

Examiner's report

F6 Taxation (VNM)

December 2012

The ACCA logo is a black square with the letters 'ACCA' in white, bold, sans-serif font.

General Comments

The examination consisted of five compulsory questions. As usual, question 1 about Corporate Income Tax (CIT) for 30 marks and question 2 on Personal Income Tax (PIT) for 25 marks, are very calculation-comprehensive. Question 3, for 20 marks, was about Foreign Contractor Tax and contained a mix of theory and calculation. Question 4 on Value Added Tax (VAT) and question 5 on various matters, including tax administration, for 15 and 10 marks, respectively, were theory focussed.

Many candidates attempted all five questions, but not all parts. Time management and exam technique are still problematic to many candidates, although the issue was slightly improved. A majority of candidates who attempt all five questions with a suitable order to attack the easy marks first, manage to obtain a pass mark easily. Not all candidates who did not get a pass mark were lack of knowledge, some were attributable to lack of good examination techniques

Candidates performed particularly well on questions 1(a), 1(b), 2(a), 4(a), 4(b), 4(c), 5(b). The questions that appeared most challenging to candidates were questions 2(b), 3(b), 3(c), and 5(a). While it is not unusual that many candidates did not answer question 5 because they were often reluctant with theory questions, I was surprised about question 3 where many candidates showed that they did not equip themselves with sufficient technical knowledge and practice from past year questions to score better marks in the question.

Overall performance was good, however a number of common issues arose in candidate's answers:

- Irrelevant answers provided to the questions asked.
- Poor time management, having some questions over-answered and some others unanswered or insufficiently answered.
- Inappropriate format presentation.

Specific Comments

Question One

Part (a) required candidates to comment on the tax rates of each activity, and part (b) to apportion the common costs (administration and selling expenses) to activities based on revenue ratio. Most candidates performed well on this part of the question. The most common issues included:

- Performing tax rate calculations for all years while the question only required year 2012
- Stating that service activities are exempt and the trading activities are subject to 25%, which are not correct.
- Stating that the applicable tax rate is the deemed rate of 1%, 5% for non-resident companies, which are totally inappropriate
- Allocating the non-operating income and expenses (although if the question was read more carefully, candidates were only required to allocate common expenses)

Part (b) had a mixed result. While many candidates provided many proper CIT adjustments (especially for Advertising and Promotion expenses which were a complicated part in the question), some other candidates were still confused between adjustments for the CIT return and adjustments to the items in the Income Statement, although questions of this type have been asked several times in the past. Some other candidates combined answers for question 1(b) and 1(c) in one part, which made them more confused and the answers were therefore presented in an inappropriate format for the question.

Common mistakes made by many candidates included:

- The revenue and costs of goods sold for the services invoiced 80% were adjusted, although these were correctly accounted for in the Income Statement;
- All damaged inventory was non-deductible (in fact only the insured part was)
- New Year bonuses were non-deductible, even though the question clearly stated that these were mentioned in a policy issued by the General Director
- Amortisation of distribution right was not re-calculated where there were differences between tax and accounting treatments
- Donation to a private donation program was deductible (donation to a National Hospital would be deductible, but donation to a private fund for meals to patients in the Hospital should not be deductible)
- No adjustments for interest income (which should be removed from other income and reallocated to activities)

Question Two

This 25-mark question covered PIT calculations based on an official letter, the special content of which was clearly provided in the question. The remaining major part of the calculation was based on common principles of PIT regulations that candidates should have known well. Part (a) of this question was answered particularly well by many candidates, while part (b) was not.

However, some candidates did not read the question carefully to attempt part (a) properly. According to the official letter described in the question, in the case where the individual spends more than 183 days in Vietnam in a calendar year, there would be special treatment for the first 12 months he is in Vietnam (which is the case of Mr Panucci in part (a)). There should be a split between two periods (1 January to 31 December 2012 and 1 January to 31 December 2013). However, some candidates provided a combined calculation for 18 months that Mr Panucci spends in Vietnam (from 1 July 2012 to 31 December 2013) into the calculations, which was not in accordance with the official letter and the current regulations required in the syllabus.

Other areas where performance of part (a) was not as expected include:

- Some candidates performed a good calculation for year ended 31 December 2012 and then totally forgot the calculations for 2013;
- Many candidates forgot to add the overseas income to taxable income of Mr Panucci in the first year, according to guidance in the question;
- Some candidates even refer to Permanent Establishment concept for 183 days, which are fully irrelevant to PIT and show that the candidates have misunderstood the fundamental concepts.

Most candidates however treated Mr Panucci as non-resident in part (b), thinking that if he stayed in Vietnam less than 183 days in calendar year 2012, he would be a non-resident. It is not correct, because he stayed in Vietnam more than 183 days in first tax year as given in the question (i.e. 12 consecutive months from his first arrival in accordance with current PIT regulations), he was still a resident in Vietnam.

Many candidates reperformed the PIT calculations without realising that they can simply use the results from the calculations for the year 2013 in part (a) to answer this question in a short and convenient way.

Question Three

Although I am happy to see that there were some good improvements in part (a) on the taxability of foreign contractor and the first section of part (b) about the FCT tax rates, the calculation components in part (b) and (c) of this question still proved to be most challenging to many candidates.

Many candidates managed to correctly identify that ITLC was subject to FCT in Vietnam, and that Hong Ngoc Hospital is obliged to declare and pay FCT on behalf of ITLC. A few answers however commented that VTLC would assume the tax filing responsibility, or commented on the Permanent Establishment issue of ITLC without referring to its FCT-taxability.

The tax rates for lump-sum quotation and split quotation in part (b) were in many cases correctly answered. Some candidates however did not remember that in the case where the value of supply and services were not separable, the CIT rate of FCT would only be 2%, not 5% tax rate of the services, according to prevailing FCT regulations. These answers would still get some credits, though.

Issues which many candidates did not correctly address in this question were:

- Many candidates still calculated the VAT portion in the pricing, although the question mentioned clearly that VAT will be borne by the Vietnamese party (this proved that they did not read question carefully);
- Many candidates did not deduct the value of services sub-contracted to the local company;
- Many candidates grossed up VAT but forgot to gross up the CIT portion. The question mentioned clearly that the amount given is “net of Vietnamese taxes”, but Hong Ngoc, the Vietnamese party, shall bear VAT. Accordingly the price should be gross of CIT but net of VAT.
- In part (c), various answers did not take into account the remaining 4 years in the term of the lease.

Question Four

The results of this question were also mixed. While many candidates managed to correctly identify the VAT taxing points of all activities and correctly specify the VAT-triggering dates in the scenario-based questions, some others provided answers which showed that they either did not understand question correctly, or answered what they wanted to say and not what the question required.

For example, in part (a):

- Some candidates quoted the rate of each activity, rather than the point of taxing as required.
- Some candidates stated that the date of contract is the VAT-taxing point for goods and services, which is technically not correct.
- For services, some candidates only mentioned the invoice date and forgot about the service completion.
- For real estate trading, some answers stated that the VAT-taxing point would be the hand-over date.

In addition, some referred to the deductibility of input VAT, which was not asked in the question.

In part (b), taxing point of goods should be the date of delivery, but many candidates refer to the date of issuance of invoices and quoted 29 September as the date of taxing.

For part (c), most candidates recognised that 15 October was an important date for the whole contract, but many failed to identify the VAT recognition time for phase 1.

For part (d), the most common mistake was that candidates used the percentage of completion rather than the money collection milestones for the VAT taxing point.

Question Five

Those who still managed to answer this question always selected to attack part (b) on the individual finalisation of PIT first, and this was a wise strategy, although not many candidates correctly pointed out the two cases for finalisation. Many candidates knew that when individuals have two sources of income they are required to finalise tax, but did not know about the other cases.

Also for part (b), many candidates stated that the cases where finalisation is required include scenarios when individuals have income from securities, interest, capital transfer etc. It is not correct because these types of income require a one-off declaration, no tax finalisation is needed.

Not many candidates answered part (a). Some of those who did surprisingly drew a diagram illustrating that this was a related party transaction, which is correct for the case but is entirely inappropriate for the question. The question asked: “who has to declare capital gain tax”, not “are they related parties”. Nonetheless, there were a few answers correctly pointed out that the Vietnamese target and the Vietnamese buyer are required to declare tax in the first and second transaction, respectively.