
Answers

1 DPN Ltd

(a) Deductible depreciation expense in fiscal year 2016 (year ended 30 September 2016)

		Depreciation VND million	
Library and kindergarten	$(5,000/10*9/12)$	375	1.5
Sports centre	$(6,400/8*7/12)$	467	1
Equipment and interior of the sports centre (both are fully deductible)	$(2,000/4*7/12)$	292	1
Clean water pools and tanks (only 70% allowed)	$(1,000/10*70%*5.5/12)$	32	1.5
Finance leased equipment	$(1,000*5 \text{ years} - 500 \text{ interest})/5*4/12$	300	2
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Tutorial note: According to Article 6.2.2 of Circular 78/2014 as revised by Circular 96/2015, all items are deductible except the clean water used by the residents living nearby.

(b) Assets received as settlement of a debt

	Explanation	Depreciation VND million	
Yacht	No depreciation expense is deductible as the yacht is not used for the purposes of DPN Ltd's business (according to Article 6.2.2(e) of Circular 78/2014 as revised by Circular 96/2015).	0	1
Car	A depreciation expense is deductible but the capital cost is capped at VND1,600 million $(1,600/8*6/12)$	100	2
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2 Mr Hung Duong and Ms Hien Duong

(a) Taxing date

Where the contract does not specify that the buyer is responsible for handling the tax filing and payment procedures, the taxing date is the date the transfer agreement becomes effective (according to Article 17 of Circular 92/2015 amending Article 12 of Circular 111/2013).	1.5
Therefore, in this case, the taxing date would be 15 March 2016.	0.5
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(b) Personal income tax (PIT) liability of Mr Hung Duong as a result of the land transfer

Allocation of ownership

Where there is no specific provision about the allocation of ownership, the ratio of taxable income shall be equally divided between the owners (according to Article 17 of Circular 92/2015 amending Article 12 of Circular 111/2013).	1
Therefore, in this case the taxable income will be divided 50–50 between Mr Hung Duong and Ms Hien Duong.	0.5

	VND millions	
Proceeds received by each owner $(200 \text{ million per } m^2 * 500m^2 * 50\%)$	50,000	1
Tax $(50,000 * 2\%)$	1,000	0.5
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(c) PIT treatment of capital contribution made by Mr Hung Duong on 15 April 2016

No taxable income arises and so no tax liability is incurred in the case of a capital contribution by shares (according to Article 11, point 2.c.4 of Circular 111/2013) as the tax liability is deferred until such time as the contribution is sold.	2
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	Amount VND million	Marks
(d) PIT liability of Mr Hung Duong on the sale of the capital contribution on 1 September 2016		
For transfer of shares in ABC $(15,000 \times 500,000) \times 0.1\%$	8	1
For transfer of capital contribution in HD Co		
– Selling price:	68,000	
– Original capital contribution		
– Cash (from (b) above)	(50,000)	0.5
– Shares $(15,000 \times 500,000)$	<u>(7,500)</u>	0.5
Taxable gain	10,500	0.5
Tax at 20%	<u>2,100</u>	0.5
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3 EZ-Trading

(a) Foreign contractor tax (FCT) implications of the agreements with OCL Co and MBN Co

According to Article 2 of Circular 103/2014:

Agreement with OCL Co

- The guarantee, with the requirement to ship back faulty products overseas for replacement, would not be subject to FCT in Vietnam. 1
- However, as OCL Co has the right to determine the selling price of the products in Vietnam, OCL Co will be subject to FCT in Vietnam. 1
- The most likely applicable FCT rates would be 1% corporate income tax (CIT) as a trading activity, but it would be exempt from value added tax (VAT). 1

Agreement with MBN Co

- As MBN Co only bears the risks until the goods reach EZ-Trading Co's bonded warehouse at the border gate, MBN Co would not be subject to FCT in Vietnam on this activity. 1
 - Nonetheless, MBN Co would still be subject to FCT for bearing the advertising costs of the watches in Vietnam. 1
 - There is no clear guidance on the tax treatment under the FCT Circular, however, it is arguable that the advertising costs are incurred for the sales of watches by MBN Co in Vietnam (through its 'agent' – EZ-Trading Co), thus the likely applicable rate would again be 1% CIT, but exempt from VAT. 1
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(b) FCT implications for ADT Co and TNL Co in respect of the services supplied

Also according to Article 2 of Circular 103/2014:

Advertising by ADT Co

- Advertising overseas is not be subject to FCT, except for advertising via the internet for consumption in Vietnam. 1
- Accordingly, since the advertising is via the internet, and the advertising costs charged to EZ-Trading Co are for the display in the Vietnamese language, the advertising costs charged would be subject to FCT. 1

Tutorial note: *The tax bearer would either be ADT Co (indirectly) or EZ-International Co (directly), and EZ-Trading Co is required to withhold the necessary FCT.*

Training by TNL Co

- Training activities conducted overseas are not subject to FCT, except for online training. 1
- Accordingly, the training courses held overseas would not be subject to FCT, but the training courses conducted in Vietnam would be subject to FCT. 1

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4 VMC Co

(a) Deductible input value added tax (VAT)

Item no.	Amount exclusive of VAT	Creditable input VAT	Non-creditable input VAT	Explanations	
1	–	1,200	0	There is no limitation for VMC Co to add this input VAT in its VAT return, e.g. in December 2016. Tutorial note: <i>The tax audit is for 2015, meaning that the revision in 2016 is still acceptable.</i>	1.5
2a	2,500	250	0	The 48-seater bus is not subject to the VND1,600 million cap for vehicles.	1
2b	2,200	160	60	Input VAT in excess of VND160 million for a four-seater car is non-deductible.	1.5
3	2,750	275	0	Input VAT for a registered promotion is deductible in full.	1
4	8,000	480 (800*60%)	320 (800*40%)	Input VAT for the insured portion where the insurer compensates the input VAT is not creditable. For the remaining (uninsured portion), the input VAT is deductible in full.	2
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(b) Payments made on behalf of the newly established branch

Where an organisation pays certain expenses on behalf of an entity to be established under specific authorisation by the representative of the to-be-established entity (and invoices are issued to the organisation which pays on behalf), the input VAT is creditable by the entity to be established (not the payer) (according to Article 14.12(b) of Circular 219/2013). 1.5

Where the bank account from which payment is made has not been registered with the tax authorities at the time of payment, input VAT cannot be deductible. 1

Accordingly, the remaining deductible input VAT for the branch is VND2,900 million (3,200 – 300). 0.5

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5 CGB JSC

Corporate income tax (CIT) for the year ended 31 December 2016

Item	VND million	Adjustment VND million	
1a Job A (finalised in 2016)			
Total profits for the job (5,000 revenue*60/160)	1,875		1
Less: profits taxable in 2015 tax return (2,000*60/160)	(750)		1
Remaining profits to be taxed in 2016	1,125		
Profits recognised in I/S of 2016 (3,800*60/160)	1,425		1
Adjustment: reduce taxable profits (1,125 – 1,425)		(300)	0.5
1b Job B (in progress in 2016)			
Profits taxable in 2016 (3,600*60/160)	1,350		1
Profits recognised in I/S of 2016 (1,400*60/160)	525		1
Adjustment: increase taxable profits (1,350 – 525)		825	0.5
1c Job C (not started in 2016 but taxable in 2016)			
Profits taxable in 2016 (4,000*60/160)	1,500		1
Profits recognised in I/S of 2016	0		0.5
Adjustment: increase taxable profits (1,500 – 0)		1,500	0.5
2 Non-business related expenses			
Add back: Non-welfare expenses (1,600 – 600)		1,000	1
Add back: welfare expenses not supported by documents (600*20%)		120	1
Welfare expenses in cash (as not exceeding VND20 million) and remaining welfare expenses		0	1.5
3 Recovery of bad debts			
Taxable income in 2016 (the recovery is not taxable in 2016 because the write-off was non-deductible in 2015)	0		1
Income recognised in 2016 I/S	1,200		1
Adjustment: reduce taxable profits in 2016 (0 – 1,200)		(1,200)	0.5
Total adjustments		1,945	
Profit per financial statements		96,000	0.5
Total taxable income		97,945	
Tax at 20%		19,589	0.5
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6 Ms Lan Tam

(a) Personal income tax (PIT) liability on employment income for 2016

	From JWM Co VND million	From CNL Co VND million	
Annual salary (120*12)/(15*8)	1,440	120	1.5
Bonus (2*120)	240		0.5
Total taxable employment income	1,680	120	
Monthly taxable income (1,680/12 months)	140.0		0.5
(120/8 months)		15.0	0.5
Self-deduction (VND9 million)	(9.0)		0.5
Dependent deduction (VND3.6 million*2 children)	(7.2)		0.5
Compulsory insurance [VND24.2 million*(8% + 1.5% + 1%)]	(2.5)	0	1
Monthly assessable income	121.3	15	
Monthly grossed-up income [(121.3 – 9.85)/0.85]	171.5		0.5
[15 – 0.75]/0.85]		16.8	0.5
Total assessable income (171.5*2 months + 16.8*8 months)		2,192.4	0.5
Monthly assessable income [(2,192.4/12 months)]		182.7	0.5
Annual tax liability (182.7*35% – 9.85)*12 months		649.1	1
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(b) PIT liability on income from investments in 2016

	Tax liabilities VND million	
Receipt of interest and cash dividend		
Bond interest (100*5%)	5	0.5
Cash dividends (120*5%)	6	0.5
Receipt of scrip dividend (10,000*20,000 shares)	0	1
Tutorial note: A scrip dividend is not taxed at the time of receipt.		
Sales of shares		
TCL Co: Capital gain (120,000 shares (W)*16,000*0.1%)	1.9	2.5
PDL JSC: Capital gain (120,000 + 20,000)*20,000*0.1%)	2.8	1.5
Scrip dividend taxed at sale (20,000 shares*10,000*5%)	10	1
Total	<u>25.7</u>	<u>7</u>
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Working:**Number of shares of TCL Co**

Total face value of shares held (dividend received/yield over face value)
(120 million/10%)

VND 1,200 million

No of shares held (Total face value of shares held/face value per share)
(1,200 million/10,000)

120,000 shares