Answers

Section A

1 C VND0 million

Depreciation: 3,600 million/36 months = 100 million/month*8 months from July 2017 to February 2018 = 800 million

Gains = 2,200 million proceeds – (3,600 million – (100 million*14 months from January 2017 to February 2018)) = 0 million

2 B VND0 million output VAT and VND150 million (1,650/1·1*10%) creditable input VAT

According to Article 14.1 of Circular 219/2013, uninsured input VAT from damages due to fire would be creditable in full. According to Article 5, example 14, compensation in cash would not be subject to VAT declaration (VAT output = 0).

3 A VND799 million [((200*12 + 360 + 46)/12 months) – 9 – 3·6 – (27·8*10·5%))*35% – 9·85]*12 months

Return tickets to Australia are fully taxable as Mr Quang Phan is Vietnamese. His performance bonus in Australia is also fully taxable.

4 D USD38,800 (USD2,000,000 – (2,000,000*3% VAT)*2% CIT)

Tutorial note: *Supplies from Vietnam are not deducted from taxable revenue. Taxable revenue for corporate income tax (CIT) is revenue after deducting the value added tax (VAT) portion.*

5 D VND12,000,000 (40 days*(VND1,000 million*0·03%))

According to the example in Article 34.2 of the Circular 156/2013 (as amended in Circular 130/2016), late payment interest would be 0·03% per day (before 1 July 2016 it would be 0·05% per day). As the deadline for payment of April 2018 VAT is 20 May 2018, which was a Sunday, the deadline is extended to 21 May 2018. The late payment days would be counted from 22 May to 30 June 2018, i.e. 40 days.

6 A VND6,000 million (USD10 million*(23,000 – 20,000)*20%)

Since JTF Co is a limited liability company, the corporate income tax rate would be 20% on taxable profit. As TGT Co's (the target company) functional currency is in VND, according to Article 14.2 of Circular 78/2014 as amended by Circular 96/2015, the sale price must be converted into VND using the USD **buying** rate of the commercial bank. Accordingly, the taxable profit would be the difference in exchange rate.

7 C VND49 million ((990 million – 10 million)/2 persons*10%)

According to Article 15.1 (b) of Circular 111/2013, the taxable income of a promotion prize is the total market value of the item (inclusive of VAT) in excess of VND10 million. The deduction of VND10 million is per item, not per person.

8 B

According to Article 10.3 and 10.4 of Decree 20/2016 regarding Transfer Pricing (effective from 1 May 2017).

9 A VND47 million [USD2 million*23,500*0·1%]

As LST JSC is listed, SIV Co's sale of shares in LST JSC is subject to tax under the foreign contractor tax (FCT) mechanism, not as a transfer of a capital contribution under the corporate income tax (CIT) regulations. The rate of 0·1% of proceeds would be applied.

Marks

10 C VND0 million

According to Article 6, point 2.10 of Circular 78/2014 as amended by Circular 96/2015, payments to employees (including overtime) are fully deductible where employees return to work before the end of the allowed maternity leave period as a result of work requirements. In this case, Ms Huong Nguyen is treated as if she was working overtime during May to July when she should have been on maternity leave. Accordingly, no adjustment is needed.

11 B VND525 million ((400,000*98/365)*23,500 + 100 million)*20%

A non-resident in Vietnam is subject to the 20% tax rate on employment income by proportioning days present in Vietnam over 365 days. Other income received in Vietnam, such as the golf course membership, is taxable in full. No dependent relief is available (Article 18 of Circular 111/2013).

12 D

According to Article 6, point 2.9 of Circular 78/2014 as amended by Circular 96/2015.

13 B USD10,000 (500,000*2%)

According to Article 13.3 of Circular 103/2014, in the case of a foreign contractor receiving compensation which is higher than the compensation payable, the contractor can select to pay foreign contractor tax (FCT) at the appropriate percentage on the receipt, or pay the normal corporate income tax (CIT) rate (20%) on revenue minus expenses.

14 A VND5 million (100,000 shares*10,000 par value*10% dividend rate in cash*5% tax rate)

According to Article 10 (point 3.c of Circular 111/2013 as amended by Circular 92/2015), only the dividend paid in cash is subject to PIT at the time of receipt. The dividend payment rate would be calculated based on par value (VND10,000 per share), not market price.

15 C

According to Example 23, Article 11.2 of Circular 156/2013 (revised by Circular 26/2015), once a company has selected a mechanism, i.e. monthly value added tax (VAT) declaration, for a stable three-year period using the results of the preceding year (i.e. 2016 in this case) on the basis that the revenue of that preceding year exceeds VND50,000 million, the company is not required to change the mechanism. This is the case even where the audited results of any year show that the revenue subsequently fell below VND50,000 million.

2 marks each **30**

Section B *Marks*

1 IVST Co

(a) Treatment of investment income

According to Article 7 point 21, and Article 8 point 6 of Circular 78/2014 as amended by Circular 96/2015:

1. Investment income received from local business operations BEFORE corporate income tax (CIT) is treated as other income (and is subject to tax at the normal tax rate). 1
2. Investment income received from local business operations AFTER CIT has been withheld is exempt from CIT. 1
3. Income AFTER CIT from business operations which are entitled to incentives is also exempt from CIT in the hands of investors if the operators have already declared and, where relevant, paid tax. 1

3

(b) Tax exempt income

Unit: VND million

Project	Profits AFTER tax from main operations (a)	Other income after tax (b)	Total net income after tax (c) = a + b	IVST Co's shares (d)	IVST Co's tax exempt income (e) = c*d	
Nam An	600,000 – (600,000*50%*15%) = 555,000	10,000 – (10,000*20%) = 8,000	563,000	60%	337,800	2·5
Con Co	800,000	25,000 – (25,000*20%) = 20,000	820,000	80%	656,000	1·5
Dai Nam	680,000 – (680,000*20%) = 544,000	20,000 – (20,000*20%) = 16,000	560,000	50%	280,000	1·5
Listed companies			120,000		120,000	0·5
Total					1,393,800	
						6

(c) Tax liability on non-exempt investment income

(180,000 million – 25,000 million)*20% = VND31,000 million 1

10

2 Mr Tony Phan

(a) Taxable income and tax liability for the calendar year 2018

	USD	VND million	
Annual salary (USD30,000*9 months)	270,000	6,345·0	1
Fixed bonus (USD60,000*9/12 months)	45,000	1,057·5	1
Variable bonus – taxable next year	0	0	0·5
Executive well-being fitness membership (USD120,000/18*9)	60,000	1,410·0	1
House allowance in cash (USD6,000*9)	54,000	1,269·0	1
– Kindergarten fee (not from employer)	0	0	0·5
Annual taxable income	429,000	10,081·5	
Monthly taxable income	47,668	1,120·17	0·5
Self-deduction		(9)	0·5
Dependent relief (2*3·6)		(7·2)	0·5
Monthly assessable income		1,104·0	0·5
Monthly tax liability (1,104*35% – 9·85)		376·6	0·5
Annual tax liability (376·6*9 months)		3,389·4	0·5
			8

	Marks
(b) Possible tax treatments of licence fee	
The licence fee which may be received by Tony during his presence in Vietnam would be subject to personal income tax (PIT) in Vietnam in his hands.	0·5
By nature and as it is developed using Tony's own personal time, the licence fee should be viewed as a form of franchise fees/royalty fees which would be subject to tax at 5% for the amount in excess of VND10 million.	1
However, since the licence fee is paid by Tony's employer, there would be a risk that tax authorities in Vietnam may view this as part of employment income (subject to a much higher tax rate of 35%).	0·5
	2
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3 ALPB Co

(a) Foreign contractor tax (FCT)

In accordance with Circular 103/2014 Article 2.4, foreign companies earning income from Vietnam via providing online advertisement services to Vietnamese customers are subject to FCT in Vietnam. Similar treatment would be applicable to cloud services (**Note:** *Candidates are not required to provide reference to the exact Article in the Circular*).	1
The Vietnamese party (i.e. AVN Co) who enters into contract(s) and makes payment to the foreign provider (i.e. ALPB Co) is required to withhold, declare and pay FCT to the tax authorities on behalf of the foreign contractor, ALPB Co.	1
The FCT declaration and payment can be made within ten days of each payment or on a monthly basis, depending on appropriate registration by the Vietnamese party (i.e. AVN Co) with local tax authorities.	1
	3

Note: *Credit was also granted for other relevant points.*

(b) Foreign contractor tax (FCT) on the payment to ALPB Co

	USD	VND million	
Net amount remitted by ALPB Co (80% of total collections)	16,000,000		
Total collections *(USD16 million/80%)*	20,000,000		0·5
VND equivalent (USD20 million*23·5)		470,000	0·5
Gross up for corporate income tax (CIT) *(470,000/(1 – 5%))*		494,737	0·5
CIT portion of FCT *(494,737*5%)*		24,737	0·5
Gross up for value added tax (VAT) *(494,737/(1 – 5%)*		520,776	0·5
VAT portion of FCT *(520,776*5%))*		26,039	0·5
Total FCT *(24,737 + 26,039)*		50,776	
			3

(c) Foreign contractor tax (FCT) on the payment to ALPB Co

The Vietnamese party is required to declare and pay FCT when making payment to the foreign party. In this case, even though no payment was physically made, the payment would be deemed to happen with the offset. Accordingly, AVN Co is required to declare and pay FCT on the fee in 2018 (and not wait until finalisation in 2019).		2
	VND million	
VND equivalent (USD450,000*23·5)	10,575	0·5
Gross up for CIT *(10,575/(1 – 5%))*	11,132	0·5
CIT portion of FCT *(11,132*5%)*	557	0·5
VAT portion of FCT *(exempt due to software services)*	0	0·5
Total FCT *(557 + 0)*	557	
		4
		10

Marks

4 (a) Taxable revenue and value added tax (VAT)

	VND million	
Fees received by CSN Co (16,000 + 6,000)	22,000	1
Tutorial note: *This amount is inclusive of VAT and special sales tax (SST). The taxable revenue for VAT should be exclusive of VAT and inclusive of SST, thus this amount should be 'netted down' to revenue before VAT.*		
Taxable revenue for VAT: (22,000/(1 + 10%))	20,000	1·5
Output VAT (20,000*10%)	2,000	0·5
		3

(b) Invoicing requirement

According to point 2.6 of the Appendix 4 of 39/2014 as amended by Circular 26/2015, and Circular 219/2013 as amended by Circular 26/2015 and 130/2016:

When THD Co issues goods to the dependent branch, it can select one of two methods:

– Method one: THD Co issues a VAT invoice attached to the goods – THD Co would declare output VAT and the dependent branch would declare input VAT separately. 1·5

– Method two: THD Co issues an inventory issue note cum internal transportation, plus an internal goods movement order for the transportation to the branch. 1·5

When the goods are sold by the branch:

– The branch issues a VAT invoice to the buyer and charges VAT as for a normal sale. 1

– If THD Co selected method two above, when the goods are sold the branch is also required to prepare a list of goods sold and send it to THD Co. 1

  o Where the volume of goods sold is significant or at high frequency, the list can be prepared every five or ten days. 1

  o Based on the list, THD Co would issue an official VAT invoice for the sales to the branch. The dependent branch can then declare the creditable input VAT charged by THD Co, based on that invoice. 1

7

10

5 VBS Co

	Item	Adjustment VND million	
	Profits before tax	26,800	
Add	2018 depreciation for machine unused for over 12 months – recorded in 2018 accounting profits (W1)	1,800	W1
Deduct	Gain on disposal recorded in 2018 accounting profits (W1)	(350)	W1
Deduct	Loss on disposal for tax purposes	(1,900)	W1
	Depreciation of employees' facility		
	– Kindergarten (allowed under Circular 96)	0	0·5
	– Sports centre (allowed under Circular 96)	0	0·5
	– Clinic	0	0·5
	– Library	0	0·5
Add	Damages covered by insurer (60%*1,800)	1,080	2
Add	Purchases without invoices (2,500 – 1,800 supported by Form 01/TNDN)	700	1
Add	School fees for executives' children recognised as expenses (fully non-deductible as they are Vietnamese individuals, not expatriates)	1,800	2
Add	Feasibility study costs for abandoned project which is not generating revenue	500	0·5
Add	Summer trip – the part sponsored by the trade union	1,000	0·5
Deduct	Summer trip – compensation from trade union recognised as income	(1,000)	0·5
	Profit before tax after adjustments	30,430	
	Corporate income tax (CIT) liability (30,430*20%)	6,086	0·5

Marks

Workings

(W1) Machine disposal

	Accounting VND million	Tax VND million	Note	
Cost	7,200	7,200		
Depreciation			*7,200/48 months = 150/month*	1
January 2016 – March 2016	(450)	(450)	First fiscal year	
April 2016 – December 16	(1,350)	(1,350)	Before repair	0·5
January 2017 – March 2017	(450)	0	Non-deductible in FY17	0·5
April 2017 – March 2018	(1,800)	0	***Non-deductible in FY18 – to be adjusted in FY18 CIT return***	1
Net book value (NBV) at 31 March 2018	3,150	5,400		0·5
Sales proceeds	3,500	3,500	(NBV 3,150 + profit 350)	1
Accounting gain	350		***To be excluded from FY18 CIT return***	0·5
Tax loss		(1,900)	***To be adjusted in FY18 CIT return***	1
				15

Tutorial notes:

(1) *According to Article 6, point 2.2(e), depreciation of fixed assets during repair with an unused period of over 12 months is non-deductible. It would be acceptable to recognise a net adjustment to reduce the accounting profit regarding disposal of the machine by VND450 million (1,900 + 350 – 1,800). Note that further adjustment would also be required to the 2017 CIT return for the accounting depreciation for the unused period in FY17 (from 1 January to 31 March 2017) which was recognised in the accounting profit but is non-deductible.*

(2) *Damages covered by the insurer are non-deductible (also note that the compensation from the insurer should be adjusted in the next fiscal year as non-taxable).*

(3) *The school fees recovered from the executives in May 2018 (not reflected in the accounting profit for the year ended 31 March 2018) are non-taxable but are taxable in the next year.*

(4) *For the summer trip, it would be acceptable to show a net adjustment of zero (i.e. combining and netting off both the addition of the expenses and deduction of the compensation).*

6 ZLC Co

(a) Personal income tax (PIT) liability on employment income for 2017

Name	Salary	Allowance	Bonus	Taxable overtime	Taxable uniform	Monthly taxable income	Self and dependant relief	SHUI	Assessable income	Monthly tax	
					VND million						
Anh	360	120	180	50	10	60·0	16·2	2·9	40·9	7·0	3
Hoang	600	180	300	75	15	97·5	19·8	2·9	74·8	16·6	3
That	144	72	36	20	3	22·9	16·2	2·4	4·3	0·2	4
Sieu	240	78	80	0	0	33·2	16·2	2·9	14·1	1·4	3
Notes:				1.	2.		3.	4.		5.	
											13

Notes:

1. Overtime: only 50% is taxable.
2. Uniform: only the excess over VND5 million is taxable.
3. Personal deductions: self-relief VND9 million plus dependant relief VND3·6 million per dependant.
4. SHUI (social, health, unemployment insurance): calculated at 10·5% (8% + 1·5% + 1%) on the lower of:
   – (salary + allowance + overtime + uniform)/12, or
   – VND27·8 million

   Note: *The calculation for That is based on the actual remuneration because it is lower than VND27·8 million per month.*

Marks

5. Tax calculation:

		VND million
–	Anh: (40·9*25% – 3·25)	7·0
–	Hoang: (74·8*30% – 5·85)	16·6
–	That: (4·3*5%)	0·2
–	Sieu: (14·1*15% – 0·75)	1·4

(b) Tax treatment of social, health and unemployment insurance (SHUI) contributions

According to the regulations, the actual compulsory SHUI contributions paid by employees are deducted from taxable income in determining assessable income of an individual for personal income tax (PIT) purposes. 1

The compulsory SHUI contributions paid by employees are capped based on a salary of 20 times the minimum salary. The current cap in 2018 is VND27·8 million. 1

2

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