

Fundamentals Level – Skills Module

Taxation (Vietnam)

Thursday 8 December 2016



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 printed 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 in 2015 | 22% |
| Standard rate for enterprises in 2016 | 20% |

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. | 3 |
| 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**Rates for the year 2015**

| | |
|-----------------------------|------|
| 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 2015

VND 23,000,000

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 22,000

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 Candidate Answer Booklet.

- 1 HVNV Co (HVNV) is a Vietnamese company owned by two shareholders, Ms An and Mr Bao, with the shareholding ratio of 65% and 35%, respectively. HVNV specialises in software development and the trading of computer hardware. The company's recent taxable income/(tax losses) from operations have been as follows:

| Year ended 31 December | Software development VND million | Trading of computer hardware VND million | Combined total VND million |
|---------------------------|--|---|--------------------------------------|
| 2011 | (cannot be separated for each activity) | | (9,000) |
| 2012 | 8,000 | 7,000 | 15,000 |
| 2013 | (10,000) | 2,500 | (7,500) |
| 2014 | 15,500 | 2,000 | 17,500 |
| 2015 | (11,000) | 3,000 | (8,000) |

HVNV is entitled to four years tax exemption plus a nine-year 50% tax reduction for its software development activity from the first year of profits, which was in 2009. Due to inappropriate planning, the tax exemptions available in the years 2009 and 2010 were used inefficiently when the company made small profits but could not identify separately from which of its activities the profits came. The software activity is also entitled to the 10% tax rate in the 15 years from the year of first revenue, which was also 2009.

The trading of computer hardware activity is subject to the common tax rate (i.e. 25% up to 2013, and 22% in 2014 and 2015).

In 2012, HVNV was instructed in a written ruling by tax authorities that apart from the guidance under the corporate income tax (CIT) Circulars, the losses must be utilised in a consecutive manner to fully offset all profits from all activities within five years after their incurrence.

At the end of 2015, as a result of unresolvable disputes, the shareholders decided to split HVNV into two separate companies according to their current shareholding ratio – AHV (to be held by Ms An) and BHV (to be held by Mr Bao).

Required:

- (a) Calculate (in VND millions) the assessable income for corporate income tax (CIT) for each of HVNV Co's activities in the years 2012, 2013, 2014 and 2015 and state the tax rate applicable in each case.

Note: You should use the loss utilisation as required under the CURRENT CIT regulations. (9 marks)

- (b) Calculate (in VND millions) the tax loss carry forward to be allocated to AHV and BHV respectively after the split. (1 mark)

(10 marks)

2 Mr Nghia Phan, who is 45 years old and a Vietnamese citizen, is the general director of HMCP JSC (HMCP) a company listed on the Vietnamese stock market.

According to his labour contract with HMCP, Mr Nghia Phan's monthly gross income is VND300 million (covering all benefits in cash and in kind and all taxable). He is also entitled to incentives based on the performance of the company.

At the end of 2014, HMCP offered Mr Nghia Phan a 'cashing shares award' scheme as an appendix to his labour contract, by which he would receive a nominal award of 1.5 million shares of HMCP (with no dividend and voting rights). On 31 December 2015, HMCP would pay him an 'award' equal to the difference between the share price at the beginning of 2015 (of VND12,000 per share) and that on 30 December 2015. In 2015, HMCP made a substantial profit and the share price on 30 December 2015 had increased to VND20,000 per share.

The board of directors was very happy with Mr Nghia Phan's performance in 2015 and they are considering offering him additional incentives as follows:

- Option 1: a special cash bonus of VND4,800 million, payable immediately on 31 December 2015; or
- Option 2: a cash bonus of VND1,600 million, plus 150,000 shares to be awarded with full rights to receive dividends, payable immediately on 31 December 2015. The board plans to make a dividend payment for 2015 of VND1,000 per share in April 2016.

Mr Nghia Phan has three dependants, being his children. His compulsory insurance is calculated based on the cap of VND23 million per month.

Required:

(a) Describe the personal income tax (PIT) treatment of (1) the 'cashing shares award' scheme and (2) the shares awarded under Option 2 above. (5 marks)

(b) Calculate (in VND millions) Mr Nghia Phan's PIT liability in Vietnam in the year 2015 under Option 1 above. (5 marks)

(10 marks)

- 3** On 1 January 2015, Vietnamese treasury bills with a face value of VND100,000 and a term of six months were issued for VND89,000 per bill. After being issued, Vietnamese treasury bills are posted on the Ho Chi Minh City Stock Exchange (HNX).

TBC Co, a professional investment institution based in Singapore, effected the following transactions in the treasury bills issued on 1 January, between 2 January and 1 July 2015 (i.e. the maturity date of the bills):

| Transaction date | Buy/Sell | Number of bills | Price VND |
|------------------|----------|-----------------|--------------|
| 2 January 2015 | Buy | 240,000 | 90,000 |
| 1 February 2015 | Buy | 200,000 | 91,000 |
| 15 March 2015 | Sell | 130,000 | 92,500 |
| 15 April 2015 | Buy | 160,000 | 93,000 |
| 15 May 2015 | Sell | 70,000 | 94,500 |

Required:

- (a) Calculate the volume of treasury bills held by TBC Co on the maturity date. (1 mark)
- (b) Calculate the weighted average buying price (in VND millions) of the treasury bills held by TBC Co on the maturity date, using the first-in-first-out (FIFO) method. (5 marks)
- (c) Calculate (in VND millions) the taxable revenue and corporate income tax (CIT) portion of the foreign contractors tax (FCT) payable by TBC Co in 2015 from:
- (1) the sales of listed treasury bills; and
 - (2) the redemption of the treasury bills at their maturity date.

Note: Income from treasury bills listed in the Stock Exchange held by an investor for redemption at the maturity date would be treated as income from interest for FCT purposes. (4 marks)

(10 marks)

- 4 (a) SLR Co sold an item of specialised equipment. The equipment was delivered to the buyer on 31 March 2015, but according to the contract, the title of the equipment would only be transferred to the buyer upon completion of inspection by the buyer. The inspection was completed on 2 April 2015 and full payment was made to SLR Co on 6 April 2015.

Required:

State, giving reasons, when for the purposes of value added tax (VAT) SLR Co is required to issue an invoice for the sale of the equipment. (2 marks)

- (b) SHL Co, a Vietnamese company, operates several petrol stations in Ho Chi Minh City. The petrol stations are also convenience stores where food, drinks and various other items are sold.

Required:

For the purposes of value added tax (VAT):

- (i) **State when it is compulsory for SHL Co to issue an invoice to a customer whose purchases have a value of less than VND200,000.** (1 mark)
- (ii) **Explain the requirements for the issuance of invoices by SHL Co in the case of a customer whose purchases have value of more than VND200,000 and who does not require an invoice, for the sale of:**
- (1) **petroleum; and**
 - (2) **other items sold by the convenience stores.** (3 marks)

- (c) HGV Co (HGV) provides internet ADSL services. HGV entered into a contract with Customer A in June 2015, under which HGV is required to set up a leased line for Customer A, and then provide internet services for a monthly fixed fee of VND6 million (inclusive of value added tax (VAT)). Under the contract, the service period for fee calculation is: from the first day to the last day of the month (or pro rata).

HGV collected the set up fee for the leased line of VND5 million from Customer A in advance on 15 June 2015 and then completed the leased line set up on 20 June 2015. Customer A officially commenced using the line from 21 June 2015.

Required:

- (i) **State the general value added tax (VAT) regulatory requirements regarding the point in time when a service provider is required to issue an invoice, and the point in time when HGV Co is required to issue the invoice for the set up fee to Customer A.** (2 marks)
- (ii) **Calculate the total output VAT which HGV Co should charge in the VAT invoice(s) issued to Customer A in June 2015 under the above contract.** (2 marks)

(10 marks)

5 You should assume that today's date is 21 March 2016.

VTL JSC (VTL) is a Vietnamese company, whose shares are listed on the Vietnamese stock exchange. VTL specialises in the manufacture and installation of telecommunication equipment and in recent years has conducted several successful investment projects in both Vietnam and overseas.

VTL's audited financial statements for 2015 show a profit before tax of VND680,000 million. The following issues have been identified as relevant to the preparation of the company's 2015 corporate income tax return. All amounts are stated exclusive of any applicable value added tax (VAT), except where specifically stated otherwise.

- 1 Special bonuses are offered to the management team and some employees with exceptional performance. However, the bonuses for 2015 were not settled by the fiscal year end of 31 December 2015. VTL accrued VND11,000 million in the 2015 audited financial statement for these bonuses, representing a 10% increase from the accrued bonuses for 2014 of VND10,000 million.

For 2014, the actual bonuses settled and paid in February 2015 were VND10,500 million. The difference (between the accrued expenses of VND10,000 million and the actual settlement amount) of VND500 million was recorded as an additional expense in the 2015 audited financial statements.

The actual bonuses for 2015 of VND12,500 million were settled and paid on 15 March 2016 (after the audited financial statements were finalised).

- 2 During 2015, VTL received USD5 million being the after tax profit share from its investment project in Singapore. The profits had been subject to the common income tax rate in Singapore of 17%.
- 3 In 2014, VTL rented out an office in Ho Chi Minh City, which was not required for its own use, for a period of four years. VTL received the full rental payment for the whole four-year period, of VND26,400 million (inclusive of 10% VAT) on the signing of the rental agreement. For accounting purposes VTL will recognise the rental income over the four years of the rental period (2014 to 2017) but for tax purposes it elected to treat the whole amount as taxable in 2014.
- 4 During 2015, VTL received and paid invoices for the medical costs of its directors amounting to VND1,200 million. Under VTL's insurance policy with an insurer, 50% of the medical costs will be covered by the insurer. According to the contract with the directors, VTL will only bear up to a total of VND400 million per year for the costs not covered by the insurer, however, in 2015 VTL decided not to seek any reimbursement from the directors.
- 5 In 2015, VTL purchased some hi-tech equipment and shortened its useful life from five years (as stipulated in Circular 45/2013 on depreciation) to three years. The depreciation charge for this equipment in the 2015 financial statements was VND600 million.
- 6 In December 2014, VTL obtained a loan from a bank specifically to finance a new investment to set up a new company in Cambodia. In 2015, the interest incurred on this loan amounted to VND3,600 million.

The capital contributions to VTL by its shareholders have been made in full.

- 7 In 2015, VTL incurred the following foreign exchange gains/losses, all of which had been recorded in the 2015 audited income statement:
 - a realised net gain of VND900 million;
 - an unrealised loss on receivables as at 31 December 2015 of VND1,400 million;
 - an unrealised gain on payables as at 31 December 2015 of VND1,200 million; and
 - an unrealised gain on cash at bank as at 31 December 2015 of VND300 million.

Required:

Calculate VTL JSC's taxable income and tax liabilities (in VND millions) for corporate income tax (CIT) purposes for the year ended 31 December 2015.

Note: You should list all of the items specifically referred to in notes 1 to 7, indicating by the use of '0' any item for which no adjustment is required.

(15 marks)

6 (a) For the purposes of part (a) of this question you should assume that today's date is 31 December 2015.

Mr Tommy Morning, who is 48 years old, and a US citizen, was assigned to work in his company's subsidiary in Vietnam, MCS Vietnam Co (MCS-V), from 1 January 2015. His wife, Juliana, who is 40 years old, followed him to Vietnam as a housewife without income. The couple have two children, Jennifer aged 19 years and Lewis aged 15 years. Lewis joined his parents in Vietnam, but Jennifer continued her college education in the US.

Tommy's remuneration with MCS-V in 2015 consisted of the following:

- Annual salary: USD300,000 for the 12-month period.
- Performance bonus: one month's salary plus USD35,000 performance incentives.
- Housing: MCS-V rented a house for Tommy and his family for USD3,500 per month and paid the rent directly to the landlord.
- Tuition fees: MCS-V reimbursed Tommy for the university tuition fees for Jennifer in the US of USD20,000 and the school fees for Lewis in Vietnam of USD15,000.
- Air fares: MCS-V reimbursed air fares for two round trips back to the US for Tommy and his wife. According to MCS-V's records, the air fare cost for one round trip is USD3,000 per person.
- Medical insurance: MCS-V purchased medical insurance for each member of Tommy's family who were present in Vietnam at a cost of USD1,000 per month per person.
- Car: MCS-V hired a car with a driver at a cost of VND20 million per month to transport Tommy between his house and the office.
- Accumulation insurance: MCS-V purchased an accumulation insurance for Tommy with a foreign insurer at a cost of USD3,000 per month. The cumulative contributions plus 6% per year will be paid to Tommy either on the five-year anniversary of the commencement of the policy, or one year from the termination of his employment with MCS-V, whichever comes earlier.

Required:

(i) Calculate Mr Tommy Morning's taxable income and non-taxable income (before any housing benefits) for the year 2015. (9 marks)

(ii) Calculate Mr Tommy Morning's personal income tax (PIT) liability from employment for the year 2015. (4 marks)

Note: All calculations should be made in VND millions, rounded to zero decimal in every calculation.

(b) You should treat this part as independent of the calculations in part (a).

On 1 January 2015, Tommy was granted options to purchase 1.2 million shares of MCS Vietnam Co's parent company, MCS US Inc, at USD1 per share. The options will become vested to him at various dates over the next four years, provided that he continues to be employed by the MCS group of companies. Options for the right to purchase 300,000 shares at USD1 became vested on 31 December 2015, when the market price was USD1.50 per share. Tommy exercised the option to purchase these vested shares on 2 January 2016 when the market price was USD1.52 per share.

Required:

Explain the personal income tax (PIT) treatment in Vietnam of the options granted to and exercised by Mr Tommy Morning in the year 2015. (2 marks)

(15 marks)

End of Question Paper