

Fundamentals Level – Skills Module

Taxation (Vietnam)

Thursday 8 June 2017



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	20%
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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.	2
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 on salary and allowances

Rates for the year 2016

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 2016

Note: For simplicity, you should assume that this rate is applicable for the whole of the year 2016.

VND 24,200,000

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 22,500

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 DPN Ltd is a company established ten years ago in Vietnam, with diversified activities and over 1,000 employees. In its fiscal year ended 30 September 2016, DPN Ltd purchased and constructed various assets for use as follows:

	Usage commencement date	Description	Value (VND million)	Estimated useful life (years)	Notes
1	1 January 2016	Library and kindergarten for staff	5,000	10	
2	1 March 2016	Sports centre for staff	6,400	8	
3	1 March 2016	Equipment and interior of the sports centre	2,000	4	50% of the value is equipment, and 50% of the value is for the interior of the sports centre
4	15 April 2016	Pools and tanks for clean water storage	1,000	10	70% is for the use by all staff of DPN Ltd and the remaining 30% for use by residents living nearby
5	1 June 2016	Equipment acquired by finance lease from a local finance company (DPN Ltd is not the owner in the record)	See note	5	Payment to be made by five annual payments of VND1,000 million. The total interest portion of the whole lease is VND500 million

In addition to the above items, on 1 April 2016 DPN Ltd also received a yacht and a four-seater car with a market value of VND22,000 million and VND2,000 million (excluding value added tax (VAT)), respectively, from a client as settlement of a debt for goods purchased from DPN Ltd in 2015. DPN Ltd expects to sell the yacht, but will use the car in its business and has assigned it a useful life of eight years.

Required:

- (a) Calculate (in VND millions) DPN Ltd's deductible depreciation expense for corporate income tax (CIT) purposes with regard to each of items 1 to 5 in the fiscal year 2016. (7 marks)
- (b) Briefly explain whether DPN Ltd can deduct a depreciation expense in respect of the assets (yacht and car) received as settlement of the debt for CIT purposes and calculate (in VND millions) the deductible amount, if any, in the fiscal year 2016. (3 marks)

(10 marks)

- 2** Mr Hung Duong and Ms Hien Duong are brother and sister. In 2013, they inherited a piece of land of 500 square metres in the city downtown from their parents, for which they have duly settled all personal income tax (PIT) obligations for the inheritance. There was no specific indication as to the ratio of ownership in their parents' will or any other documents.

At the beginning of 2016, they decided to sell the land, and entered into an agreement with an individual buyer on 1 March 2016. The agreed contractual price was VND200 million per square metre (being the market price at the time of transfer), and the seller was obliged to handle the tax filing and payment. The contract was effective from 15 March 2016 and Mr Hung Duong registered the change in ownership on 30 March 2016. Payments were fully settled on 1 April 2016.

After the sale of the land, on 15 April 2016, Mr Hung Duong used all of the cash received plus 500,000 shares of ABC Co, a listed company on the HNX Stock Exchange, to contribute capital into HD Co, a limited liability company. At the time of contribution, the market price of the ABC Co shares was VND15,000 per share. The value of the capital contribution was agreed based on the actual cash contribution and this market value for the ABC Co shares. On 1 September 2016, Mr Hung Duong sold the capital contribution in HD Co to Mr Nam, a Vietnamese individual, for VND68,000 million. The market price of the ABC Co shares was unchanged.

Required:

- (a) **Determine the taxing date for personal income tax (PIT) purposes of the land sale made by Mr Hung Duong and Ms Hien Duong, according to Circular 92/2015.** (2 marks)
- (b) **State the basis on which the taxable income on the land sale will be allocated between Mr Hung Duong and Ms Hien Duong and calculate (in VND millions) the PIT liability, if any, payable by Mr Hung Duong.** (3 marks)
- (c) **Briefly explain the tax treatment of the capital contribution made to HD Co by Mr Hung Duong on 15 April 2016 and calculate (to the nearest VND millions) the PIT liability incurred, if any.** (2 marks)
- (d) **Calculate (to the nearest VND millions) the PIT liability incurred by Mr Hung Duong, if any, in respect of the sale of the capital contribution in HD Co on 1 September 2016.** (3 marks)

(10 marks)

- 3 Mark Anderson is the chief financial officer (CFO) of EZ-Trading Co, which is established in Vietnam as a distributor of various products in Vietnam for foreign suppliers. At the end of 2015, after attending a tax update by a tax consulting firm, Mark became concerned about the foreign contractor tax (FCT) risks from some contracts with foreign suppliers which EZ-Trading Co renewed in 2015. When the contracts were originally signed (all before 2014), FCT had never been an issue, as the foreign contractors were viewed as having no business activities in Vietnam.

On reviewing the contracts, Mark identified the following clauses as potentially exposing EZ-Trading Co to having to bear FCT for the foreign suppliers.

Foreign supplier	Product	Concerning provisions
OCL Co (a US company)	Virtual reality devices	<p>OCL Co bears the risks of the goods until the time the devices arrive at the Vietnam border gate. EZ-Trading Co is responsible for customs clearance and transportation from the Vietnam border gate to its own warehouse.</p> <p>OCL Co has the right to determine the selling price of the products each time in Vietnam.</p> <p>OCL Co gives a guarantee period of one year for faulty products. EZ-Trading Co is to ship back the faulty goods to OCL Co overseas for replacement.</p>
MBN Co (a Swiss company)	Luxury watches	<p>MBN Co bears the risks of the goods until the time the watches arrive at EZ-Trading Co's bonded warehouse in the port, at the border gate. EZ-Trading Co is responsible for customs clearance.</p> <p>MBN Co retains ownership of the luxury watches until they are sold to a third-party buyer.</p> <p>MBN Co bears the costs of advertising the watches incurred in Vietnam. Subject to the instructions of MBN Co, EZ-Trading Co signs contracts with the advertising firms and makes advance payments and then invoices these back to MBN Co.</p>

In addition to the above, EZ-Trading Co also has the following arrangements with its parent company (EZ-International Co) which is headquartered in Singapore:

Foreign supplier	Services	Description
ADT Co (located in Singapore)	Advertising	As a group policy, EZ-Trading Co is required to share advertising costs with various other subsidiaries of EZ-International Co in the region. The parent company enters into a contract with ADT Co (which indicates EZ-Trading Co and other subsidiaries as the participants to the contract) and pays advertising expenses centrally to ADT Co, then invoices EZ-Trading Co and the other subsidiaries their allocated fee. The advertising is conducted via the internet and the allocation to EZ-Trading Co is mainly for the display in the Vietnamese language.
TNL Co (located in the UK, with branches in Vietnam)	Training	EZ-International Co has signed a master agreement with TNL Co for various training courses (which identifies EZ-Trading Co and certain other subsidiaries as the participants to the master agreement). TNL Co organises the courses for EZ-Trading Co and the other subsidiaries of EZ-International Co in Asia. Some courses are organised in Vietnam specifically for EZ-Trading Co, other courses are organised in other countries for both EZ-Trading Co and other subsidiaries.

Required:

- (a) Analyse the concerning provisions in the agreements with foreign suppliers, and advise Mark whether EZ-Trading Co will be required to withhold and pay foreign contractor tax (FCT) on behalf of the foreign supplier from the activities in the agreements with OCL Co and MBN Co respectively. If withholding of tax is required, advise Mark of the **LIKELY APPLICABLE FCT rate(s)**. (6 marks)
- (b) State, giving reasons, whether ADT Co and TNL Co would be subject to FCT in Vietnam in respect of the advertising and training services provided in relation to EZ-Trading Co under the agreements signed with EZ-International Co in Singapore.

Note: You are not required to specify the rates of withholding in part (b). (4 marks)

(10 marks)

4 VMC Co is a company established in Vietnam, whose main activities include the manufacture and trading of consumer products.

VMC Co had the following transactions during 2016:

- (1) VMC Co purchased materials from a supplier in 2015, for which an invoice with a value added tax (VAT) amount of VND1,200 million was issued in January 2016. The invoice was paid in March 2016 via a bank, but VMC Co forgot to claim the input VAT. In December 2016, when the tax authorities visited the company to audit the period 2013 to 2015, they were aware of this issue, but did not make any decision.
- (2) During 2016, VMC Co purchased a 48-seater bus for transporting its employees for VND2,500 million (exclusive of VAT), and a four-seater car for the general director costing VND2,200 million (exclusive of VAT).
- (3) In August 2016, VMC Co purchased 500 moon cakes for a total value of VND2,750 million (exclusive of VAT) as promotional gifts to clients. The promotion programme was registered with the relevant tax authorities.
- (4) VMC Co purchased goods with an invoiced value of VND8,000 million (exclusive of VAT). The whole of this inventory was damaged during its transportation to the company's warehouse. The insurer agreed to compensate VMC Co for the VAT incurred in respect of 40% of the goods due to the accident.

Also, in 2016, VMC Co paid for the expenses in relation to the establishment of a branch in a different province. Before the branch was opened (and obtained a tax code), all invoices were addressed to VMC Co's tax codes and addresses (with the specific authorisation issued to VMC Co by the legal representative of the branch). The total VAT amount in respect of these invoices amounted to VND3,200 million. Invoices for some of these expenses with VAT amounting to VND300 million were paid by VMC Co from a bank account which was intended to be transferred to the branch later. This bank account has not been registered with the tax authorities as VMC Co's bank account.

The standard rate of VAT is applicable to all of VMC Co's VATable sales and purchases.

Required:

- (a) Calculate the creditable and/or non-creditable input value added tax (VAT) with regard to each of items (1) to (4), and briefly explain the reasons for their treatment.**

Note: You should present your answer in the form of a table with the following columns: Item number; Amount exclusive of VAT; Creditable input VAT; Non-creditable input VAT; and Brief explanation. (7 marks)

- (b) Explain the VAT treatment of the payments made on behalf of the branch, for both VMC Co and its branch, and calculate the amount of the deductible input VAT for VMC Co and/or the branch in respect of the expenses for which invoices were issued to VMC Co.** (3 marks)

(10 marks)

- 5 CGB JSC (CGB) is a foreign invested company in Vietnam, whose main operations are to provide strategic management consulting services to corporate clients in Vietnam and overseas.

CGB's income statement (I/S) for the year 2016 shows that it earned profits before tax of VND96,000 million. During the preparation of the company's 2016 corporate income tax (CIT) finalisation return, the chief accountant noted the following issues to be taken into account. All amounts are stated exclusive of any applicable value added tax (VAT), except where specifically stated otherwise:

- 1 CGB marks up 60% of the costs incurred to calculate the fees charged to clients (i.e. for every VND100 cost incurred, the profit would be VND60). However, the company also issues invoices (and charges VAT) in advance to clients based on the estimated costs to be incurred for the jobs. In a recent tax audit for 2015, the local tax authorities requested and allowed (in writing) CGB to apply the following mechanism for CIT purposes:
 - recognise revenue for CIT purposes when the invoices are issued to clients; and
 - accrue the costs corresponding with the revenue (per the mark-up set by the company) recognised in advance into deductible expenses, and finalise the calculation for CIT when the job is completed.

During 2016, CGB had the following jobs which were undertaken across two years:

Job	Status	Revenue credited to I/S in VND millions	Amount invoiced in VND millions	Notes
Job A	Started in 2015, completed in 2016	2015: 1,200 2016: 3,800	2015: 2,000 2016: 3,000	Costs corresponding to the revenue invoiced were allowed to accrue in the 2015 CIT return.
Job B	Started in 2016, to be completed in 2017	2016: 1,400 2017: 5,200	2016: 3,600	In 2016 the costs and revenue were recognised in the I/S based on the mark-up set by the company, and included in the profit before tax of VND96,000 million.
Job C	Started in 2017	2016: 0	2016: 4,000	

- 2 During 2016, CGB incurred VND1,600 million for non-business related expenses and intends to exclude all of this amount from deductible expenses. Of this amount, VND600 million was attributable to staff welfare costs (including weddings/funerals, vacation, support for transportation during National holidays, etc). However, 20% of these welfare costs were not supported by documents and another 10% were paid in cash (however, the individual amounts paid in cash did not exceed VND10 million for each payment). In 2016, the average monthly salary of CGB's employees substantially exceeded VND600 million.
- 3 In 2016, CGB recovered an amount of VND1,200 million from bad debts which had been written off in its 2015 I/S. The write off was recorded as an expense in the 2015 I/S and the recovery recorded as income in the 2016 I/S (i.e. included in the profit before tax of VND96,000 million). However, during the tax audit in 2015, the expense for the write-off was rejected for deductibility by the tax authorities due to insufficient evidence.

Required:

Calculate CGB JSC's taxable income and tax liability (in VND millions) for corporate income tax (CIT) purposes for the year ended 31 December 2016, indicating the required adjustments to the profit before tax of VND96,000 million.

Note: You should list all of the items specifically referred to in notes 1 to 3, indicating by the use of '0' any item for which no adjustment is required.

(15 marks)

- 6** Ms Lan Tam is 40 years old, and a Vietnamese citizen. She is divorced and is bringing up her two children who were born in 2001 and 2005, respectively. In 2016, she has been working two jobs at the same time as follows:
- Full-time at JWM Co, for a net salary of VND120 million per month plus a bonus equal to two months' salary. She is responsible for her own compulsory insurance in respect of this employment.
 - Part-time at CNL Co, for a net salary of VND15 million per month. No insurance is covered by CNL Co in respect of this employment.

Ms Lan Tam also maintains a portfolio of investments, which earned her the following amounts in 2016:

- VND100 million cash from bond interest.
- VND120 million cash from dividends distributed by TCL Co, a non-public joint stock company (representing a yield of 10% over face value).
- 20,000 shares of PDL JSC, a listed company, as a scrip dividend in respect of the 120,000 shares she held in March 2016. At the time of this distribution, the market price of PDL JSC shares was VND18,000 per share.

On 1 September 2016, Ms Lan Tam decided to quit the job at CNL Co to have more time for her children. She also sold all of her shares in PDL JSC and TCL Co at the price of VND20,000 and VND16,000 per share, respectively. The face value of both companies' shares is VND10,000 per share.

Required:

(a) Calculate Ms Lan Tam's taxable income and personal income tax (PIT) liability in respect of her employment income for the year 2016. (8 marks)

(b) Calculate the PIT liability of Ms Lan Tam for the year 2016 in respect of the following investment activities:

- the receipt of the interest and cash dividend;
- the receipt of the scrip dividend; and
- the sale of the PDL JSC and TCL Co shares). (7 marks)

Note: All calculations in both parts of this question should be made in VND millions, rounded to one decimal.

(15 marks)

End of Question Paper