

Examiner's report

F6 Taxation (VNM)

December 2014



General Comments

The examination consisted of five compulsory questions and followed the same format as previous exams. Question 1 (30 marks) examined Corporate Income Tax (CIT) and Question 2 (25 marks) examined Personal Income Tax (PIT). Foreign Contractor Withholding Tax (FCT) was examined in Question 3 (20 marks), value added tax (VAT) was examined on Question 4 (15 marks) and tax administration issues were examined in Question 5 (10 marks).

Many candidates attempted all five questions (although only a few attempted all parts of all five questions), and there was little or no evidence of time pressure.

It would appear that candidates' preparation for the exam is improving. For example, many candidates answered the questions focussing on the specific requirement of the question which saved them a lot of time. This demonstrates that many candidates have practised past papers in sufficient depth.

Time management also shows improvement but some poor examination techniques still exist. For example, some candidates focused too much on tough questions and consequently had no time for easy marks. Various candidates left question 1 until the end of the exam, which is a very risky strategy with it being 30 marks, and were left feeling rushed under towards the end of the exam.

In this sitting, candidates answered Question 2 the least well. Conversely, marks from Questions 1 and 3 were higher than expected.

A number of common issues arose in candidate's answers:

- Some candidates attempted the questions in a different way to that specified in the requirements. For example, question 1 requested that candidates use the same format for tax declaration as provided in the question, however many candidates ignored this.
- Illegible handwriting continues to be an issue for markers and the poor layout of answers does not help students move efficiently through the question.
- Various candidates still did not read the questions carefully and provided irrelevant answers.

Specific Comments

Question One

The question was a 30-mark CIT question requiring candidates to redraft a tax return; this topic has been tested often in various past papers.

Candidates performed well in this question and above expectations, and most made appropriate tax adjustments to accounting profits. Common mistakes such as adding-back instead of deduction (and visa-versa) still existed but were within an acceptable limit.

For the non-deductible expenses part, various candidates reconciled from the non-deductible expenses given in the question to deductible expenses. This is not an incorrect approach but it can be dangerous because candidates may then get mixed up with the direction of the adjustment (between plus or minus).

The most common mistakes made by some candidates were:

- No adjustment for the construction consulting revenue and costs
- Depreciation of hospital for employees inside the factory was treated as non-deductible, while depreciation of gym facilities was treated as deductible
- No adjustment for 10% VAT with regard to the capped expenses of the car
- Amortisation of the land lease was viewed as deductible (it should be non-deductible because the land was not used)
- The whole clothing expenses were treated as non-deductible (while only half of those were)
- The whole salary for board members were rejected (only those attributable to the non-active members should have been)
- Penalty for violation of contracts and advanced VAT for foreign contractor were adjusted as non-deductible
- Incorrect calculation of the vacation trip to be adjusted.
- Some candidates used words to describe their adjustments in the working such as “less”, “more”, or “agreed”, or “no adjustment because the item is non-deductible”, which were unclear.

Question Two

This 25-mark PIT question was answered less well than expected in this sitting. A key reason for this is that various candidates did not prepare for the new “grossing up” approach under Circular 111/2013.

Some candidates performed the calculations of taxable income and tax liabilities correctly in part (a) of the question while it was the requirement for part (b) of the question. Alternatively, some candidates combined the periods for income determination of the whole year despite the requirements in the question to calculate those separately for two periods.

The following mistakes are common:

- Incorrect determination of taxable overtime (not all overtime is taxable or non-taxable)
- Gym club membership was treated as non-taxable
- Hung’s wife was treated as his dependent
- No grossing-up calculation was performed despite that Hung income is on “net” basis
- Grossing up income inclusive of housing
- Grossing up income before deduction of reliefs and insurance deduction
- Performing only one level of gross-up (two level of gross-up is required, before and after housing)
- Combining the periods for grossing up (while gross-up is required separately for each period with different tax band)
- Using gross-up and tax calculation formula for highest tax band (note that the taxable income in this case fell into much lower tax bands).

Question Three

This 20-mark question consisted of two parts:

- Part (a) for 10 marks relating to the Foreign Contractor Tax (FCT) calculations for a sub-contracting case, and operation of an airline
- Part (b) for 10 marks regarding FCT treatments of swap agreement.

Part (a), Case 1 was well answered. Many candidates understood that when the main contractor sub-contracted the main part of the contract and only performed services, the tax rate would be 5% CIT plus 5% VAT. Some candidates ignored this fact and separated the contract into several parts with different treatments.

For Case 2, many candidates arrived at the correct taxable income but failed to apply the correct tax rates (airline is a transportation activity which is subject to 2% CIT and international transportation is exempt from VAT, not a service at 5% CIT plus 5% VAT). Some candidates forgot to deduct the refunds and collection on behalf of the State.

Part (b) appeared to be difficult for many candidates but those who did not panic at the beginning attempted this question satisfactorily, especially the calculation part. The most common mistake was that the interest payable and receivable are not netted off. Alternatively, the tax rate of 5% was applied despite the clear statement in the question that it was “a financial derivative” and that the tax rate for derivatives (also given in the question) was 2% CIT. Also, despite the hint in the question that they should calculate tax for 2012 and 2013 separately, not many candidates were aware that the tax should be assessed on an annual basis.

Question Four

This 15-mark question was a calculation question regarding VAT treatments in various transactions. Candidates made a good attempt at this question.

Below is a list of some common issues faced by candidates:

- Various candidates used the VAT amount as basis for applying 10% (thus reducing the creditable/non-creditable VAT amount by 10 times)
- Input VAT for the dormitory was treated as non-deductible (although it is no different than the canteen)
- Input VAT for the medical station was regarded as deductible, despite that it was clearly stated in the question that the station would also be used by family of employees and people nearby.
- The input VAT for payment on behalf of another entity was declared as either creditable or non-creditable (it should be noted that it is not input VAT of the company)
- Candidates often performed the wrong calculation of non-creditable VAT for the car.

Question Five

Question 5 for 10 marks was about tax administration issues. Candidates who attempted this question generally scored good marks.

For part (a), some candidates advised that WRD should pay a penalty up to 0.07%, which is not correct since the tax liability related to 2012. Further, most candidates did not mention the possible offset of the overpaid CIT to the annual CIT return for 2013 or quarterly CIT payment due in 2014.

With regard to part (b), some candidates stated that WRD was unable to revise the CIT return because the tax authorities were conducting a tax audit. According to the current regulations, they were still able to revise the CIT return because the tax authorities were auditing the VAT section.

Part (c) was generally well answered.