

Fundamentals Level – Skills Module

Taxation (Vietnam)

Thursday 9 June 2016



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

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.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet 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** In January 2015, InvestHold Co (IHC), a limited liability company with two members, was established in Vietnam by Mr Nguyen Doan. The main function of IHC is to administer Mr Doan's investments, to invest in potential targets and provide finance between the companies owned by Mr Doan.

The initial chartered capital of IHC was VND500 billion, to be contributed in two equal instalments over the two years 2015 and 2016. Mr Doan duly fulfilled his contribution for 2015 on 1 February 2015.

In February 2015, IHC set up a new joint venture named TarSub Co (TSC) in which IHC will hold 75% of the shares and another investor will hold the remaining 25%. According to its charter, TSC's charter capital will be VND400 billion, of which 100% of their share should be contributed by each party by at the latest 31 March 2015.

On the establishment of TSC, IHC contributed capital of VND150 billion from its own funds and on 31 March 2015 it contributed a further VND100 billion which it borrowed from EXBank on that date. The interest rate charged on the loan by EXBank is 9.6% per annum. However, on 20 March 2015, the other investor who had failed to contribute any capital on their part, announced that they could not contribute any capital. To keep up with its investment schedule, on 31 March 2015, TSC took out two loans from two different banks, of VND110 billion and VND90 billion at annual interest rates of 12% and 14%, respectively.

Required:

- (a) **State the general rules regarding the deductibility of the interest expenses on loans borrowed to finance investment in another company, and loans to finance business operations.** (3 marks)
- (b) **Calculate (in VND millions) the capital contributions required, the shortfall in capital contributions, and the deductible and non-deductible interest expenses, if any, of InvestHold Co and TarSub Co, for the year ended 31 December 2015.** (7 marks)

(10 marks)

2 Mr Hieu Minh is a 40-year-old Vietnamese, who has been relocated back to Vietnam after serving a five-year secondment in the US with VGC Inc. VGC Inc is the parent company of VGC Co, a foreign invested company in Vietnam.

On his return to Vietnam on 1 April 2015, Mr Minh entered into an employment contract with VGC Co. His annual remuneration package for 2015 includes the following (all amounts are for his employment period in Vietnam in 2015, unless specified otherwise):

- Salary: VND400 million per month.
- Bonus: a fixed 13th month's salary, pro-rata for the employment time during the year, plus three months' salary for meeting all his performance criteria in 2015.
- Relocation allowance in cash: VND200 million (one-off payment).
- Medical insurance fee for 2015 purchased by VGC Inc (with a foreign insurer having no presence in Vietnam but allowed to carry out ad-hoc insurance operations in Vietnam): VND20 million.
- Voluntary life insurance fee for 2015: VND100 million paid by VGC Co to Bao Viet (an authorised insurance company operating in Vietnam). Mr Minh will only receive the accumulated insured amount upon his retirement or the termination of his employment.
- Car (for transportation from his apartment to his work place and vice versa): hired by VGC Co for VND15 million per month
- Uniform allowance: VND15 million in cash
- Two return air fares for his personal travel to the US to visit his girlfriend: VND40 million

The personal income tax on his income in Vietnam will be borne by Mr Minh.

Required:

(a) State the personal income tax (PIT) treatment, including the tax payment requirements, where applicable, of a non-accumulated insurance fee and an accumulated voluntary life insurance fee paid by an employer direct to the insurer. (3 marks)

(b) Calculate (in VND millions) Mr Hieu Minh's taxable and non-taxable income in Vietnam in the year 2015. (7 marks)

(10 marks)

3 CC-SS is a foreign invested company located in Thai Nguyen Province. It has recently approached foreign contractors for quotations regarding a turn-key contract for the construction of a wheat mill in Vietnam.

CC-SS received the following itemised quotation from a German contractor, BH Co, for the estimated value of the works (net of Vietnamese withholding tax) as follows:

- Supply of machinery and equipment (fully imported): USD6,000,000
- Design services: USD1,000,000
- Construction and installation works: USD1,500,000
- Supervision services: USD800,000
- Testing services: USD300,000
- Training (all to be conducted overseas): USD600,000

BH Co also advised that they will not have any permanent establishment in Vietnam and they would not apply Vietnamese Accounting Standards for this contract.

BH Co is prepared to consider the following alternatives for delivery of the contract:

- (1) To sub-contract all of the supplies (machinery, equipment, constructions and installation) to Vietnamese sub-contractors and only carry out the services themselves.
- (2) To carry out all of the works (supplies and services) themselves.

If alternative (2) is adopted, CC-SS would consider entering into a lump sum price contract, instead of an itemised contract (with full break-down as above) if this resulted in a lower foreign contractor tax liability.

Required:

- (a) Calculate the foreign contractor tax (FCT) payable by CC-SS if BH Co sub-contracts all of the supplies under the contract (alternative (1)).** (3 marks)
- (b) Calculate the FCT payable by CC-SS if BH Co carries out all of the work under the contract (alternative (2)) if:**
 - (i) the contract value is quoted as a lump sum price; and** (3 marks)
 - (ii) the contract value is itemised as per the original quotation.** (4 marks)

Note: All calculations should be made in USD millions rounded to two decimals.

(10 marks)

- 4 (a) RBP Co, a company established in Vietnam, processes rubber products, including rubber latex (i.e. unprocessed rubber materials, which are a VAT-exempt supply), and processed rubber products (which are a VAT-taxable supply).

RBP Co currently has the following two investment projects in Vietnam, both of which commenced operations in 2015:

1. Project A: whereby RBP Co invested in a rubber plantation to farm rubber latex for both domestic sale without processing (i.e. VAT exempt) and for input into a newly built rubber processing factory (i.e. VAT taxable).
2. Project B: whereby RBP Co invested in a rubber plantation to farm rubber latex for domestic sale without processing (i.e. VAT exempt) only.

The following information relates to the two projects for the year 2015 (the first year of operation):

	Project A VND billion	Project B VND billion
Valid input VAT for investment in fixed assets (plantation and factory)	100	20
Valid input VAT from operating in the first year of operations	10	3
Revenue from domestic latex sales	12	10
Revenue from sales of processed rubber products	36	0

Required:

For each of Project A and Project B, state, giving reasons, how much of the input value added tax (VAT) relating to (i) the investment in fixed assets and (ii) operations, is deductible. (6 marks)

- (b) RBP Co has received the following invoices:

Invoice	VAT input amount VND million	Additional information
1	200	The payment for this invoice went to a bank account which, due to a mistake, RBP Co had not registered with the tax authorities at the time of payment.
2	350	Due to a dispute between the parties, this invoice was not issued until 100 days after the goods had been delivered to RBP Co.
3	150	This invoice, which was manually written by seller, contains blank spaces without crossing.
4	8	This invoice, which was issued by a supermarket, contains no seller's chop.

Required:

State, giving reasons, for each of the invoices (1) to (4) whether the input VAT will be deductible or non-deductible to RBP Co. (4 marks)

Note: You are recommended to use a table format for the most effective presentation for both parts (a) and (b) in this question.

(10 marks)

- 5 RTM Co is a foreign invested retailer, with headquarters in Hanoi and has operated a chain of retail stores in various provinces in Vietnam since 2008. Due to extensive investment in expanding its stores, RTM Co has accumulated losses in recent years, including in 2015 when its audited financial statements showed an accounting loss before tax of VND1,480 million.

Following a tax audit carried out in mid-2015 by the Hanoi tax authorities for periods up to 31 December 2014, various adjustments have been made to RTM Co's tax declarations, resulting in some of the loss-making years becoming profitable for tax purposes. In 2015, the board of RTM Co has insisted that in order to avoid any negative tax impacts, all possible adjustments should be reflected in the tax return.

A careful review of the accounting loss in 2015 has revealed the following issues which may potentially be adjustable for tax purposes. All amounts are stated exclusive of any applicable value added tax (VAT), except where specifically stated otherwise.

1. RTM Co purchases various perishable items (e.g. milk, foodstuff, etc) from suppliers for resale. The company's policy is that any item unsold at the expiry date specified by the supplier is collected and destroyed. During the year 2015, the value of the destroyed items reflected in the costs of goods sold amounted to VND1,280 million.
2. RTM Co frequently issues water and soft drinks from stock for consumption, which are not for sale. The value of consumption for these purposes in 2015 was:
 - For the further processing of fresh foods or juices for sale: VND250 million
 - For business meetings with suppliers, stakeholders, etc: VND100 million
 - For the company's summer vacation and staff use: VND150 million

All of these amounts were reflected in the financial statements as accounting expenses in the relevant categories on their purchase from suppliers.

3. RTM Co has an agreement with its parent company whereby the parent company frequently sends experts to Vietnam to support the training of staff, to transfer their knowledge and to share their experiences. The parent company does not charge a fee for the services of these experts but RTM Co has to bear all of the experts' accommodation costs in Vietnam, including for some of the experts and their families to travel in Vietnam after the work is completed. In 2015, these accommodation costs amounted to VND1,520 million, which included VND340 million for the accommodation of some of the experts and their families while travelling. The market price of the training, etc received by RTM Co in 2015 has been estimated at VND15,000 million.
4. In April 2015, RTM Co paid VND2,350 million 2014 incentive bonuses to employees of which it recognised VND200 million as an accounting expense in 2015 because in its 2014 financial statements and tax returns, the company had only made a provision of VND2,150 million for this payment. However, during the tax audit for 2014, the tax authorities disallowed VND550 million as being in excess of the 17% provision cap, but agreed that RTM Co could deduct this amount for any actual payments made. In 2015 RTM Co decided not to make any provision.
5. Each year in December, RTM Co issues Lunar New Year gift vouchers, which are valid for six months, to corporate clients, who after paying for the vouchers distribute them as gifts to individuals. The individuals use the vouchers to pay for goods purchased from RTM Co's stores. RTM Co defers recognition of accounting revenue until the actual redemption of the vouchers by the individuals. At the end of June in the following year, RTM Co recognises any unredeemed vouchers as other income. The relevant figures for 2014 and 2015 are as follows:

	2014	2015
	VND million	VND million
Value of gift vouchers issued in December	10,000	12,000
Value of vouchers redeemed by the following 30 June	9,500	Unknown

Neither RTM Co nor the tax authorities made any adjustment in the tax return and tax audit minutes of 2014 for this item.

6. In 2015, RTM Co leased three apartments for its expatriate staff from landlords who are all Vietnamese individuals. Rent payments on all three leases are made every quarter. Details of the lease agreements are as follows:

Apartment	Rent in 2015 VND million	Tax in 2015 VND million	Tax agreed to be borne by	Payment method
A	720	80	RTM Co	Bank transfer
B	660	66	Landlord	Bank transfer
C	600	60	Landlord	Cash

The landlord of Apartment C went bankrupt during the year and only paid tax for the first three months of the lease, so RTM Co had to bear the whole of the remaining tax.

All expenses paid were recorded as accounting expenses in the audited financial statements; all the payments have proper payment evidence, and RTM Co obtained proper tax payment confirmation from tax authorities for all tax payments made by the company.

Required:

Calculate RTM Co's revised taxable profit/allowable loss (in VND millions) for corporate income tax (CIT) for the year ended 31 December 2015.

Note: You should start your computation with the accounting loss of VND1,480 million, and list all of the items specifically referred to in notes 1 to 6, indicating by the use of '0' any item for which no adjustment is required.

(15 marks)

- 6 (a) Mr Minh Phu, a 38-year-old Vietnamese, was appointed the chief executive officer (CEO) of MNP Co from 1 January 2015. Up to 31 December 2014 he had been the CEO of HNP Co. Both MNP Co and HNP Co are members of the HMHNP Group of domestic companies.

To take up his appointment with MNP Co, Mr Phu and his family had to relocate from Hanoi to Ho Chi Minh City. Mr Phu's remuneration package with MNP Co is as follows:

- Monthly salary: VND250 million
- Monthly responsibility allowance: VND50 million
- Apartment: rented by MNP Co for VND40 million per month
- Personal income tax (PIT): to be borne by MNP Co
- Compulsory insurance: the contribution on the part of the employee to be borne by himself

From January to June 2015, Mr Phu continued to support HNP Co as a senior adviser under an employment contract, for which he was paid VND60 million per month on which PIT was borne by HNP Co. He received no other benefits from this employment.

Mrs Phu takes care of their two children, aged 12 and 8 respectively. She had no income in 2015.

Required:

Calculate Mr Minh Phu's total annual personal income tax (PIT) liability for 2015.

Note: All calculations should be made in VND millions, rounded to one decimal. (11 marks)

- (b) The following additional information relates to Mr and Mrs Phu:

Mr Phu expects to receive a remittance of USD2 million in January 2016 from his parents living overseas.

Mrs Phu has been informed that she will inherit a building in Ho Chi Minh City with a market value of VND30 billion from her aunt, who died in December 2015. When the inheritance is received, the couple have decided to sell the inherited building and buy a villa in Hanoi.

Required:

Briefly explain the PIT implications of the remittance from Mr Minh Phu's parents, Mrs Phu's inheritance of the building and the sale of the inherited building. (4 marks)

(15 marks)

End of Question Paper