employer

A 1, 2 and 3
B 2, 3 and 4
C 1, 2 and 4
D 1, 3, and 4

3 Zenita Co, a Brazilian company, signed a contract with a Vietnamese company, Company X, for the construction of a factory in Vietnam. The contract value is USD19 million. Zenita Co subcontracted part of the construction works with a value of USD3 million to Company A, a Vietnamese company, and works with a value of USD2·5 million to Company B, a Taiwanese company, adopting the deemed method for foreign contractor tax (FCT). Zenita Co also purchased goods for the works with a value of USD2 million from Vietnamese suppliers.

What is the amount of the foreign contractors' taxable revenue from the contract for the purposes of FCT?

A USD19 million
B USD13·5 million
C USD16 million
D USD11·5 million

4 At the end of 2014, company, BND Co, paid bonuses to its board of directors of VND3,000 million. Each of the five directors is paid an equal amount of bonus. Two out of the five directors are not involved in the daily management of the company's business.

What is the amount of tax deductible expenses which BND Co will be able to claim for the year 2014?

A VND3,000 million
B VND1,200 million
C VND1,800 million
D VND0 million

5 **What is the late payment penalty rate per day in the case of a company which settles its outstanding tax within 90 days from the time the liability arose, before 1 July 2014 and from 1 July 2014 to 31 December 2014?**

	Before 1 July 2014	From 1 July to 31 December 2014
A	0·05%	0·05%
B	0·05%	0·07%
C	10%	10%
D	10%	20%

6 **Which of the following transactions would be subject to foreign contractor tax (FCT) in Vietnam?**

(i) Repair of a Vietnamese internet cable offshore
(ii) Online training for the employees of a Vietnamese company where the server is hosted overseas
(iii) An intermediary arrangement for a Vietnamese company to provide services in Singapore
(iv) Granting of rights to a Vietnamese company to use the international brand name of a world famous product in Vietnam

A i and ii
B ii and iv
C i and iii
D iii and iv

7 In 2012, company CTC Co contributed capital of VND500 million to Company Z. In 2014, CTC Co transferred 60% of the capital it held in Company Z to a foreign company for VND450 million. At that time the retained earnings of Company Z were VND5 million. CTC Co incurred transfer expenses of VND10 million.

What is the taxable income/(loss) of CTC Co from the transfer?

A VND50 million (loss)
B VND140 million
C VND145 million
D VND147 million

8 Ms Nga Le is a Vietnamese national with no dependants. On 1 January 2014, she signed a gross employment contract with salary of VND260 million per month. Her employer is not required to withhold compulsory insurance from her income.

What is the amount of Ms Nga Le's monthly net take home income?

A VND81·15 million
B VND78 million
C VND178·85 million
D VND182 million

9 TLN Co is a Vietnamese limited liability company. Hanada Co, a Japanese company, is considering transferring its capital contribution in TLN Co to Nahada Co, an Indian company.

Which party will be responsible for making the tax declaration for the above transaction?

A Hanada Co only
B Nahada Co only
C Nahada Co and TLN Co
D TLN Co only

10 TDP Co, a Vietnamese company applying the value added tax (VAT) deduction method, provided services to a foreign customer for VND200 million and charged VAT at 5% on the invoice. In a tax review by a consultant, it was identified that the VAT rate used on the invoice should have been 10%, however, TDP Co can no longer claim back the undercharged VAT from the foreign customer.

What is the amount of additional output VAT which TDP Co will need to pay to the tax authorities (rounded to the nearest VND million)?

A VND9 million
B VND10 million
C VND11 million
D VND20 million

11 VERYDEU Co, a Chinese company, signed a contract with a Vietnamese project owner for the supply and installation of some equipment. VERYDEU Co subcontracted all the equipment supply value to a Vietnamese subcontractor and only performed the installation activities itself.

What would be the foreign contractor tax (FCT) rates applicable to VERYDEU Co under the deemed method?

	Corporate income tax (CIT)	Value added tax (VAT)
A	2%	3%
B	5%	5%
C	1%	Exempt
D	10%	Exempt

12 On 1 April 2014, Mr Chau, a Vietnamese national, started employment with a new employer, CTD Co. CTD Co has a policy whereby both the employer and the employee contribute to a voluntary pension fund approved by the Government. The monthly contributions for the employer and the employee, respectively, are VND4·5 million and VND2 million.

What is the amount of the deduction Mr Chau can claim against his taxable income for the above contributions in 2014?

A VND9 million
B VND78 million
C VND24 million
D VND18 million

13 In 2014, company DMS Co purchased materials from suppliers who are households doing business. DMS Co wanted to use the list of goods purchased (without invoices) to claim tax deductible expenses for these purchases.

What is the threshold of annual revenue which households doing business must satisfy for DMS Co to use the list of goods purchased method to claim for the purchases as a tax deductible expense?

A VND300 million
B VND200 million
C VND100 million
D VND50 million

14 Which of the following statements are correct?

(i) The Vietnamese language shall be the official language used in all tax-related documents to be submitted to the tax authorities

(ii) Documents in a foreign language must be translated into Vietnamese. All translations must be performed or certified by an authorised public notary

(iii) Where the documents in a foreign language are more than 20 pages (of A4 size) long, the taxpayer is allowed to translate only the key provisions relating to the determination of the tax obligations (plus a written explanation to the tax authorities)

A i only
B ii and iii only
C i and iii only
D i, ii and iii

15 Mr Albert, a Canadian citizen, arrived in Vietnam on 18 September 2013 to work under an employment contract. He stayed in Vietnam for the whole of the time until 19 June 2014 when he completed his employment contract and left Vietnam.

What is the amount of personal relief to which Mr Albert will be entitled to for his period in Vietnam?

A VND0 million
B VND90 million
C VND81 million
D VND108 million

(30 marks)

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

1 CRU Ltd (CRU) is the Vietnamese parent company of a group of subsidiaries doing business in the manufacturing sector. All of the group companies have a year end of 31 December.

On 1 January 2012, CRU purchased a luxury car for VND6,600 million (including 10% value added tax (VAT)) for the chairman of its board. CRU intended to use the car for six years.

In October 2014, the car was involved in an accident and had to be repaired at a cost of VND792 million (including VAT). The repair was completed on 25 October 2014 and the repair service company issued an invoice for the full repair costs to CRU on that same date. According to the repair service agreement, CRU was required to settle 90% of the repair costs in 2014 and the remaining 10% in February 2015. The first payment was made by bank transfer and the second in cash.

On 1 November 2014, the chairman decided to contribute the car as a part of CRU's capital contribution to CRS Co, a 100% subsidiary of CRU. The value contributed by the car was VND2,400 million (excluding VAT), and CRS Co intends to use the car for four years.

Required:

(a) Calculate CRU Ltd's deductible depreciation and repair expenses for each of the years ended 31 December 2013, 2014 and 2015 as a result of the above transactions. (6 marks)

(b) Calculate CRU Ltd's taxable income or loss from the disposal of the car in the year ended 31 December 2014. (2 marks)

(c) Calculate CRS Co's deductible depreciation expense in respect of the car for the year ended 31 December 2014. (2 marks)

Note: You should make all calculations to the nearest VND million.

(10 marks)

2 In 2010, Mr Tuy Nguyen, a 50-year-old Vietnamese national, purchased 1,000,000 shares in DBX, a company listed on the Vietnamese stock exchange, for VND12,000 per share. The nominal price of each DBX share is VND10,000.

In 2014, Mr Tuy had the following transactions with regard to DBX's shares:

– On 1 January 2014, he received 200,000 shares as a scrip dividend (i.e. a dividend paid in the form of shares).
– On 1 April 2014, he sold 150,000 shares for VND18,000 per share.
– On 20 December 2014, he sold 400,000 shares for VND20,000 per share.

Required:

(a) Calculate the provisional personal income tax (PIT) which Mr Tuy Nguyen had to pay during the year 2014 when he sold his DBX shares. (5 marks)

(b) Calculate Mr Tuy Nguyen's final PIT liability from the sales of his DBX shares if he is required to pay PIT under the '20% regime' and has all available documents relating to his share purchases. (5 marks)

Note: You should make all calculations to the nearest VND million.

(10 marks)

3 MCSP Co (MCSP) is an international supplier of foodstuff processing equipment incorporated in Singapore. MCSP intends to enter into a contract with KCD, a Vietnamese corporation, for the supply of a large foodstuff production line in Vietnam.

The expected contract value of the production line will consist of the following (after withholding tax in Vietnam):

– Machinery and equipment: USD25 million
– Design of the production line: USD2 million
– Supervision, installation and training: USD3 million

MCSP is considering whether to make the contract a lump sum contract for USD30 million, or a contract with the value of each activity shown separately (as above).

MCSP also wants to subcontract a part of the equipment supply amounting to USD5 million to Vietnamese subcontractors.

The whole of the above supplies are in a list of objects subject to value added tax (VAT) at 10% under the Vietnamese VAT regulations.

According to the draft contract, KCD will bear all the withholding tax in Vietnam in respect of the activities of MCSP.

Required:

(a) Calculate the foreign contractor tax (FCT) applicable to MCSP Co if the contract value is stated as a lump sum of USD30 million. (4 marks)

(b) Calculate the FCT applicable to MCSP Co if the contract value is shown separately for each activity. (6 marks)

Note: You should make all calculations to the nearest USD thousands.

(10 marks)

4 VCPL Co (VCPL) is a newly established foreign invested company operating in trading activities. VCPL is considering launching a number of promotion campaigns for its products in Vietnam as follows:

– Campaign 1: Offer customers one product for free when the customer buys a pack of ten during one month.

– Campaign 2: Sell products to customers at a reduced price for five days. The reduced price would be 50% of the normal selling price, which is equal to the cost of the goods sold.

– Campaign 3: Provide customers with a voucher which allows them to claim additional products for free every time the customer buys products with a value in excess of VND1 million.

– Campaign 4: Issue some electronic products such as TVs, or HD players, for demonstrative display, then allow employees (or customers) to purchase these products at a 30% discount after two months.

Required:

(a) For Campaign 1, advise VCPL Co of the value added tax (VAT) implications (output VAT and input VAT) and invoicing requirements if:

(i) the campaign is registered with the relevant competent authorities as a promotional activity; and
(ii) the campaign is not registered. (4 marks)

(b) For Campaign 2 and Campaign 3, advise VCPL Co of the VAT implications (output VAT and input VAT) and invoicing requirements, if the campaigns have both been registered with the relevant competent authorities. (4 marks)

(c) For Campaign 4, advise VCPL Co of the output VAT implications and invoicing requirements. (2 marks)

(10 marks)

5 WALC JSC (WALC) is a corporation in Vietnam operating in the field of financial consulting services.

WALC's audited financial statements for year ended 31 December 2014 show the following:

	Notes	Amount (VND million)
Sales revenue		168,000
Sales reduction		0
Net sales		168,000
Cost of sales	1	(86,000)
Administration expenses	2/3	(38,000)
Selling expenses		(10,000)
Operating profit		34,000
Other income	2	10,000
Other expenses	1/4	(6,000)
Profit before tax		38,000

Notes

1. During the year, WALC paid out performance bonuses of VND5,200 million for the year ended 31 December 2013 to personnel ranked manager and above. In the audited report for the year ended 31 December 2013, WALC had made a provision of VND4,800 million for these bonuses. WALC claimed the full amount of this provision as deductible in its 2013 tax return.

   In June 2014, a tax audit conducted by the local tax authorities for the year ended 31 December 2013 disallowed VND1,960 million of the above provision for the year 2013 because it exceeded the provision cap of 17%. However, the tax authorities confirmed in writing that this excessive provision would be deductible in the year of payment. WALC booked the tax collection plus penalty for this amount of VND550 million to other expenses, and the VND400 million under-provided bonuses for 2013 to the cost of sales for the year 2014. WALC decided not to make any provision for performance bonuses for the year 2014.

2. WALC has a policy of sending employees on overseas professional certificate training courses and bears all the tuition and exam fees for these courses. The fees for all the courses always exceed USD1,000. The employees are required to commit to employment with WALC for two years after each exam, but they are also given the choice to subscribe for the courses themselves; in this case they will pay in advance for the courses (with invoices issued to themselves) and can claim reimbursement from WALC when they pass the exam. During the year 2014, WALC reimbursed VND850 million to employees in cash for the fees they subscribed for courses in advance.

   If the employees who are sponsored by WALC have to re-sit an exam after their first unsuccessful attempt, WALC will advance them the exam fees for these subsequent attempts (with invoices issued to the employees) and claim reimbursement from the employees by deduction from their salary. For accounting purposes, WALC records the whole advance as administrative expenses and the amounts claimed back as other income. The total advances for 2014 amounted to VND550 million, of which WALC had claimed back VND350 million by 31 December 2014.

3. In August 2014, WALC settled a claim of VND680 million from a client for giving wrong advice and causing damages to the client. The initial claim was made in 2008 for VND1,000 million, and WALC made a provision for the full VND1,000 million in its audited financial statements for 2008 as this amount was accepted as a fair estimate by the auditor at that time. WALC properly adjusted for (i.e. added back) the amount of VND1,000 million when preparing its 2008 tax return. On 31 December 2014, WALC made a reversal of the over-provision of VND320 million (i.e. the difference between the original provision of VND1,000 million and the actual settlement of VND680 million) as a reduction of its administration expenses.

4. In addition to the corporate income tax recollection and penalty made during the tax check in June 2014 (as in (1) above), the tax authorities collected the following tax amounts in 2014, both of which WALC recorded in other expenses:

   – Non-creditable input value added tax (VAT) for 2013 of VND350 million due to invoices being declared in the VAT return after the six months time limit (the purchase was incurred for business purposes).

   – A tax penalty for foreign contractor withholding tax (FCWT) of VND430 million.

All the amounts are stated exclusive of VAT.

Required:

Compute WALC JSC's corporate income tax (CIT) liability for the year ended 31 December 2014.

Notes:

1. **You must commence your computation with the accounting profit before tax, and list all of the individual adjustment items specifically referred to in notes 1 to 4, indicating with '0' any item for which no adjustment is required.**
2. **You should make all calculations to the nearest VND million.**

(15 marks)

6 **Assume that today's date is 15 October 2014.**

SJCS Vietnam Co (SJCS) is a foreign invested company in Vietnam. Mr Kwon, a 50-year-old Korean national, will complete his secondment period in Vietnam with SJCS on 31 October 2014. His wife, who is 48 years old, is a full-time housewife and has no income. They have two children, a 19-year-old daughter and a 15-year-old son; neither child has any income.

Mr Kwon's contractual annual employment remuneration package with SJCS (gross of Vietnam tax) comprises the following items:

- Basic salary: USD201,600.
- Annual bonus: one month's salary for a full year of services, pro rata for less than a full year.
- Performance bonus: to be decided by the company depending on performance.
- One return airfare for himself and his whole family (wife and children) to Korea each year: USD1,500 per person for the return trip.
- Tuition fees for his son (in the international school) and for his daughter (in the international university): USD12,000 and USD18,000 per year, respectively.
- Accommodation by arrangement directly between SJCS and the landlord, capped at USD2,500 per month.

Additional information supplied by Mr Kwon:

- SJCS deducted USD1,200 from his salary every month for accommodation costs over the cap.
- In May 2014, SJCS paid him a performance bonus for 2013 of USD33,600. This was not declared in his personal income tax (PIT) tax return for 2013.
- The tuition fees are paid twice a year, in August and December, by SJCS directly to the school and university. 50% of the tuition fees were paid at the beginning of the school year in August 2014 and these fees are not refundable in any circumstances.
- In early October 2014, SJCS decided to support Mr Kwon's relocation costs from Vietnam back to Korea of USD8,000. SJCS had provided the same to Mr Kwon when he had relocated to Vietnam in 2010.

Required:

(a) Calculate, in USD, Mr Kwon's taxable and non-taxable income in Vietnam for the year 2014. (10 marks)

(b) Calculate, to the nearest VND million, Mr Kwon's total annual personal income tax (PIT) liability on his taxable income. (5 marks)

Note: For simplicity, you can disregard the compulsory health insurance in Vietnam applicable to Mr Kwon.

(15 marks)

End of Question Paper