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# Answers

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Section B

Marks

1 HVNV Co

(a) Corporate income tax (CIT) – Assessable income and tax rates for the years 2012, 2013, 2014 and 2015

	Software VND million	Hardware VND million	
<b>2012</b>			
Taxable income	8,000	7,000	
Loss from 2011 (must offset against the incentive activity first)	(8,000)	(1,000)	2
Assessable income	<u>0</u>	<u>6,000</u>	
Tax rate	Exempt	25%	1
<b>2013</b>			
Taxable income	(10,000)	2,500	
Offset loss between software and hardware	<u>2,500</u>	<u>(2,500)</u>	1
Assessable income/(loss)	<u>(7,500)</u>	<u>0</u>	
Tax rate	5% (50% off)	25%	1
<b>2014</b>			
Taxable income	15,500	2,000	
Loss carried forward from 2013	<u>(7,500)</u>	<u>0</u>	1
Assessable income	<u>8,000</u>	<u>2,000</u>	
Tax rate	5% (50% off)	22%	1
<b>2015</b>			
Taxable income/(loss)	(11,000)	3,000	
Offset between software and hardware	<u>3,000</u>	<u>(3,000)</u>	1
Assessable income/(loss)	<u>(8,000)</u>	<u>0</u>	
Tax rate	5% (50% off)	22%	1
			<u>9</u>

(b) Tax loss allocation after the split

	AHV VND million	BHV VND million	
Total loss at the end of 2015 (before the split) VND8,000 million			0.5
Capital split ratio	65%	35%	
Allocated loss to each company	<u>(5,200)</u>	<u>(2,800)</u>	0.5
			<u>1</u>
			<b><u>10</u></b>

2 Mr Nghia Phan

(a) Tax treatment of share awards

**'Cashing shares award' scheme**

This is effectively an employment-related performance incentive since the terms are stated in the labour contract. Therefore, it will be treated as employment income, not investment income. 1.5

The payment was made in cash, not by shares, thus the tax delay applicable to a share-based bonus (Article 26, point 11 of Circular 111/2013) is not applicable. So, the 'cashing' share award would be taxed in Mr Nghia's hands on payment. 1

**Actual 'share award' scheme**

This award is also employment-based (additional bonus), thus the award would be employment income. 1

However, any income received from the shares received after the award (e.g. dividends) will be investment income. 0.5

The award involves the issuance of shares to Mr Nghia, thus the income would not be taxable upon receipt, but delayed until Mr Nghia sells the shares.

**Marks**

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**(b) Personal income tax (PIT) liability for the year 2015 under Option 1**

	Amount VND million	
Salary (300 million * 12 months)	3,600	0.5
'Cashing' award (20,000 – 12,000) * 1.5 million shares	12,000	0.5
Cash bonus	4,800	0.5
	<u>20,400</u>	
Taxable income	20,400	
Self-deduction and dependant (9 + 3.6 * 3) * 12	(238)	1
Insurance deduction (23 * 10.5% * 12)	(29)	1
	<u>20,133</u>	
Total assessable income	20,133	
Monthly assessable income (20,133/12 months)	1,678	0.5
Annual tax liability (1,678 * 35% – 9.85) * 12 months	6,929	1
		<u>5</u>
		<b><u>10</u></b>

**3 TBC Co**

**(a) The volume of treasury bills held on the maturity date**

Total bought (240,000 + 200,000 + 160,000)	600,000	0.5
Total sold (130,000 + 70,000)	(200,000)	0.5
	<u>400,000</u>	
Volume held on the maturity date	400,000	1

**(b) The weighted average buying price of the treasury bills held on the maturity date**

Using the FIFO method, the 400,000 treasury bills held by TBC Co would consist of:

		Price VND	Weighted price VND million	
(240,000 bought on 2 January – 130,000 sold on 15 March – 70,000 sold on 15 May)	40,000	90,000	3,600	2
200,000 bought on 1 February	200,000	91,000	18,200	1
160,000 bought on 15 April	160,000	93,000	14,880	1
	<u>400,000</u>		<u>36,680</u>	
Total	400,000		36,680	
Weighted average buying price (36,680/400,000)			<u>91,700</u>	1
				<u>5</u>

**(c) Taxable revenue and corporate income tax (CIT) payable under the foreign contractor tax (FCT) regime**

	VND million	
<b>From the sales of treasury bills</b>		
Taxable revenue		
Sales on 15 March (130,000 * 92,500)	12,025	0.5
Sales on 15 May (70,000 * 94,500)	6,615	0.5
	<u>18,640</u>	
Tax at 0.1%	19	0.5
<b>From the redemption of Treasury bills</b>		
Taxable revenue (100,000 face value – 91,700 (from (b)) * 400,000 (from (a)))	3,320	1.5
Tax at 5%	166	1
		<u>4</u>
		<b><u>10</u></b>

**Tutorial note:** The question is based on Example 25 in Circular 103/2014.

4 Value added tax (VAT) invoicing

(a) SLR Co

The date that SRL Co is required to issue an invoice for the equipment is 2 April 2015. 1

According to the current invoicing regulations, the seller of goods is required to issue an invoice when the title (or right to use) is transferred to the buyer, regardless of whether money has been collected or not. 1

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(b) SHL Co

(i) Where a customer's purchases have a value of less than VND200,000, the seller is only required to issue an invoice if specifically requested by the customer. 1

(ii) For sales of petroleum SHL Co is allowed to issue one invoice at the end of each day for the total revenue from sales with a value in excess of VND200,000, where the customer has not required an invoice. 1.5

For sales of other items in the convenience store, SHL Co is required to issue an invoice for each individual sale with a value in excess of VND200,000, even if the customer does not require an invoice. 1.5

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(c) HGV Co

(i) Service providers are required to issue an invoice upon completion of the service, however, where money is collected before the service is completed, an invoice is required to be issued upon collection. 1

Therefore, HGV Co must issue an invoice for the set up fee on receipt of the cash, i.e. on 15 June 2015, since this is earlier than the completion of the service. 1

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(ii) The total output VAT chargeable by HGV Co to Customer A in June 2015 will be:

	VND million	
Set up fee	5	0.5
Service fee (6 million * 10 days/30 days)	<u>2</u>	1
	<u>7</u>	
VAT at 10%	0.7	<u>0.5</u>
		<u>2</u>
		<b><u>10</u></b>

**Reference:** Article 16.2 (a) of Circular 39/2014, and Article 3 (point 7(b)) of Circular 26/2015 supplementing Circular 39/2014.

## 5 VTL JSC

## Taxable income for corporate income tax (CIT) for the year ended 31 December 2015

Item	VND million	
1 Staff bonuses		
– Accrual for bonuses in 2015	11,000	1
– Actual bonuses settlement re 2015	(12,500)	1
– Bonuses re 2014 recorded in 2015 expenses	500	2
2 Gross up for tax paid on profit sharing in Singapore ((USD5 million * 22,000)/83 * 17)	22,530	2
3 Rental income (26,400/1.1/4)	(6,000)	1.5
4 Medical costs (1,200 * 50% – 400)	200	1.5
5 Quick depreciation	0	1.5
6 Loan for investment in new company	0	1
7 Foreign exchange gain/loss		
– Realised net gain	0	0.5
– Unrealised loss on receivables	1,400	0.5
– Unrealised gain on payables	0	0.5
– Unrealised gain on cash	(300)	0.5
Total adjustments	16,830	
Profit per financial statements	680,000	
Total taxable income	696,830	
Tax at 22%	153,303	0.5
Credit for tax paid in Singapore	(22,530)	1
Total tax in Vietnam	130,773	
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**Tutorial notes** (not required as part of the answer):

1. The accrued bonuses are non-deductible but the actual bonus payments are deductible in the year to which they relate.
2. The profit share from Singapore is taxable in Vietnam, but a foreign tax credit is available.
3. As the rental income was taxed in full in 2014, it will be non-taxable in the subsequent years.
4. The medical costs are non-deductible as they are not covered in the directors' employment contracts.
5. No adjustment is required for the quick depreciation, because the company made a profit and depreciation of up to two times the regulated depreciation expense is allowed. A reduction from five years to three years does not exceed two times.
6. No adjustment is required for the loan interest, as provided in Circular 96/2015, Article 4, point 2.18 amending the same point in Article 6 of Circular 78/2014.

## 6 Mr Tommy Morning

## (a) (i) Taxable and non-taxable income for the year 2015

		Taxable income VND million	Non-taxable income VND million	
<b>Annual income</b>				
Annual salary (USD300,000 * 22,000)	a	6,600		0.5
Performance bonus ((USD300,000/12 + 35,000) * 22,000)	b	1,320		1
Tuition fees:				
– Jennifer (USD20,000 * 22,000)	c	440		1
– Lewis (USD15,000 * 22,000)			330	1
Air fares:				
– (USD3,000 * 3 trips: 1 for him, 2 for his wife * 22,000)	d	198		1
– (USD3,000 * 1 trip for him * 22,000)			66	0.5
Medical insurance:				
– For himself (USD1,000 * 12 months * 22,000)	e		264	1
– For family (USD1,000 * 2 (wife and Lewis) * 12 months * 22,000)		528		1
Car (20 * 12 months)	f		240	1
Accumulation insurance (only taxable when paid) (USD3,000 * 12 months * 22,000)	g		792	1
		<u>9,086</u>	<u>1,692</u>	<u>9</u>

## (ii) Personal income tax (PIT) liability for the year 2015

Total taxable income before housing (from (a))	h		9,086	
– 15% of gross income (9,086 * 15%)	i	1,363		0.5
– Actual housing cost (USD3,500 * 12 * 22,000)	k	924		0.5
Taxable housing	l = min(i,k)		<u>924</u>	0.5
Total taxable income	m = h + l		10,010	
<b>Deductions</b>				
– Self deduction (9 * 12)	n	(108)		0.5
– Family deduction (3.6 * 12) (for Lewis only)	o	(43)	(151)	1
Annual assessable income	p		<u>9,859</u>	
Monthly assessable income	q = p/12		822	0.5
Annual tax liability	r = (q * 0.35 – 9.85) * 12		3,334	0.5
				<u>4</u>

## (b) Tax treatment of options

The current regulations are unclear regarding stock options. However, the trigger point for taxable income from a bonus/incentive in the form of shares is when the shares are sold. 1

Accordingly, the options would not be taxable neither at their grant (i.e. on 1 January 2015) nor when 25% of the options vest (i.e. on 31 December 2015) since Mr Tommy does not receive any shares in 2015. The first acquisition of option shares only occurs on 2 January 2016.

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