

Fundamentals Level – Skills Module

Taxation (Vietnam)

Thursday 7 December 2017



Time allowed: 3 hours 15 minutes

This question 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 question paper until instructed by the supervisor.

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

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

Think Ahead

ACCA

The Association of Chartered
Certified Accountants

The Ministry of Finance of the
Socialist Republic of Vietnam

Paper F6 (VNM)

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	20%
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Foreign contractor tax (FCT)

Value added tax rates as a percentage (%) of taxable turnover	%
1. Services, leasing of machinery and equipment, and insurance.	5
2. (a) Construction, assembly and installation where the tender includes the supply of materials, machinery and equipment in the construction work.	3
(b) Construction, assembly and installation where the tender does not include the supply of materials, machinery and equipment in the construction work.	5
3. Other business and production.	2
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 the terms of Incoterms).	1
2. Services, leasing of machinery and equipment, insurance, leasing of oil rigs.	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

$N < 4,750,000$	$G = N/0.95$
$4,750,000 < N < 9,250,000$	$G = (N - 250,000)/0.9$
$9,250,000 < N < 16,050,000$	$G = (N - 750,000)/0.85$
$16,050,000 < N < 27,250,000$	$G = (N - 1,650,000)/0.8$
$27,250,000 < N < 42,250,000$	$G = (N - 3,250,000)/0.75$
$42,250,000 < N < 61,850,000$	$G = (N - 5,850,000)/0.7$
$N > 61,850,000$	$G = (N - 9,850,000)/0.65$

Gross basis	%	Tax
$G < 5,000,000$	5	$T = 0.05G$
$5,000,000 < G < 10,000,000$	10	$T = 0.1G - 250,000$
$10,000,000 < G < 18,000,000$	15	$T = 0.15G - 750,000$
$18,000,000 < G < 32,000,000$	20	$T = 0.2G - 1,650,000$
$32,000,000 < G < 52,000,000$	25	$T = 0.25G - 3,250,000$
$52,000,000 < G < 80,000,000$	30	$T = 0.3G - 5,850,000$
$G > 80,000,000$	35	$T = 0.35G - 9,850,000$

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	0.1% of selling price
Transfers of property	2% of selling price	2% of selling price
Royalties/franchises	5% of the income in excess of VND10 million	5% of the income in excess of VND10 million
Prizes/inheritances	10% of the income in excess of VND10 million	10% of the income in excess of VND10 million

Personal deductions (per month)

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

Social insurance, health insurance and unemployment insurance on salary and allowances

Rates for the year 2016

Social insurance (SI)	8%
Health insurance (HI)	1.5%
Unemployment insurance (UI)	1%

Base salary (per month) for social insurance, health insurance, etc for the year 2016

Note: For simplicity, you should assume that this rate is applicable for the whole of the year 2016.

VND 24,200,000

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 22,500

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 Candidates Answer Booklet.

- 1 FXVN Ltd is a Vietnamese company established in 2014, whose functional currency is the Vietnam Dong. From 2014 to June 2016, the company was in the construction period (construction of its factory and purchase of machinery and equipment) with no operations and no revenues. During this period, FXVN Ltd had the following transactions in US dollars (USD):

Transactions	Amount USD	Date of transaction	USD/VND exchange rate	Note regarding accounting records of monetary items
Purchase of machinery on credit	4 million	1 February 2015	21,450	Recorded as 'Payables for fixed assets'
Receipt of first invoice from the construction contractor	3 million	1 December 2015	22,470	Recorded as 'Payables for fixed assets'
Settlement of amounts owed for machinery and construction (as above)	(7 million)	31 December 2015	22,410	Recorded as a reduction in 'Payables for fixed assets'
Receipt of final invoice from the construction contractor	3 million	15 February 2016	22,290	Recorded as 'Payables for fixed assets'
Settlement of the final invoice from the construction contractor	(3 million)	28 June 2016	22,370	Recorded as a reduction in 'Payables for fixed assets'
Factory and machinery completed at a total cost of USD10 million and put into use		1 July 2016	22,340	

FXVN Ltd commenced business operations and started generating revenue from 1 July 2016. The company expects to amortise the foreign exchange differences incurred during the construction period over the maximum period available as allowed under the prevailing regulations in 2016.

Required:

- (a) Explain the treatment of 'realised' foreign exchange differences arising from the formation of fixed assets in the following periods:
- the construction period (where a company has no business operations); and
 - the period from when a company starts its business operations. (5 marks)
- (b) Calculate (in VND millions) the amount of the foreign exchange differences which FXVN Ltd can capitalise during the construction period, and the deductible expense from the amortisation of the capitalised exchange differences allowable for corporate income tax (CIT) purposes, if any, in the fiscal year ended 31 December 2016. (5 marks)

(10 marks)

- 2** Mr Simon Samson, a 52-year-old South African, arrived in Vietnam on 15 March 2016 following an invitation to become a permanent teacher for VSU, an international school in Vietnam, for the period to December 2020. VSU successfully registered Simon's personal tax code and other necessary dependant registrations for personal income tax (PIT) purposes on 31 March 2016.

Simon spent the remainder of 2016 in Vietnam. On a trip to visit an orphanage in the South, he adopted Luong Le, a one-year-old Vietnamese boy, as his son. He completed the procedures for adoption and started to raise Luong Le from 10 August 2016. Luong Le officially became a dependant of Simon from 31 August 2016.

Simon has a daughter, Lauren, who is 19 years old. At the time Simon moved to Vietnam, Lauren was studying at a university in South Africa. In September 2016, she came to Vietnam to live with Simon and study at an international university in Vietnam. Lauren has no income in the year 2016.

From May 2016, VSU signed a contract with a voluntary insurance fund which is allowed to operate in Vietnam for Simon. According to this contract, VSU and Simon contributed VND2.5 million and VND0.8 million per month, respectively.

In December 2016, Simon donated VND60 million to a qualifying charity fund.

After arriving in Vietnam, Simon started to write a book about his experiences with the culture in Vietnam, and he signed a contract with Alone World, a foreign publisher, for publishing this book. According to this contract, the total royalty will be USD60,000. In 2016, Alone World paid Simon the full amount of the royalty in two instalments of USD30,000 each.

Required:

- (a) Calculate (in VND millions rounded up to the nearest one decimal) all the possible deductions from taxable income which Mr Simon Samson is entitled to for personal income tax (PIT) purposes during the year 2016. (7 marks)
- (b) Briefly explain the tax treatment of a royalty received by a resident individual and calculate (to the nearest VND million) the PIT liability, if any, incurred by Mr Simon Samson on the royalty income received from Alone World in the year 2016. (3 marks)

(10 marks)

- 3** MCNR Co is a European company specialising in machinery for the pulp and paper industry. In 2016, MCNR Co received a request for proposal (RFP) from SGPP JSC, a company in Vietnam, for the construction of a paper factory in Dong Nai, Vietnam.

The RFP requires that bidders quote a price which is gross of the corporate income tax (CIT) portion and net of the value added tax (VAT) portion of the foreign contractor tax (FCT) payable in Vietnam.

Based on its experiences from prior projects in Vietnam, MCNR Co estimated that the value net of all withholding taxes which it would expect to receive from the project would be as follows:

Item	Value net-of-tax USD	Notes
Machinery and equipment	45 million	This amount can be broken down into: machinery and equipment with a value of USD42 million, and a one-year guarantee with a value of USD3 million. MCNR Co estimated that it would purchase spare parts for the machinery and equipment with a value of USD2 million from MCEQVN, an affiliate of MCNR Co in Vietnam.
Design and engineering services	8 million	
Construction and installation	15 million	MCNR Co will sign a contract to subcontract the installation works valued at USD4 million to MCSIVN, a subsidiary of MCNR Co in Vietnam.
Supervision	4 million	
Commissioning	1 million	
Technical training	2 million	To be performed in Vietnam by personnel dispatched from Europe by MCNR Co.
Total	75 million	

Required:

- (a) State whether the cost of the spare parts to be purchased from MCEQVN and the value of the services to be subcontracted to MCSIVN will be deductible from taxable revenue when determining the foreign contractor tax (FCT) liability of MCNR Co. (2 marks)
- (b) Calculate (in USD millions, rounded to two decimals) the contract price to be quoted by MCNR Co as required in the request for proposal (RFP) and the potential FCT which will be withheld from the payments made to MCNR Co if the parties agree to break down the value of each item in the contract. (6 marks)
- (c) Calculate (in USD millions, rounded to two decimals) the contract price to be quoted by MCNR Co as required in the RFP and the potential FCT which will be withheld from the payments made to MCNR Co if the parties agree to state a lump sum price in the contract. (2 marks)

(10 marks)

4 VRF Ltd is a Vietnamese company specialising in the manufacture of instant noodles for both domestic sale and export. Domestic sales and exports of instant noodles are subject to value added tax (VAT) at the rates of 10% and 0%, respectively. VRF Ltd frequently applied for and received the VAT refund up to and including May 2016. The total amount of the VAT refund VRF Ltd received for May 2016 was VND4,770 million. The company's VAT declaration in May 2016 was as follows:

- Input VAT carried forward from April 2016 (for both domestic sales and exports): VND30 million
- Total input VAT incurred during May 2016 (for both domestic sales and exports): VND9,600 million

Due to the change in the VAT regulations according to Circular 130/2016, VRF Ltd ceased all VAT refund applications in June and July 2016, but in August 2016 the company reconsidered and applied for a VAT refund of the input VAT arising in June 2016, following the new principles for VAT refund set out in Circular 130/2016. The total creditable input VAT arising during June 2016 was VND4,000 million (not including any amount carried forward from May 2016), which VRF Ltd could not separate between domestic sales and exports.

The following information (exclusive of VAT, where applicable) is available for the months of May and June 2016:

	Revenue from domestic sales VND millions	Revenue from exports VND millions
May 2016	16,800	25,200
June 2016	60,000	32,200

Required:

- (a) **Determine by calculation whether the value added tax (VAT) refund received by VRF Ltd for May 2016 was or was not correct, and calculate (in VND millions) the amount of input VAT, if any, which can be carried forward to subsequent periods, following the VAT refund principles set out BEFORE Circular 130/2016 came into effect.** (5 marks)
- (b) **Estimate (in VND millions) the amount of the VAT refund which VFR Ltd can apply for in June 2016, if the refund application is required to follow the VAT refund principles set out in Circular 130/2016.** (5 marks)

Notes:

1. In both parts of the question, the ratio for the allocation of input VAT between domestic sales and exports should be calculated in whole percentages (i.e. rounded to zero decimal).
2. You should assume that all the input VAT amounts are valid and supported by proper documents.

(10 marks)

- 5 IVEX Ltd is a foreign invested company located in Tan Binh Industrial Park in Ho Chi Minh City. Although the industrial park was no longer an incentivised area in 2015–2016, IVEX Ltd was still entitled to the tax incentives stated in the investment certificate at the time of its establishment when the incentives for companies established in industrial parks were still available.

In 2015, IVEX Ltd was entitled to the special tax rate of 15% with a 50% reduction for the original investment as specified in the investment certificate. In 2015, IVEX Ltd invested VND50,000 million in a new production line, which qualified as expansion investment under the corporate income tax (CIT) regulations. IVEX Ltd's total historical costs of fixed assets (including the new production line) at the fiscal year-end of 31 December 2015 was VND200,000 million.

In 2015, the taxable income declared by IVEX Ltd was VND48,000 million, of which other non-operating taxable income was VND8,000 million.

In 2016, the incentive period of the company expired and IVEX Ltd became subject to the common tax rate. According to its draft financial statements, IVEX Ltd had accounting profits before tax of VND160,000 million in 2016. The following issues which were recorded in the accounting profits are noteworthy for the purposes of the company's corporate income tax (CIT) finalisation:

1. Accrued wages and allowances of VND8,500 million were not paid before the deadline for CIT finalisation. IVEX Ltd's total actual salary fund in 2016 was VND55,000 million. No provision for salary fund was made as at 31 December 2016.
2. Purchases without invoices amounted to VND9,200 million, of which VND2,800 million were purchases of depletions from households who issued IVEX Ltd with lists of the purchases under form 01/TNDN.
3. Machinery bought in 2013 with a historical cost of VND6,000 million and an estimated useful life of five years ceased to be used from 1 June 2015 for maintenance. In 2015, IVEX Ltd expected that this maintenance would take 13 months, but the maintenance was in fact completed on 31 August 2016 and the machinery was put into use again from 1 September 2016. In the draft financial statements, this machinery was depreciated over 12 months in 2016.
4. Uniform expenses (supported with valid documents) were VND720 million paid in cash, and VND360 million made in kind. IVEX Ltd had an average of 120 employees during the year 2016.
5. A profits share of VND40,000 million was received from a business co-operation contract (BCC) which IVEX Ltd had entered into. These profits were after deducting CIT at the rate of 20%, which was declared and paid by the operator.

From 2017, the foreign investor's headquarter company is considering charging IVEX Ltd for the cost of the IT support services it provides. The charge would include a specific charge for the costs incurred in respect of the service requests made by IVEX Ltd, and a lump sum charge which would be allocated to all the investor's subsidiaries based on the judgement of the headquarter company and which could vary from year to year.

Required:

- (a) Calculate the taxable income of IVEX Ltd in the year 2015 from the original investment, expansion investment and other activities, and the total corporate income tax (CIT) liability of IVEX Ltd for the year ended 31 December 2015.

Note: The standard rate of CIT in 2015 was 22%.

(5 marks)

- (b) Calculate the taxable income and the tax liability which IVEX Ltd should declare in its CIT return for the year ended 31 December 2016.

Note: You should start your computation with the accounting profit of VND160,000 million and list all of the items specifically referred to in notes 1 to 5, indicating by the use of '0' any item for which no adjustment is required.

(6 marks)

- (c) Briefly explain the THREE principle conditions for expenses to be deductible by a company in Vietnam according to the prevailing regulations, and state, giving reasons, whether or not the charge for IT support services to be made by the headquarter company are likely to be deductible by IVEX Ltd in the year 2017.

(4 marks)

(15 marks)

6 For the purposes of this question you should assume that today's date is 1 January 2017.

Mr Tony Phu, a 40-year-old Vietnamese citizen, is married with two children, a ten-year-old daughter and a six-year-old son. In 2016 Tony was promoted to become the general director of GIV JSC, a Vietnamese joint stock company with diversified operations in various sectors in Vietnam, including retail outlets and education. Tony's gross-of-tax remuneration package for 2016, as stated in the labour contract, is as follows:

- Salary: VND580 million per month, with two additional monthly salaries to be received in February and December.
- Incentive bonus: an award of 100,000 shares of GIV JSC if he successfully achieves the corporate performance as set out at the beginning of 2016. Tony can choose to receive either the shares or cash equivalent to the market share price as at 31 December 2016. In both cases the award will be made in June 2017.
- Car rental for transporting Tony from home to office and office to home: VND30 million per month to be paid directly to the lessor by GIV JSC.
- Medical insurance fee (non-accumulative): VND180 million per year in total for the six persons in Tony's family (himself, his wife, his two children and his parents). An equal fee is payable for each person. The insurance covers medical expenses up to VND1 billion per year for each insured person.
- Membership fee for golf club: VND160 million per year. The membership card is issued specifically to Tony.
- Share options to purchase 50,000 shares of GIV JSC at the nominal value of VND10,000 per share at the beginning of 2016. These options had to be mandatorily exercised on 4 January 2016 (i.e. Tony had to purchase the shares on that date), and the purchase cost of VND500 million was to be deducted from the additional salary he received in February 2016. The shares were sold on 31 December 2016 at their market price and the proceeds paid in cash to Tony on the same date.

As a standard benefit offered to all management positions, Tony's children can study in a school established and operated by a subsidiary of GIV JSC, with the tuition fees settled directly by GIV JSC to this subsidiary with valid supporting documents. The fees quoted by the school for pupils at the grades of Tony's daughter and son are VND150 million and VND100 million per annum, respectively. The school has a general policy (applicable to everyone) to offer a 5% discount for the second child of a family enrolled with the school.

The market price of the GIV JSC shares as at 4 January 2016 and 31 December 2016 was VND45,000 and VND48,000 respectively. On 6 August 2016, GIV JSC paid a dividend of VND6,000 per share held (including the shares received from the exercise of the share options).

GIV JSC has obtained guidance from the tax authorities instructing that the share options are taxable in the year when the shares are sold, and that the taxable employment income is the difference between the market price at the time of exercise and the exercise price (i.e. the price which the employee has to pay for the shares).

Tony is responsible for his personal income tax (PIT), as well as the social, health and unemployment insurance contributions payable on his part. Tony's wife and parents all have income in excess of an average of VND1 million per month.

Required:

- (a) **Determine (in VND millions) Mr Tony Phu's taxable income and non-taxable income for the year 2016, and taxable income in future years for personal income tax (PIT) purposes with respect to his employment income.**

Note: You should present your answer in tabular form with the headings 'Taxable in 2016,' 'Non-taxable in 2016' and 'Taxable in the future', listing all of the relevant items referred to in the question in the appropriate column. (8 marks)

- (b) **Calculate (in VND millions rounded to one decimal) Mr Tony Phu's monthly taxable income and the total PIT liability in respect of his employment income for the year 2016.** (4 marks)

- (c) **Briefly explain the tax rates and timing of taxation in respect of the following items of Mr Tony Phu's investment income for the year 2016:**

- the sale of the shares received as an incentive bonus;
- the sale of the shares received from the exercise of the share options; and
- the dividend from the shares.

Note: You are not required to calculate the tax payable in this part. (3 marks)

(15 marks)

End of Question Paper