
Answers

Marks

1 Minh Tam JSC

Corporate income tax liability for the year ended 31 December 2012

	VND million	
Profit before tax	55,000	
Adjustments:		
– Profits on invoices issued before the services were performed:		
– Less: Profits in 2011 (W1)	(900)	2
– Add: Profits in 2012 (W1)	883	2
– Add: Lease rental received in advance (W2)	4,500	3
– Add: Non-deductible cash discount (12 * 50)	600	1
– Add: Tools and instruments amortisation (W3)	1,500	2
– Salary of Board members who were involved in management of operations	0	0.5
– Add: Salary of Board members who were not involved in management of operations	2,000	0.5
– Add: Occasional bonus not stated in documents	5,500	1
– Add: Disallowed per diem expenses (7,000 – 2,000 * 2)	3,000	1.5
– Add: Uniform allowance in excess of cap (3,500 – 400 employees * 5)	1,500	1.5
– Add: Trade fair expenses not supported by documents (3,000/2)	1,500	1
– Product introductions	0	0.5
– Deduct: Interest income from tax exempt bonds	(8,000)	1
– Profits from selling bonds	0	1
– Add: Late payment penalty for CIT	500	0.5
– Add: Additional CIT liabilities	2,000	0.5
– Penalty for violation of contracts	0	1
– Add: Non-deductible advertising and promotion expenses (W4)	11,042	9
Taxable income	<u>80,625</u>	
Tax at 25%	<u>20,156</u>	0.5
		<u>30</u>

Workings:

(W1) Invoices issued but services were not performed

	2011 VND million	2012 VND million	
Payment received	4,950	5,830	
Revenue without VAT (10%)	4,500	5,300	1
Profit	(4,950/1.1) 900	(5,830/1.1) 883	2
Adjustments	(4,500 * 25/125) To be deducted from the taxable income of 2012 (because it was taxed in 2011 when the invoices were issued)	(5,300 * 20/120) To be added to the taxable income of 2012 (because the invoices were issued in 2012)	1
			<u>4</u>

Note: Marks will be awarded for correct action (i.e. deduct/add back), explanations are not required.

(W2) Lease rental received in advance

		Amount (VND million)	
Monthly profit from the lease	(500 * 90% – 300)	150	1
Total taxable income to be recognised in 2012	150 * 36 months	5,400	1
Recognised in the income statement	150 * 6 months (July–December)	900	0.5
Amount to be added back in the tax calculation	(5,400 – 900)	4,500	0.5
			<u>3</u>

(W3) Tools and instruments

		Amount (VND million)	
Expenses in the Income Statement (amount net of VAT)	(3,300/1.1)	3,000	1
Deductible amortisation for tax (over 2 years only, according to Circular 123)	(3,300/1.1/2 years)	1,500	0.5
Amount to be added back in 2012	(3,000 – 1,500)	1,500	0.5
			<u>2</u>

(W4) Advertising and promotion (A&P) expenses

		Amount (VND million)	
Cap base			
Cost of sales (excluding trading)	(168,000 * 50%)	84,000	1
Administration, selling and other expenses	(28,000 + 47,000 + 8,000)	83,000	1.5
Add: Additional deductible expenses (due to increased cost of sales for services invoiced but not performed)	(5,300 – 883) – (4,500 – 900) (W1)	817	1
Less: Non-deductible expenses	600 cash discount + 1,500 amortisation (W3) + 2,000 salary of non-acting Board member + 5,500 occasional bonus + 3,000 disallowed <i>per diem</i> + 1,500 uniform + 1,500 trade fairs + 2,500 penalty and additional CIT	(18,100)	2
Total expenses for calculation of cap		<u>149,717</u>	
Cap (maximum deductible) A&P expenses	Cap-base * 15%	22,458	1
A&P expenses subject to the cap	TV advertising 25,000 + Marketing support 8,500	33,500	2
Non-deductible A&P expenses (add back)		<u>11,042</u>	0.5
			<u>9</u>

2 Thomas Clark and Ngoc Huong

(a) Taxable and non-taxable income for the year 2012

	Taxable income VND million	Non-taxable income VND million	
Thomas			
Salary ([USD10,000 + USD5,000] * 12 months * 21,000)	3,780		2
Voluntary pension from company (USD5,000 * 12 months * 21,000)	1,260		1
School fee for sons (USD1,500 * 2 * 12 months * 21,000)		756	1.5
Kindergarten fee for daughter (USD1,500 * 12 months * 21,000)	378		1.5
Airfares for personal travel (USD2,400 * 5 persons * 21,000)	252		1
Car rental for private use (VND20 million * 12)	240		0.5
Medical costs	50		0.5
Incentives (USD30,000 * 21,000)	630		1.5
Total taxable income before housing	<u>6,590</u>		
Annual taxable housing – lower of:			
– 15% of gross taxable income from DG Co Ltd [VND6,590 million * 15%]	988.5		1
– Actual housing (VND85 million * 12 months)	<u>1,020</u>		0.5
Taxable housing allowance	988.5		0.5
Total taxable/non-taxable income	<u>7,578.5</u>	<u>756</u>	
Ngoc Huong			
Salary (VND48 million * 10 months)	480		1
13th month salary (VND48 million * 10/12 months)	40		2
Refund from share purchase scheme		<u>200</u>	1.5
Total taxable/non-taxable income	<u>520</u>	<u>200</u>	<u>16</u>

(b) Tax liability for the year 2012

	Thomas VND million	Ngoc Huong VND million	
Taxable income (from (a))	7,578.5	520	
Social insurance (SI), health insurance (HI), unemployed insurance (UI)			
– Thomas (VND21 million * 12 months * 1.5% HI)	(3.8)		1
– Ngoc Huong ((7% SI + 1.5% HI + 1% UI) * 21 million * 10 months)		(20)	1.5
Self-deduction (VND4 million * 12 months)	(48)	(48)	1
Dependant deduction			
– Thomas (VND1.6 million * 3 children * 12 months)	(57.6)		1
– Ngoc Huong (VND1.6 million * 1 * 8 months)		(12.8)	1.5
Assessable income	<u>7,469.1</u>	<u>439.2</u>	
Monthly assessable income	622.4	36.6	1
Annual tax liability			
– Thomas (G * 35% – VND9.85 million) * 12	2,496		1
– Ngoc Huong (G * 25% – VND3.25 million) * 12		70.8	1
			<u>9</u>
			<u>25</u>

Tutorial notes:

- The incentive is fully taxed as employment income in the year of receipt, as Thomas had the choice to receive his incentive in cash. In fact, once he received the incentive in cash, he immediately used the cash to purchase the bonds.
- The whole 13th month salary (before Company's deduction) should be taxable. Laptop costs to Ngoc Huong are an individual expense for which no deduction is available.

3 (a) FSAH Garment Co Ltd (FSAH)

The methods for the filing and payment of foreign contractor withholding tax (FCWT)

	FCWT liability of FSAH	FCWT liability of other foreign companies	Parties responsible for declaration of FCWT	
Contract A	FSAH would be viewed as 'conducting business in Vietnam' for selling goods to Vietnamese customers. Accordingly, FSAH would be liable to tax (1.5 marks)	The Chinese supplier would not be subject to FCWT as the contract is under FOB terms (1 mark)	Vietnamese customers who received the fabric from BR Viet will be responsible for the declaration of FCWT on behalf of FSAH (1 mark)	3.5
Contract C	FSAH is not required to pay FCWT since the finished goods are exported back to FSAH; FSAH does not have any business activities in Vietnam (1.5 marks)	Not applicable. Non-Vietnamese customers are not subject to tax (0.5 marks)	Not applicable (0.5 marks)	2.5
Contract D	FSAH would be viewed as selling goods to CSTM Viet. Accordingly, FSAH would be liable to tax (1 mark)	GEP would be subject to FCWT in Vietnam for supplying equipment in Vietnam under DDP terms (1 mark)	– CSTM Viet will be responsible for the declaration of FCWT on behalf of FSAH (1 mark) – MNFT will be responsible for the declaration of FCWT on behalf of GEP (1 mark)	4
Contract E	FSAH would not have any FCWT liability. The supply of equipment to PRCS under a processing contract is not a sale or business activity. Also, the equipment will be returned to FSAH once the processing contract is completed (2 marks)	GMEM is also not subject to FCWT because the supply of the equipment is conducted outside Vietnam and GMEM has no business activity in Vietnam (1.5 marks)	Not applicable (0.5 marks)	4
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(b) ALD

	Resort management \$	Brand name \$	Expenses \$	
Corporate income tax (CIT) – Taxable income	5,000,000 (4,500,000/ (1 – 10%))	2,000,000 (1,800,000/ (1 – 10%))	1,000,000 (900,000/ (1 – 10%))	1.5
CIT liabilities	500,000 (5,000,000 * 10%)	200,000 (2,000,000 * 10%)	100,000 (1,000,000 * 10%)	1.5
Value added tax (VAT) – Taxable income	5,263,158 5,000,000/(1 – (50% * 10%))	Not applicable	1,052,632 1,000,000/(1 – (50% * 10%))	1.5
VAT liabilities	263,158 (5,263,158 * 50% * 10%)	Exempt	52,632 (1,052,632 * 50% * 10%)	1.5
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				<u>20</u>

Tutorial note: Since the accommodation and travel expenses are incurred for the resort management services, the applicable FCWT rates are those for resort management activities.

4 Bi-Los JSC

Value added tax (VAT) input items for December 2012

Item no.	Amount before VAT VND million	Creditable input VAT VND million	Non-creditable input VAT VND million	Explanations (1 mark each)	
1	5,000	500	0	Input VAT for damaged goods is fully creditable.	1.5
2	3,000	270 (W)	30 (W)	Normal loss from evaporation during transportation is creditable; excessive loss is not.	4
3	–	1,500	0	Input VAT for imported goods is not subject to the six months limit.	1.5
4	4,000	400	0	Input VAT for canteen construction for employees is creditable.	1.5
5	2,300	230	0	A 50-seater bus is not subject to the VND1,600 million cap for vehicles.	1.5
6	800	0	80	Where an insurer authorises a company to pay repair costs on its behalf, input VAT is creditable by the insurer, not by the company.	1.5
7	12,000	1,070 (12,000 * 10% – 130)	130 1,300 * 10%	Input VAT for supplies which are not subject to VAT (e.g. sales to another Vietnamese company overseas) is fully creditable, except for those amounts not supported by proper invoices.	2
8	800	0	80	Input VAT for invoices over VND20 million which are not settled via a bank is not creditable.	1.5
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Working: Liquid chemicals

Acceptable regulatory loss: 2 tons * 10% = 0.2 tons	0.5
Actual loss: 2 tons – 1.6 tons = 0.4 tons	0.5
Excessive loss compared with regulatory allowed loss: (0.4 – 0.2) = 0.2 tons	0.5
Total input VAT: VND3,000 million * 10% = VND300 million	0.5
Non-deductible input VAT due to excessive loss: VND300 million * (0.2/2 tons) = VND30 million	0.5
Deductible input VAT = VND(300 – 30) million = VND270 million	0.5
	<u>3</u>

5 (a) Deadline for tax declarations

Declaration	Due date	
Monthly value added tax (VAT) declaration	20th day of the month following the month when the tax liability arose	1
Quarterly corporate income tax (CIT) declaration	30th day of the quarter following the quarter when the tax liability arose	1
Foreign contractor withholding tax (FCWT) finalisation once the contract is completed	45th day from the date of the contract's completion	1
Annual CIT finalisation	90th day from the end of the fiscal year	1
CIT finalisation when a company is transformed from a one-member limited liability company to a joint stock company	45th day from the date when the company is transformed	1
		<u>5</u>

(b) Correction of mistakes in a value added tax (VAT) declaration

Mai Hanh should submit the following documents to the tax authorities:

Case 1: Understatement of VAT payable in the October 2012 return

- An explanation of the amendment to increase the VAT due by VND200 million, together with the necessary self-assessed penalty.
 - An amended VAT return for October 2012 with an increase in the VAT due by VND200 million.
 - Documents supporting the increase in VAT liabilities.
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Case 2: Understatement of taxable revenue in the July 2012 return

- An explanation of the amendment to increase the taxable revenue by VND900 million.
- An amended VAT return for July 2012 with the new taxable revenue figure of VND13,200 million.

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