Answers

1 (a) PIT calculation for Vietnamese employees

Name	Net Payments (VND)						
	Basic Salary	Entertainment Allowance	Tet Bonus	Motorbike Allowance	Total	Months Employed	Net per month
Huong	300,000,000	2,400,000	25,000,000	2,400,000	329,800,000	12	27,483,333
Phi	90,000,000	0	7,500,000	1,500,000	99,000,000	12	8,250,000
Nga	25,000,000	800,000	0	500,000	26,300,000	4	6,575,000
Nam	56,250,000	1,800,000	6,250,000	1,125,000	65,425,000	9	7,269,444
Dung	9,600,000	0	800,000	0	10,400,000	12	866,667

Name	Net per month	Grossed up per month	Tax payable 5K–15K 10%	Tax payable 15K–25K 20%	Tax payable 25K–40K 30%	Total tax payable per month	Months Employed	Total tax payable
Huong	27,483,333	32,833,333	1,000,000	2,000,000	2,350,000	5,350,000	12	64,200,000
Phi	8,250,000	8,611,111	361,111	0	0	361,111	12	4,333,332
Nga	6,575,000	6,750,000	175,00	0	0	175,000	4	700,000
Nam	7,269,444	7,521,604	252,160	0	0	252,160	9	2,269,444
Dung	866,667	866,667	0	0	0	0	12	0
Total								71,502,776
Tax paid								125,000,000
Tax refundable								53,497,224

(b) PIT calculation for foreign employees

Name	Payments (VND)					
	Basic Salary	Tet Bonus	Bonus	Total	Months Employed	Net per month
Richard	150,000,000	18,750,000	50,000,000	218,750,000	8	27,343,750
David	15,000,000	0		15,000,000	1	15,000,000

Name	Net per month	Grossed up per month	Tax payable 8K–20K 10%	Tax payable 20K–50K 20%	Tax payable 50K–80K 30%	Total tax payable per month	Months Employed	Total tax payable
Richard	27,343,750	30,679,688	1,200,000	2,135,138	0	3,335,138	8	26,687,504
David	15,000,000	20,000,000 25%	5,000,000	0	0	5,000,000	1	5,000,000
Total								31,687,504
Tax paid								14,000,000
Tax payable								17,687,504

(c) Phi must file Fantasy Limited's Tax Finalisation report to the tax authority by 28 February 2008 and must pay any shortfall by 10 March 2007.

(The examiner also accepted the dates according to Circular 60)

(d) Housing benefit is subject to tax, tax payable by Fantasy Limited.

The amount of the benefit to be taxed is the lower of:
- the cost; or
- 15% of total taxable income.

(e) Foreigners are regarded as resident in Vietnam if they reside in Vietnam from 183 days or more in a consecutive twelve month period since their arrival in Vietnam or a calendar year thereafter. If a tax resident, the taxpayer would pay tax on their worldwide employment income at the marginal rates up to 40%. If not a tax resident, then they are taxed on their income attributable to Vietnam at 25%.

For Vietnamese residents working overseas, their income is subject to the same tax rates as foreigners.

2 **(a)** **(i)**

Year	Profit/(loss)	Loss utilised	Taxable income	Tax rate	Tax payable	VND
2001	(1,500,000)		0		0	
2002	(2,300,000)		0		0	
2003	1,100,000	0	1,100,000	0%	0	
2004	500,000	0	500,000	0%	0	
2005	(5,700,000)	0	0	7·5%	0	
2006	10,100,000	9,500,000	600,000	7·5%	45,000	720,000,000
2007	12,300,000	0	12,300,000	15%	1,845,000	29,520,000,000
Total					1,890,000	30,240,000,000

– 2001 and 2002 losses were not utilised in 2003 or 2004 because the company had a tax holiday in these years.
– The 2001 (due to the five year limitation on carry forward tax losses), 2002 and 2005 losses were fully utilised in 2006.

(ii)

Year	Profit/(loss)	Loss utilised	Taxable income	Tax rate	Tax payable	VND
2001	(1,500,000)		0		0	
2002	(2,300,000)		0		0	
2003	1,100,000	0	1,100,000	0%	0	
2004	500,000	0	500,000	0%	0	
2005	(5,700,000)	0	0	7·5%	0	
2006	10,100,000	1,500,000	8,600,000	7·5%	645,000	10,320,000,000
2007	12,300,000	8,000,000	4,300,000	15%	645,000	10,320,000,000
Total					1,290,000	20,640,000,000

– 2001 and 2002 losses were not utilised in 2003 or 2004 because the company had a tax holiday in these years.
– The 2001 loss was utilised in 2006 due the five year limitation on carry forward tax losses.
– The 2002 and 2005 losses are fully utilised in 2007 as this is when the company starts to pay 15% tax as opposed to 7·5% tax in earlier years.

(b) Payment of interest on loans for production and trading of goods and services borrowed from banks, credit institutions and economic organisations at the actual interest rate pursuant to a loan contract, and on loans from other organisations at the actual interest rate in the signed loan contract but not more than one point two (1·2) times the interest rate at the same time of the commercial banks which have a trading relationship with the business establishment.

Loser Hosen paid interest of USD 3,500,000 on the average balance of the loan of USD 30,000,000. This equates to an interest rate of 11·67%. The maximum deductible interest is 1·2 times the 7% paid to the commercial bank, 8·4%. Therefore 11·67 – 8·4 = 3·27% interest rate non deductible. 3·27% x 30,000,000 = USD 981,000 (VND 15,696,000,000) non-deductible interest.

(c) Nguyen Nguyen Commercial Bank – No withholding tax payable as the payment is not to a lender outside of Vietnam.

Loser Hosen International Holdings Limited –

Taxable turnover = 3,500,000/(1 – 10%) = USD 3,888,889

Tax payable = 3,888,889 * 10% = 388,889 (VND 6,222,224,000)

(d) – Advertising and Trade and Promotion – deductible as under the 10% cap.
– Business Licence Fee – non-deductible, Circular 128 states specifically it is non-deductible under the taxes, fees and charges non-deductibility section.
– Donation – non-deductible – expense unrelated to turnover Circular 128 – non-deductible.

(e) **(i)** The CIT provisional declaration is due by the 25th of the month after the last month of the applicable financial year. The provisional payment is based on the results of the previous year and the forecast for the following year. Provisional payment is due by the last day of each quarter of the financial year.

(ii) If there are major changes to the operations of a business during the first six months which results in a difference of more than 20% compared to the amount provisionally payable, the business establishment must request an adjustment by the 30th of the seventh month of the financial year. The tax department will then notify the business establishment by 25 August of the adjusted amount payable and the revised amount of the final two provisional tax payments.

3 (a) JapanCo Limited

Design

$$\text{CIT-taxable turnover} = \frac{3{,}000{,}000}{(1 - 0{\cdot}05)} = \text{USD } 3{,}157{,}895$$

CIT payable = 3,157,895 x 5% = USD 157,895

Calculation of VAT:

$$\text{VAT-taxable turnover} = \frac{3{,}157{,}895}{(1 - 50\% \times 10\%)} = \text{USD } 3{,}324{,}100$$

Amount of VAT payable:
3,324,100 x 50% x 10% = USD 166,205

Total CIT and VAT = USD 324,100

Equipment

$$\text{CIT-taxable turnover} = \frac{10{,}000{,}000}{(1 - 0{\cdot}01)} = \text{USD } 10{,}101{,}010$$

CIT payable = 10,101,010 x 1% = USD 101,010

Calculation of VAT:

VAT – not subject to VAT

Total CIT and VAT = USD 101,010

Installation

$$\text{CIT-taxable turnover} = \frac{3{,}000{,}000}{(1 - 0{\cdot}02)} = \text{USD } 3{,}061{,}224$$

CIT payable = 3,061,224 x 2% = USD 61,224

Calculation of VAT:

$$\text{VAT-taxable turnover} = \frac{3{,}061{,}224}{(1 - 50\% \times 10\%)} = \text{USD } 3{,}222{,}341$$

Amount of VAT payable:
3,222,341 x 50% x 10% = USD 161,117

Total CIT and VAT = USD 222,341

Construction

CIT-taxable = Nil as they have deducted from it the local materials and local sub-contractors.

Total CIT and VAT = USD 647,451

FrenchCo Limited

Design

$$\text{CIT-taxable turnover} = \frac{2{,}000{,}000}{(1 - 0{\cdot}05)} = \text{USD } 2{,}105{,}263$$

CIT payable = 2,105,263 x 5% = USD 105,263

Calculation of VAT:

$$\text{VAT-taxable turnover} = \frac{2{,}105{,}263}{(1 - 50\% \times 10\%)} = \text{USD } 2{,}216{,}066$$

Amount of VAT payable:
2,216,066 x 50% x 10% = USD 110,803

Total CIT and VAT = USD 216,066

Equipment and installation

$$\text{CIT-taxable turnover} = \frac{13{,}000{,}000}{(1 - 0{\cdot}02)} = \text{USD } 13{,}265{,}306$$

CIT payable = 13,265,306 x 2% = USD 265,306

Calculation of VAT:

$$\text{VAT-taxable turnover} = \frac{13,265,306}{(1 - 30\% \times 10\%)} = \text{USD } 13,675,573$$

Amount of VAT payable:
13,675,573 x 30% x 10% = USD 410,267

Total CIT and VAT = USD 675,573

<u>Construction of building including materials costs</u>

$$\text{CIT-taxable turnover} = \frac{5,000,000}{(1 - 0{\cdot}02)} = \text{USD } 5,102,041$$

CIT payable = 5,102,041 x 2% = USD 102,041

Calculation of VAT:

$$\text{VAT-taxable turnover} = \frac{5,102,041}{(1 - 30\% \times 10\%]} = \text{USD } 5,259,836$$

Amount of VAT payable:
5,259,836 x 30% x 10% = USD 157,795

Total CIT and VAT = USD 259,836

Total CIT and VAT = USD 1,151,475

KoreanCo Limited

<u>Turnkey project</u>

$$\text{CIT-taxable turnover} = \frac{20,000,000}{(1 - 0{\cdot}01)} = \text{USD } 20,202,020$$

CIT payable = 20,202,020 x 1% = USD 202,020

Calculation of VAT:

$$\text{VAT-taxable turnover} = \frac{20,202,020}{(1 - 10\% \times 10\%)} = \text{USD } 20,406,081$$

Amount of VAT payable:
20,406,081 x 10% x 10% = USD 204,061

Total CIT and VAT = USD 406,081

Summary

JapanCo	USD 647,451
FrenchCo	USD 1,151,475
KoreanCo	USD 406,081

(b) Select KoreanCo as it has the lowest cost.

While JapanCo was able to deduct the local materials and sub-contractors it still incurred higher FCT on the installation and design. FrenchCo clearly was not tax efficient and KoreanCo while incurring FCT on the full amount, was only taxed at VAT 1% and CIT 1%.

(The examiner accepted reasonable responses which were based on the calculations performed by each candidate)

(c) Hanh should not consider registering for the VAS because of:

1 Increased costs
2 Increased complexity
3 Increased record keeping
4 Increased administration.

(The examiner accepted reasonable responses)

4 **(a)** – Zero-rated supplies are not subject to output tax and any inputs are creditable. Export sales are zero-rated.

– Exempt supplies are not subject to output tax and any inputs are not creditable. Interest is exempt.

(b)

	Expenses (VND)	Income (VND)	Output VAT	Input VAT	VAT treatment
Sales		61,023,940,000	5,547,630,909		Taxable
Purchase of goods sold	33,000,000			3,000,000	Creditable
Salaries	78,700,000			Nil	No VAT
Electricity bill	3,700,000			336,364	Creditable
Rent	19,000,000			1,727,273	Creditable
Repair of equipment	1,800,000			163,636	Creditable
Sale of old computer in local market		5,000,000	238,095		Taxable
Provisional Personal Income Tax	11,000,000			Nil	No VAT
Purchase of new computer	15,000,000			714,286	Creditable
Sale of old uniforms (exported to Japan)		10,000,000	Nil		No VAT
Telephone and internet	19,500,000			1,772,727	Creditable
Personal gift to teacher on 'Teachers Day'	11,000,000			Nil	Non Creditable
Interest on loan	1,300,000			Nil	No VAT
Bank charges	55,000			5,000	Creditable
Total			5,547,869,004	7,719,286	
VAT payable			5,540,149,718		

(The examiner did not intend to test the VAT rates for each taxable supply; for the computer sale and purchase, the examiner accepted either 5% or 10% VAT rate answers)

(c) – The June return must be lodged by 10 July 2006 and the amount payable is due on 25 July 2006 (referring to old circular); or

– The June return must be lodged and the amount paid on 20 July 2006 (referring to new circular).

5 **(a)** Any six of:

All fixed assets of an enterprise which are involved in business activities shall be subject to depreciation. The amount calculated as depreciation of fixed assets shall be charged to business expenses in the period. Enterprises shall not be permitted to calculate and charge a sum for depreciation of fixed assets which have already been depreciated to the full extent but which are still involved in business activities.

With respect to fixed assets which have not been depreciated to the full extent and which are damaged, the enterprise must ascertain the reasons and responsibility for the damage, and shall claim or pay damages and account for same in other expenses.

Enterprises must register their selected method of depreciation with the tax authority directly managing them prior to applying such method. If an enterprise has selected an inappropriate method of depreciation then the tax authority shall be responsible to notify the enterprise to change the method.

The selected and registered method of depreciation for a fixed asset must be used consistently and continuously throughout the process of use of such fixed asset.

(The examiner accepted all reasonable answers)

(b) Fixed assets which are not involved in business activities and which need not be depreciated shall comprise:

– Fixed assets from State reserves which are assigned to an enterprise to hold on trust or to manage.
– Fixed assets which serve the welfare activities of an enterprise such as a kindergarten, club, traditional house, canteen and so forth in which the welfare fund invests.
– Fixed assets which serve general social requirements rather than business activities of enterprises such as dykes, dams, bridges, sluices, roads etc which are assigned to enterprises by the State to manage.
– Other fixed assets which are not involved in business activities.

(The examiner accepted all reasonable answers)