
Answers

Section B

Marks

1 InvestHold Co and TarSub Co

(a) Deductibility of interest expenses

The interest on a loan made in order to invest in another company where the capital is contributed in full according to the contribution schedule or for business operations is deductible in the year it arises. 2

The interest on a loan made in order to invest in another company where the capital is not fully contributed according to the contribution schedule is non-deductible, in proportion to the corresponding shortage in contributions. 1

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(b) Deductible and non-deductible interest expenses for the year ended 31 December 2015

	Amount VND million	Amount VND million	
InvestHold Co:			
– Capital contribution required in 2015 (VND500 billion/2 years)		250,000	0.5
– Shortfall in capital contribution		0	0.5
– Deductible interest expenses (100 billion * 9.6% * 9/12)		7,200	1
TarSub Co:			
– Capital contributions required in 2015 by InvestHold Co (400,000 * 75%)	300,000		0.5
– Shortfall in contributions (300,000 – (150,000 + 100,000))		50,000	0.5
– Capital contributions required in 2015 by the other investor (400,000 – 300,000)	100,000		0.5
– Shortfall in contributions		<u>100,000</u>	0.5
– Total shortfall (from April to December – 9 months)		150,000	
– Total shortfall/Total loans (150,000/200,000) (Note)	75%		0.5
– Interest expenses (110,000 * 12% + 90,000 * 14%) * 9/12)	19,350		1.5
– Non-deductible interest expense (19,350 * 75%)		14,513	0.5
– Deductible interest expense (19,350 * 25%)		<u>4,837</u>	0.5
			<u>7</u>
			<u>10</u>

Note: According to point 2.18 of Circular 78/2014 as amended by Circular 96/2015, where an enterprise has more than one set of borrowings, when a shortfall of capital contribution exists, the non-deductible interest expense shall be determined by the formula: $\text{shortfall interest} / \text{total loan amount} * \text{total interest expenses}$.

2 Mr Hieu Minh

(a) Tax treatment of voluntary insurance payments

For non-accumulated voluntary insurance fees paid by an employer, such as medical insurance, the fee is not taxable in the hands of the employee, even if the insurer is a foreign company allowed to operate in Vietnam. 1

For accumulated voluntary life insurance fees paid by an employer:

– Where the insurer is a company incorporated in Vietnam: the insurer is required to withhold personal income tax (PIT) at the rate of 10% of the accumulated fee accrued to the employee at the time of maturity of the insurance policy. 1

– Where the insurer is a foreign company (not incorporated in Vietnam): the employer is required to withhold PIT at the rate of 10% of the fee at the time of contribution. 1

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(b) Taxable and non-taxable income for the year 2015

	Taxable income VND million	Non-taxable income VND million	Marks
Salary (400 * 9 months)	3,600		0.5
Bonus (400 * (3 + 9/12))	1,500		1
Relocation in cash (non-taxable for Vietnamese under Circular 92/2015)		200	1
Medical insurance		20	0.5
Life insurance (taxable but not in 2015)		100	1
Car for transportation (15 * 9 months)		135	1
Uniform in cash (15 – 5 non-taxable cap)	10	5	1
Return air fares (fully taxable as US is not his home country)	40		1
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			<u>10</u>

3 CC-SS

(a) Foreign contractor tax (FCT) payable if all supplies are sub-contracted to Vietnamese entities

	Corporate income tax (CIT) USD million	Value added tax (VAT) USD million	Marks
Taxable value	2.21 $(1 + 0.8 + 0.3)/(1 - 5\%)$ (1.5 marks)	2.33 $2.21/(1 - 5\%)$ (0.5 marks)	2
Tax	0.11 $(2.21 * 5\%)$ (0.5 marks)	0.12 $(2.33 * 5\%)$ (0.5 marks)	1
			<u>3</u>

Tutorial notes:

- Only services activities are subject to FCT where the supplies are sub-contracted to Vietnamese entities.
- Training overseas is exempt from FCT.

(b) FCT payable if all activities are performed by the foreign contractor

(i) Lump sum price

	Corporate income tax (CIT) USD million	Value added tax (VAT) USD million	Marks
Taxable value	10.41 $(6 + 1 + 1.5 + 0.8 + 0.3 + 0.6)/(1 - 2\%)$ (1.5 marks)	10.73 $10.41/(1 - 3\%)$ (0.5 marks)	2
Tax	0.21 $(10.41 * 2\%)$ (0.5 marks)	0.32 $(10.73 * 3\%)$ (0.5 marks)	1
			<u>3</u>

Tutorial note: Training overseas is not exempt from FCT in the case of a fixed price contract.

	CIT USD million	VAT USD million	Marks
(ii) Itemised price			
Machinery and equipment Taxable value	6.06 $6/(1 - 1\%)$		0.5
Tax (i)	0.06 $(6.06 * 1\%)$ (0.5 marks)	0 (Exempt) (0.5 marks)	1
Construction and installation Taxable value	1.53 $1.5/(1 - 2\%)$ (0.5 marks)	1.58 $1.53/(1 - 3\%)$ (0.5 marks)	1
Tax (ii)	0.03 $(1.53 * 2\%)$ (0.5 marks)	0.05 $(1.58 * 3\%)$ (0.5 marks)	1
Tax on services (as in (a) (iii))	<u>0.11</u>	<u>0.12</u>	0.5
Total FCT ((i) + (ii) +(iii))	<u>0.20</u>	<u>0.17</u>	4
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4 RBP Co

(a) Deductibility of input value added tax (VAT) for Project A and Project B

Transaction	Project A	Project B	
(1) Input VAT from investment in fixed assets	VND100 billion is fully deductible (Input VAT from fixed assets investment in a project for both exempt and taxable supplies is deductible in full) (2 marks)	VND20 billion is non-deductible (Input VAT from a project with only non-taxable supplies is not deductible) (1 mark)	3
(2) Input VAT from operations	Only VND7.5 billion is deductible (10 input * taxable revenue 36/ total revenue (36 + 12)) (Deductible input VAT from operations of a project with both exempt and taxable supplies must be apportioned in the ratio between taxable revenue to total revenue) (2.5 marks)	VND3 billion is non-deductible (Input VAT from a project with only non-taxable supplies is not deductible) (0.5 marks)	3
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(b) Deductibility of input VAT relating to invoices

Invoice	Deductible VND million	Non-deductible VND million	Reasons	
1		200	The receiving bank account must be registered with the tax authorities for input VAT to be deductible.	1
2	350		Late issuance of invoices is subject to penalty but the invoice is valid and the input VAT deductible.	1
3		150	For invoices issued manually, the blank spaces must be crossed for the invoice to be valid and input VAT deductible.	1
4	8		A seller's chop is not required for invoices issued by a supermarket.	1
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5 RTM Co

Corporate income tax (CIT) for the year ended 31 December 2015

Item	Description	Adjustment VND million	Tutorial notes (<i>not required as part of the answer</i>)	Marks
	Accounting loss before tax	(1,480)		
1	Destroyed items	0	<i>Destroyed goods due to expiry are deductible against proper supporting documents</i>	1
2	Internal consumption of stock			
	– For further processing	0	<i>Internal consumption</i>	0.5
	– For business meetings	0	<i>Internal consumption</i>	0.5
	– For vacation and personal use	150	<i>Treated as sales – revenue must be recognised</i>	1
3	Accommodation costs			
	– For travel purposes	340	<i>Personal consumption</i>	1
	– For work purposes	0	<i>Deductible (according to point 2.6 of Article 4, Circular 96/2015 revising Article 6 of Circular 78/2014)</i>	1
4	Incentive bonuses			
	– Actual payment	0	<i>No impact on accounting profits and taxable income</i>	0.5
	– Additional accounting expense (VND200 million)	0	<i>No adjustment as this is a deductible expense for this year</i>	1
	– Disallowed provision in 2014	(550)	<i>Addition to deductible expenses in 2015 (it is not an accounting expense for 2015, but is deductible on actual payment in 2015)</i>	1.5
5	Vouchers			
	– Gift vouchers issued in 2014	0	<i>No adjustment as recognised in both accounting revenue and taxable revenue for 2015</i>	1
	– Gift vouchers issued in 2015	0	<i>No adjustment as no accounting revenue or taxable revenue for 2015 (only recognised in 2016)</i>	1
	– Unredeemed vouchers in June 2015 of (10,000 – 9,500)	0	<i>No adjustment as it has been recognised as other income for both accounting purposes and tax purposes for 2015</i>	1
6	Leases			
	– Lease A	0	<i>No adjustment, fully deductible including the tax paid for the landlord as RTM Co agreed in the lease agreement to bear the PIT (point 2.5 of Article 4 Circular 96/2015 revising Article 6 of Circular 78/2014)</i>	1
	– Lease B	0	<i>No adjustment</i>	0.5
	– Lease C			
	– Rent	600	<i>Rent is non-deductible because it is over VND20 million and paid in cash</i>	1
	– Tax (60 * ¾)	45	<i>The tax payment for the landlord is non-deductible because it is not provided for in the lease agreement</i>	1
	Tax loss carry forward	<u>(895)</u>		<u>0.5</u>
				<u>15</u>

6 Mr Minh Phu

(a) Personal income tax (PIT) liability for the year 2015

		VND million	VND million	
From MNP Co				
Monthly net salary + allowance (250 + 50)	<i>a</i>	300.0		0.5
<i>Deduction</i>				
– Self deduction + family deduction (9 + 3.6 * 2)	<i>b</i>	16.2		1
– Deductible insurance (23 * 10.5%)	<i>c</i>	2.4	(18.6)	1
Net income for grossing up (without housing)	$d = a - (b + c)$		281.4	
First gross-up (without housing)	$e = (d - 9.85)/0.65$		417.8	1
Taxable income before housing	$f = e + b + c$		436.4	0.5
Taxable housing	$g = \min(g1, g2)$			
– Actual housing	<i>g1</i>	40.0		0.5
– 15% gross income	$g2 = f * 0.15$	66.0	40.0	0.5
Taxable income with housing	$h = d + g$		321.4	0.5
Second gross-up (with housing)	$i = (h - 9.85)/0.65$		479.3	1
From HNP Co				
Monthly net salary	<i>j</i>		60.0	0.5
Grossed up income	$k = (j - 5.85)/0.7$		77.4	1
PIT calculations				
Total annual gross income	$l = i * 12 + k * 6$		6,216.0	1
Monthly gross income	$m = l/12 \text{ months}$		518.0	1
Annual PIT	$o = (m * 0.35 - 9.85) * 12$		2,057.4	1
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(b) Tax treatment of remittance and inheritance/sale

Remittances from overseas: such remittances are exempt from PIT in Vietnam, regardless of whether the recipient is resident or non-resident.		1
Inheritance of building:		
– The building inherited from her aunt will be taxable in the hands of Mrs Phu (only not taxable if inherited from close family).		1
– Tax is payable at the rate of 10% on taxable income of VND29,990 million (being the market value of VND30 billion – VND10 million).		1
Sale of the building: subject to PIT at 2% of the selling price (i.e. the contract price) or the price stated by the local People's Committee, whichever is higher.		1
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