

Fundamentals Level – Skills Module

Taxation (Vietnam)

Thursday 7 June 2018



F6 VNM MFSRV

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 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 2017

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 2017

Note: For simplicity, you should assume that this rate is applicable for the whole of the year 2017.

VND 26,000,000

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 22,800

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** EDM JSC, a joint stock company in Vietnam operating in the field of developing online learning courses, was established in 2015 with four founding shareholders. Since its establishment, EDM JSC has achieved remarkable growth, however, to expand further additional capital investment is needed. The founding shareholders have successfully issued additional shares in the company to an angel investor for VND100 billion. The four founding shareholders actively manage the day-to-day business of the company and the angel investor will supervise but not participate in the management of EDM JSC's day-to-day operations.

The following items have been reported in the financial statements of EDM JSC for the year ended 31 December 2017:

1. Payments of VND600 million made to individual freelance lecturers who are registered as business individuals. No invoices were available, however, EDM JSC properly prepared the 'Lists of goods and services purchased' as required. Of the above payments, 60% are attributed to lecturers who have revenue in excess of VND100 million in the year 2017. All the payments were in excess of VND20 million and made in cash.
2. EDM JSC's employees are allowed to study selected courses on a free-of-charge basis. In 2017, 320 free-of-charge courses, with a total market value of VND180 million, were provided to employees. 70% of these courses were work-related training but the remaining 30% were not work related.
3. Expenses of VND160 million were incurred on negotiating with the angel investor and issuing the additional shares.
4. Allowances of VND200 million were paid to each of the founding shareholders and of VND150 million to the angel investor. Proper receipt documents are available.
5. Courses with a value of VND140 million were donated to some national schools, and of VND80 million to a non-licensed private education fund operated by the angel investor.

Required:

- (a) **Briefly state the principles, according to the prevailing regulations, to be applied when determining whether a Vietnamese company can deduct the cost of goods and services purchased from business individuals who have revenue below VND100 million per year.** (3 marks)
- (b) **Calculate the adjustments EDM JSC should declare in its corporate income tax (CIT) return for the year ended 31 December 2017 in respect of each of items 1 to 5 above.**

Note: You should indicate by the use of '0' any item for which no adjustment is required. (7 marks)

(10 marks)

- 2 Mr Think Phan is a 35-year-old Vietnamese citizen. He has a full-time employment as a manager with TAC Co and has also signed a part-time employment contract with KNT Co for the delivery of soft skills training courses. Both TAC Co and KNT Co are Vietnamese companies.

Details of the income received by Mr Phan from the two companies in 2017 are as follows:

	TAC Co	KNT Co
Salary	VND55 million/month	VND10 million/month
Training allowances	VND96 million	VND360 million
Personal income tax	Borne by employer	Borne by employer
Employee insurance contributions	Borne by Mr Phan	N/A

Mr Phan has a son, Van Phan, who is 16 years old. From January 2018, Van has been enrolled to study in a secondary school in Australia. In order to fund Van's tuition fees, in 2017 Mr Phan sold an apartment for VND5,200 million. He had purchased the apartment in 2015 for VND4,000 million as an investment and it was never his sole house. It was agreed in the sales contract that the personal income tax (PIT) incurred from the transaction would be borne by Mr Phan but that the buyer would be responsible for declaring and paying the tax. The sales contract was effective from 1 November 2017, however, the registration procedures were not completed by the buyer until 20 December 2017, when the buyer settled the payment for the apartment in full.

Required:

- (a) **Calculate (in VND millions, rounded to one decimal) Mr Think Phan's taxable income and personal income tax (PIT) liability in respect of his employment income for the year 2017.** (7 marks)
- (b) **Explain, by reference to the relevant provisions, when Mr Think Phan would be subject to tax on the sale of his apartment and calculate his PIT liability in respect of the sale in the year 2017.** (3 marks)

(10 marks)

3 INTSP Co, a Vietnamese company, entered into the following transactions with foreign partners in the year 2017:

Transaction 1: In March 2017, INTSP Co leased a specialised vehicle from LSPC Co, a Germany company, for the period from 1 April to 31 December 2017 for USD900,000 net of all withholding tax in Vietnam. The rental covered the following expenses for which LSPC Co obtained documents and presented them to INSTP Co:

- expenses of USD20,000 for negotiating the contract with INTSP Co;
- vehicle insurance of USD24,000 per annum; and
- transportation costs to Vietnam of USD30,000.

The operation of the vehicle requires special skills and LSPC Co assigned an expert to Vietnam to operate the vehicle from 1 April to 30 September 2017. LSPC Co has sufficient documents to prove that it paid this expert USD10,000 per month.

Transaction 2: In November 2017, INTSP Co entered into an agreement to act as the shipping agent in Vietnam for D-Line, a Danish maritime shipping line. According to the agency agreement, INTSP Co is responsible for receiving goods from Vietnamese customers for international shipping, issuing bills of lading and collecting freight on behalf of D-Line in Vietnam.

In December 2017, D-Line accepted an order from MCT Co, a Vietnamese customer, to ship goods from Vietnam to Brazil for a freight cost of USD120,000 plus a surcharge of USD40,000 for over-sized goods (both amounts inclusive of all taxes in Vietnam). As requested by D-Line, INTSP Co leased a vessel from a Vietnamese company to transport the goods from Vietnam to Singapore (a hub of D-Line in Asia) from where the goods would be shipped on to Brazil. The shipping freight cost from Vietnam to Singapore was USD30,000.

Required:

- (a) Calculate (in USD) the corporate income tax (CIT) portion of the foreign contractor tax (FCT) which INTSP Co should declare in its FCT return for 2017 in respect of the leasing contract with LSPC Co. (5 marks)
- (b) (i) Briefly explain the principle to be applied when determining the taxable revenue for a shipping line such as D-Line. (2 marks)
- (ii) Calculate (in USD) the FCT which INTSP Co should declare in its FCT return for 2017 on behalf of D-Line in respect of the shipping order from MCT Co. (3 marks)

(10 marks)

- 4 (a) EMRT Co is a chain of retail convenience stores operating in Vietnam, which has been registered for issuing customised computerised invoices since its establishment in 2015.

EMRT Co expects to receive a tax audit in 2018 and the newly appointed chief accountant has concerns about the invoicing requirements in the following cases:

Case 1: Customer A's purchases regularly exceed VND200,000 but he refuses to request invoices. Is EMRT Co required to issue invoices to Customer A?

Case 2: Each of Customer B's purchases has a value of less than VND200,000, so EMRT Co has no obligation to issue an invoice unless specifically requested by Customer B. Is EMRT Co required to do anything else?

Case 3: EMRT Co issued an invoice to Customer C. When the invoice was handed to Customer C, the parties identified that although the tax code shown on the invoice was correct, the address of the customer was incorrect. Is EMRT Co required to issue a revised invoice?

Required:

Explain the invoicing requirements for each of the cases 1 to 3 above as asked about by the chief accountant.
(5 marks)

- (b) RETM Co is a real estate developer. In 2016, RETM Co purchased the land use right in relation to a 3,750m² piece of land in Binh Duong for VND115,500 million (inclusive of value added tax (VAT) on infrastructure) from TTN Co. The invoice issued to RETM Co by TTN Co was as follows:

	VND million
Selling price (net of VAT)	112,500
Less: Land-use-right value (exempt from VAT) (VND22 million per m ²)	(82,500)
Equals: value of infrastructure	<u>30,000</u>
Output VAT (10% of VND30,000 million)	3,000
Total amount payable (112,500 + 3,000)	<u>115,500</u>

RETM Co subsequently built 15 villas on the land at a total development cost of VND49,500 million (including VAT of VND4,500 million). In June 2017, RETM Co sold all of the villas to clients for VND13,800 million (net of VAT) each. RETM Co agreed with the tax authorities that it would deduct the allocated land-use-right plus infrastructure costs as charged by TTN Co based on the area (m²) from the VAT-taxable revenue of each villa.

Required:

Calculate the output value added tax (VAT) which RETM Co can charge on the invoice for each villa sold after deduction of the land-use-right and infrastructure costs, and the total VAT payable to be declared by RETM Co in June 2017.

Notes:

1. The sale of the villas by RETM Co is standard rated for VAT purposes.
2. You should assume that all the input VAT amounts are valid and supported by proper documents.

(5 marks)

(10 marks)

- 5 IVX Co is the parent company of a group of companies operating in diversified industries. IVX Co contributes capital to companies in the group and participates in their operations management, and undertakes financial investments by purchasing and selling shares in the group companies.

During 2017, IVX Co completed the following transactions:

- (1) On 31 March 2017, IVX Co sold its entire 40% capital contribution in IVX-TCL Ltd, a joint venture limited liability company between IVX Co and TCL (a foreign company), to TCL for USD6 million. The exchange rate on 31 March 2017 was VND22,800–22,810 (i.e. the bank is buying and selling 1USD at VND22,800 and VND22,810, respectively). At the time of the capital transfer, IVX-TCL Ltd was using VND as its functional currency for book-keeping purposes.

The joint venture was set up with a total capital contribution of USD10 million in February 2008 when the exchange rate was VND16,000 for 1USD. The capital contribution in the joint venture remained unchanged up to the date of sale, and the audited financial statements of IVX-TCL Ltd as at 31 March 2017 showed the capital contribution using the exchange rate at the time of contribution.

- (2) In October 2017, IVX Co sold 60% of the total shares of IVS JSC (equivalent to 80% of its total shareholding) to BIH Co, a foreign investor, for VND150 billion. IVS JSC was established in 2015 as a joint stock company with a share capital of VND100 billion, of which IVX Co contributed 45% at par value. In January 2017, IVX Co purchased an additional 30% of the shares in IVS JSC, for VND70 billion. BIH Co settled VND50 billion of the purchase price in October 2017, and the remaining VND100 billion in March 2018, together with late payment interest of VND6 billion.

IVX Co incurred transfer expenses of VND200 million and VND150 million (supported by proper documents) for the transfer of the capital in IVX-TCL Ltd and the shares in IVS JSC, respectively. IVX Co obtained written confirmation from the tax authorities to apply the first-in-first-out (FIFO) mechanism for determining the historical cost of the IVS JSC shares.

Required:

- (a) **Briefly explain the principles to be applied when determining the selling price and historical costs denominated in foreign currency for corporate income tax (CIT) purposes where a capital contribution is transferred and:**

(1) **the target company uses a foreign currency as its functional currency; or**

(2) **the target company uses VND as its functional currency.**

(6 marks)

- (b) **Calculate (in VND millions) the CIT liabilities to be declared by IVX Co for the transfer of the IVX-TCL Ltd capital contribution in 2017.**

(4 marks)

- (c) **Calculate (in VND millions) the CIT liabilities to be declared by IVX Co for the transfer of the IVS JSC shares in 2017.**

(5 marks)

(15 marks)

- 6 Mr Narmey Lukuka is a New Zealand citizen, who works for PGS Co, a company in New Zealand. PGS Co has invested in a Vietnam company, PGSVN Co. Mr Lukuka was assigned to work in PGSVN Co in Vietnam from 1 August 2016 to 31 December 2017.

Mr Lukuka was present in Vietnam throughout the period from his first arrival on 1 August 2016 until his departure on 31 December 2017 as follows:

- From 1 August 2016 to 31 December 2016: 80 days
- From 1 January 2017 to 31 July 2017: 125 days
- From 1 August 2017 to 31 December 2017: 135 days

During his assignment in Vietnam, Mr Lukuka received a salary of USD18,000 per month from PGS Co, from which PGS Co deducted New Zealand tax of USD5,000 per month and paid the remainder directly into his account in New Zealand. PGSVN Co also paid Mr Lukuka an allowance of VND50 million per month and rented him an apartment at a cost of USD3,200 per month. On 1 October 2017, Mr Lukuka received an incentive bonus of USD50,000 from PGS Co for his good performance.

The employment agreement between Mr Lukuka and PGS Co states that all taxes incurred on his income would be borne by him.

While he was in Vietnam, on 20 September 2017, Mr Lukuka adopted Thien Nam, a Vietnamese new-born boy.

Required:

- (a) **State the basis period (i.e. the period subject to tax) applicable to Mr Narmey Lukuka for each of the tax years 2016 and 2017 and explain why he will be considered as tax resident in Vietnam in both of those tax years.** (3 marks)
- (b) **Calculate (in VND millions rounded to one decimal) the taxable income and personal income tax (PIT) liability and PIT payable by Mr Lukuka for each of the tax years 2016 and 2017.**

Note: You should ignore insurance contributions and any available overseas tax credits. (12 marks)

(15 marks)

End of Question Paper