Answers

Section A

1 **A** VND150 million (600 million/4 years)

Only the original lease allocation per the lease period is allowed – point 2.16 Article 6 of Circular 78/2014.

2 **C**

The supply of goods for further processing through a bonded warehouse is not subject to foreign contractor tax (FCT), but the supply of goods for distribution to Vietnam from the bonded warehouse is subject to FCT – as interpreted from point 5, Article 2 of Circular 103/2014.

3 **D**

The net foreign exchange gains/losses after offsetting are allocated over a period of up to five years from the project being put into use – point 2.22, Article 6 of Circular 78/2014.

4 **B**

Only the input VAT incurred when a tax code has been obtained is deductible – point 3.b, Article 12 of Circular 103/2014.

5 **A** VND0 billion

Collections in advance from customers for which costs are not determinable and 1% provisional tax is paid are not taxable income in the year of collection – Article 17, point 1 of Circular 78/2014/TT-BTC.

6 **B**

First tax year: 21 April 2014–20 April 2015: 130 + 64 = 194 days (more than 183 days): resident
Second tax year: 1 January–31 October 2015: 64 + 110 = 174 days (less than 183 days): non-resident

7 **C** VND660 million (3 billion * 22%)

The net losses from incentives and other income of VND2 billion cannot be offset with the gains from real estate.

8 **C** VND4·2 million (2 million + 22 * 10% + 0)

The taxable revenue when VAT is not separated, as for Invoice 2, must be the whole of the selling price.

9 **B** VND4·67 million [(50 million – (9 million + 3·6 million * 2 + 23 million * (8·5% + 1%))) * 20% – 1·65 million]

10 **A** VND935,000 [((500 * 3 – 600) * 21,500 – 10,000,000) * 10%]

11 **B**

12 **D** USD15,263 [(250,000 + 40,000)/(1 – 5%) * 5%]

13 **C** Point e.1, part 2, Article 26 of Circular 111/2013/TT-BTC.

Marks

14 A

(Tax underpaid = VND11 billion – VND8 billion = 3 billion
20% of the final CIT liabilities = VND11 billion * 20% = 2·2 billion
The excess of underpaid tax over 20% = 3 – 2·2 billion = VND0·8 billion)

Where provisional quarterly corporate income tax (CIT) is lower than the finalised CIT liability by 20% or more, the excess over that 20% is subject to a penalty from the deadline for the tax payment for Quarter IV of the year, in this case 31 January 2015 – Article 17 of Circular 151/2014 supplementing Article 12a of Circular 156/2013.

15 D

The buyers will be responsible for making a capital gains tax declaration since they are local entities. According to point 2, Article 16 of Circular 151, HNKV Co is not required to file a corporate income tax (CIT) finalisation at the time of conversion when it is a conversion from a limited liability company to a joint stock company.

2 marks each **30**

Section B *Marks*

1 INVEX Co

(a) **Availability of CIT incentives for the expansion project**

Eligibility

The expansion project should be eligible for CIT incentives because:

– the nature of the company's activities, i.e. high tech in a high technology zone, qualifies them for incentives; and
– the design capacity of the expansion exceeds 20% of the original design capacity.

(as stipulated in point 6 (a), Article 18 of Circular 78/2014) 2

Determination of taxable income

Since it is impossible to separate the taxable income from the expansion project from those from the original project, if INVEX Co wishes to apply different incentives for the expansion project, it will have to apportion the taxable income using the historical costs of the expansion and the total historical costs of the fixed assets actually used for production. 2

4

(b) **CIT liability in 2014**

	VND million	
Ratio of fixed assets used for production:		
– Expansion investment: 40/100 = 40%		0·5
– Original investment: (100 – 40)/100 = 60%		0·5
Original project		
Taxable income (21 billion – 3 billion) * 60%	10,800	1
Tax rate: 10% * 50% *(i.e. 2014 was the first year of 50% tax reduction, after 4 years tax exemption from 2010 – 2013)*	5%	1
Tax liability (10,800 * 5%)	540	0·5
Expansion project		
Taxable income (21 billion – 3 billion) * 40%	7,200	0·5
Tax rate: exempt *(expansion treated as a new project, being entitled to tax exemption for 4 years)*	0%	1
Tax liability	0	0·5
Other income		
Tax liability (3 billion * 22%)	660	0·5
Total tax liabilities (540 + 0 + 660)	1,200	
		6
		10

2 Mr Nobi Takeshi and Ms Ngoc Le

(a) **Mr Takeshi's PIT deductions in 2014**

	VND million	
Self-deduction		
(9 * 7 full months from January to July 2014)	63·0	1·5
Dependant deduction		
– Suneo (3·6 * 4 months from January to April)	14·4	1·5
– Two sons of Ms Ngoc (3·6 * 2 * 6 months, i.e. after marriage from February to July 2014)	43·2	1·5
Insurance deduction		
– Compulsory (8 million * 6·5 months from January to 15 July 2014)	52·0	1·5
Donation		
– Qualified donation to centre for handicapped children	50·0	1
		7

Tutorial note: *Time apportionment of the self-deduction is not required under point c.1.2, part 1, Article 9, Circular 111/2013.*

Marks

(b) Ms Ngoc Le's tax deductions in 2014

	VND million	
Self-deduction		
(9 * 12 full months from January to December 2014)	108·0	1
Dependant deduction		
– Handicapped sister (3·6 * 12 months)	43·2	1
Insurance deduction		
– Voluntary (capped 1 million/month * 6·5 months from January to 15 July 2014)	6·5	1
		3
		10

Tutorial note: *Only Ms Ngoc Le can claim the deduction for her handicapped sister, as it is stipulated in point d.4, part 1, Article 9 of Circular 111/2013 that for persons whom the taxpayer directly take care of, relief/deduction is only available if the person has a blood relationship, i.e.it is not available to in-laws. This is different to the case of Ms Ngoc's two sons who fall under the provisions in point d.1, part 1, Article 9 of Circular 111/2013.*

3 TPF Co

(a) Contracts 1 and 2 foreign contractor tax (FCT) implications

Contract 1: ELPPA Co

Since the price of the products will be fixed and determined by ELPPA Co, ELPPA Co would be subject to FCT in Vietnam (under point 3, Article 1, Circular 103/2014/TT-BTC). 1

There is no clear stipulation in Circular 103 about the tax rate for the activity, however, the most likely case would be that the goods are subject to corporate income tax (CIT) of 1% and exempt from value added tax (VAT). 1

Contract 2: BookMac Co

The contract terms are DDP and the advertising costs will be borne by BookMac Co, so BookMac Co will be subject to FCT in Vietnam (points 2 and 3, Article 1 of Circular 103/2014). 1

If no other services are provided by BookMac Co in relation to the laptops (the warranty itself is not a service), it is likely that the supply would be subject to CIT at 1% and exempt from VAT. 1

4

(b) Contract 3 liability to foreign contractor tax (FCT)

Contract 3: PH Co

PH Co is unlikely to be subject to FCT in Vietnam because: 0·5

– the contract terms are CIF and the risk to the goods are transferred in Malaysia. There is no service conducted by PH Co in Vietnam according to the summary; and 1

– the warranty clause itself without any other services in Vietnam would not expose PH Co to FCT in Vietnam (point 2, Article 2 of Circular 103/2014). 0·5

2

(c) Contract 4 foreign contractor tax (FCT) liability in 2014

Contract 4: MBI Co

	Corporate income tax (CIT) VND million	Value added tax (VAT) VND million	
Licence fee	57·3	Exempt	
	(17,200 * 3%/(1 – 10%) * 10%)		
	(1·5 marks)	*(0·5 marks)*	2
Training fee (not exempt because provided online)	33·9	35·7	
	(30,000 * 21·5/(1 – 5%) * 5%)	(33·9/(1 – 5%))	
	(1·5 marks)	*(0·5 marks)*	2
			4
			10

Marks

4 SCG Co

(a) Value added tax (VAT)

	Transactions	Output VAT VND million	Input VAT VND million	Marks
(1)	Input VAT for the construction costs is deductible in full in the period of receiving invoice (allocation to the depreciation period of 12 years is not relevant) *(660,000/1·1*10%)*		60,000	1·5
(2)	Input VAT for the car is deductible in full because the invoiced amount after the discount is lower than VND1,600 million *Invoice price (net VAT): 1,870 * (1 – 6%)/1·1 = 1,598* *VAT = 1,598 * 10% = 160*		160	1·5
(3)	The cash incentive for displaying goods in the supermarkets and stores is subject to VAT at 10% (point 1, Article 5, Circular 219/2013, Example 15) *(1,000 * 10%)*	100		1
(4)	SCG Co can charge VAT at 10% on a taxable value of zero for the helmets given away for free as the promotion is registered with the authorities (point 5, Article 7 of Circular 219/2013). The input is creditable in full *(0·22 million/1·1 * 10% * 500)*	0	10	1·5
(5)	No VAT output arises in respect of the water issued for customer/supplier meetings and for processing food and drinks			
	A full VAT charge at 10% applies to the water used for the vacation trip *(2,000 * 20% * (4,400/1·1 * 10%))*	0·16		1
	Input VAT is creditable in full *(2,000 * (4,400/1·1 * 10%))*		0·8	0·5
				7

(b) Invoicing requirements for Transaction 5

For the water used for meetings, SCG Co is neither required to issue VAT invoices nor to declare this output VAT on these invoices in its return. 1

For the water used for the processing of foods, SCG Co is neither required to issue VAT invoices nor to charge VAT (point 4, Article 7 of Circular 219/2013 and point 3 (a) Article 5 of Circular 119/2014). 1

For the water used on the vacation trip by its employees, SCG Co is required to issue VAT invoices as for normal sales (example 25, point 4, Article 7 of Circular 219/2013). 1

3

10

Marks

5 VB Bank

Summary of adjustments for corporate income tax (CIT) for the year ended 31 December 2014

Items	Descriptions	Proposed adjustments (VND million)	Notes	Marks
1	Accruals of interest income receivable	0	Interest income is recorded and taxed on an accruals basis.	1
2	Accruals of interest expense payable	0	Interest expenses are deductible on an accruals basis.	1
3	Special bonuses to employees	120,000	The bonuses are not deductible because they are not stipulated in any documents (point 2.5 Article 6 of Circular 78. *Note: Point 2.31 as amended in Circular 151 since it is not of welfare nature*).	1
4	Welfare expenses	0	Total implemented salary fund: 12,000/0·5% = 2,400,000 Cap for welfare (including vacation trip): 2,400,000/12 months = 200,000 Total welfare expenses (vacation + other welfare): 8,000 + 12,000 = 20,000 Welfare expenses did not exceed the cap. Thus all welfare expenses are deductible (except those not supported by proper documents).	2·5
5	Vacation trips for employees	2,400	Only the 30% not supported by proper documents is not deductible (8,000 * 30% = 2,400).	1·5
6	Sponsorship of the construction of houses for the poor	2,000	Such sponsorship is deductible in 2014 (point 2.26, Article 6 of Circular 78). However, the payment in cash in excess of VND20 million is not deductible (i.e. 10,000 * 20% = 2,000).	1·5
7	Collection of bad debt provided for in the previous year	(15,000)	The debt was provided for, for accounting purposes, thus when the debt was collected, it would have been recorded as income in the accounting profits. However, since the original provision was rejected by the tax authorities, the income should not be taxed when the debt was recovered. Thus the income should be deducted from the accounting profit, not added back.	2
8	Foreign contractor tax (FCT) borne for foreign contractor	2,500	The non-reimbursed expense is not deductible (and should be added back). Because the contract is silent about which party will bear the tax, the FCT is the responsibility of the foreign contractor. The reimbursed amount will have no tax implications, as it is not income of VB Bank.	2
9	Dividends from subsidiaries and associates	(234,000)	These are not taxable and thus should be deducted from the accounting profits.	0·5
10	Foreign exchange losses	820,000	The losses are not deductible for tax purposes and must be added back (the treatment of deducting the losses as the accountant did would understate the taxable profits by two times).	0·5
11	Losses of overseas branch	600,000	The losses are not deductible and should be added back since they are required to be accounted for separately and not offset with the profits of the bank (point 22, Article 7, Circular 78/2014).	1·5
				15

Marks

6 Ms Dau Nguyen

(a) Taxable and non-taxable income for the year 2014

	Taxable income VND million	Non-taxable income VND million	Marks
Income from HRD			
Salary (30 * 12 months)	360		0·5
Overtime (180 * 100/150) | (180 * 50/150)	120	60	1·5
Cash support (taxable in full)	36		1
	516		
Income from ILO			
Fixed wage (4 * 9 months)	36		1
Lecture fee (0·5 * 32 hours * 9 months)	144		1·5
	180		
Compensation from insurer		550	1·5
Total taxable/non-taxable income	696	610	7

Tutorial notes:

1. *The cash support received from HRD is taxable because it was not used for the hospital expenses, according to point g.1.2, part 2, Article 2 of Circular 111/2013).*
2. *The compensation from the insurer, for both hospital and non-hospital expenses, is not taxable according to point n.1, part 1, Article 3 of Circular 111/2013.*

(b) PIT liability for the year 2014

	From HRD VND million	From ILO VND million	Marks
Monthly taxable income (516/12 months)	43		0·5
(180/9 months)		20	0·5
Self-deduction (VND9 million)	(9)		0·5
Dependant deduction (VND3·6 million* 3 persons, including daughters and husband)	(10·8)		1
Compulsory insurance [VND23 million * (8% + 1·5% + 1%)]	(2·4)		1·5
Monthly assessable income [43 – (9 + 10·8 + 2·4)]	20·8	20	0·5
Monthly gross-up income [(20·8 – 1·65)/0·8]	23·9		0·5
[(20 – 1·65)/0·8]		22·9	0·5
Total assessable income (23·9 *12 months + 22·9 * 9 months)		492·9	0·5
Monthly assessable income [(492·9/12 months) – (9 + 10·8 + 2·4)]		18·9	1
Annual tax liability			
– (18·9 * 20% – 1·65) * 12 months		25·6	1
			8
			15