

Fundamentals Level – Skills Module

Taxation (Vietnam)

Monday 3 December 2007

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–3.

Do NOT open this paper until instructed by the supervisor.

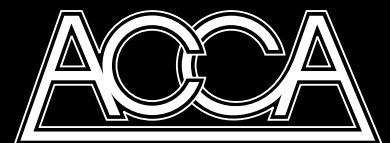
During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

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 to the nearest VND.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates are to be used in answering the questions.

Value added tax (VAT)

Standard rate 10%

Corporate income tax (CIT)

Standard rate for enterprises under the Law on Foreign Investments

For licences issued from 1 January 2004 28%
 For licences issued before 1 January 2004 25%

Standard rate for enterprises under the Law on Enterprise

For licences issued from 1 January 2004 28%
 For licences issued before 1 January 2004 32% (1)

(1) Enterprises can use the lower rate from 1 January 2004.

Corporate income tax rates on the assignment of land use rights or land lease rights 28%

Residual income progressive method tax rates

Level	Rate of residual income over expenses	Rate
1	Up to 15%	0%
2	Above 15% up to 30%	10%
3	Above 30% up to 45%	15%
4	Above 45% up to 60%	20%
5	Above 60%	25%

Foreign contractor tax regime

No	Scope of services and activities of the foreign contractor under the contracts	Deemed added value margin (as provided in Circular 05)	Applicable VAT rates (as provided in Article 8 of the VAT Law)	Deemed VAT rate	Deemed CIT rate (as provided in Circular 05)
(1)	(2)	(3)	(4)	(5) = (3) * (4)	(6)
1	Trading	10%	5%–10%	0.5%–1%	1%
2	Services	50%	5%–10%	2.5%–5%	5%
3	Construction and installation (not including the value of construction materials and equipment).	50%	10%	5%	2%
4	Construction and installation (including the value of construction materials and equipment).	30%	10%	3%	2%
5	Other manufacturing and business activities, and transportation.	25%	5%–10%	1.25%–2.5%	2%
6	Interest	Not applicable	Exempt	Exempt	10%
7	Royalties	Not applicable	Exempt	Exempt	10%

Personal income tax (PIT)

Vietnamese citizens and other residents in Vietnam

Regular income tax rates

	Chargeable monthly income VND	Rate
First	5,000,000	0%
Next	10,000,000	10%
	15,000,000	
Next	10,000,000	20%
	25,000,000	
Next	15,000,000	30%
Above	40,000,000	40%

Foreigners working in Vietnam and Vietnamese citizens working overseas

Regular income tax rates

	Chargeable monthly income VND	Rate
First	8,000,000	0%
Next	12,000,000	10%
	20,000,000	
Next	30,000,000	20%
	50,000,000	
Next	30,000,000	30%
Above	80,000,000	40%

Gross-up formulae

Foreigners

Net income – VND	Taxable income – VND
Over 8,000,000 up to 18,800,000	$(\text{Net income} - 800,000)/0.9$
Over 18,800,000 up to 42,800,000	$(\text{Net income} - 2,800,000)/0.8$
Over 42,800,000 up to 63,800,000	$(\text{Net income} - 7,800,000)/0.7$
Over 63,800,000	$(\text{Net income} - 15,800,000)/0.6$

Vietnamese

Net income – VND	Taxable income – VND
Over 5,000,000 up to 14,000,000	$(\text{Net income} - 500,000)/0.9$
Over 14,000,000 up to 22,000,000	$(\text{Net income} - 2,000,000)/0.8$
Over 22,000,000 up to 32,500,000	$(\text{Net income} - 4,500,000)/0.7$
Over 32,500,000	$(\text{Net income} - 8,500,000)/0.6$

Exchange rates

The following rates of exchange are to be used in answering all questions on this paper:

Euro 1 = VND20,000

USD1 = VND16,000

AUD1 = VND11,000

ALL FIVE questions are compulsory and MUST be attempted

1 Mr Phi is the chief accountant at Fantasy Limited, which is a Vietnamese company operating a karaoke business in Ho Chi Minh City. He is required to prepare the personal income tax finalisation for the year ended 31 December 2006, and has asked you for assistance.

Mr Phi's accounting records show that the following monthly payments were made to the company's employees during the year:

Name	Position	Monthly net payments (VND)				Months employed
		Basic salary	Entertainment allowance	Uniform allowance	Motorbike allowance	
Huong	Manager	25,000,000	200,000	50,000	200,000	12
Phi	Accountant	7,500,000	0	0	125,000	12
Nga	Receptionist	6,250,000	200,000	50,000	125,000	4
Nam	Receptionist	6,250,000	200,000	50,000	125,000	9
Dung	Cleaner	800,000	0	50,000	0	12
Richard	Singer	18,750,000	–	–	–	8
David	Singer	15,000,000	–	–	–	1

Mr Phi tells you that in addition to the above payments, the five individuals employed in February (Huong, Phi, Nam, Dung and Richard) received a Tet bonus of one month's basic salary. Ms Nga only started working for the company in September, and David only worked for one month, which was July.

The entertainment allowance and the motorbike allowance are made as cash payments to the employees. Huong, Nga and Nam sometimes have to entertain important people, and they, along with Phi, also need to use their motorbikes to travel to and from work. They do not need to provide any supporting documentation to claim the allowances.

The uniform allowance is required under Fantasy Limited's company policy, because Huong, Nga, Nam and Dung are required under their Labour Contracts to wear the special 'Fantasy Karaoke' cap all the time they are at work.

Richard is from Bhutan, but has been living in Vietnam for many years. He was a talented singer, but resigned in June to take up a job in Thailand, where he opened a Vietnamese karaoke business. Richard received a severance payment of VND 30,000,000, which was the amount he was entitled to receive under the Labour Code. He also received an additional bonus of VND 50,000,000 in return for his excellent singing and the amount of business he had brought to the company.

David is from Austria, and he came to Vietnam to take over from Richard when he left to go to Thailand. Despite his excellent reputation, David could not sing well enough, and was very unpopular among the customers. David, therefore, failed his probation and returned to Austria after only one month in Vietnam.

During the year, Fantasy Limited has made provisional payments to the tax department for its Vietnamese employees totalling VND 125,000,000 and for its foreign employees totalling VND 14,000,000.

Required:

- (a) Prepare the personal income tax (PIT) finalisation calculation for Fantasy Limited's five Vietnamese employees for the year ended 31 December 2006.

Note: You should ignore social insurance and health insurance. (10 marks)

- (b) Prepare the personal income tax (PIT) finalisation calculation for Fantasy Limited's two foreign employees for the year ended 31 December 2006. (5 marks)

- (c) State the deadline by which Mr Phi must file Fantasy Limited's tax finalisation report with the tax authority, and the date by which the company must pay any shortfall of tax to the tax authority. (2 marks)

- (d) Explain the personal tax implications if Fantasy Limited rented a house for Richard to live in while he worked in Vietnam. (4 marks)

- (e) State the tests for tax residency in Vietnam for a foreign individual and explain how residency impacts on the amount of tax payable. (4 marks)

(25 marks)

- 2 (a) Loser Hosen Vietnam Limited manufactures socks for export to Germany from its factory in Dong Nai. The company was established on 1 January 2001. The company's investment licence states that it qualifies for a 15% corporate income tax rate for its first ten years of operation, a two-year tax holiday and a two-year 50% tax reduction.

Due to the hot winter weather in Germany over the last few years, German customers have been reluctant to purchase many of the socks as they are uncomfortable to wear in hot weather. Trading has been very difficult for Loser Hosen Vietnam Limited and in some years it has earned profits and in others made losses. In 2006, an engineer at Loser Hosen Vietnam Limited invented a new, lightweight cotton sock. The company's German customers loved the new product and despite Germany's very hot winters, sales of the new socks were exceptionally good.

The company's taxable results over the first seven years of operation have been:

	USD
2001 Loss	(1,500,000)
2002 Loss	(2,300,000)
2003 Profit	1,100,000
2004 Profit	500,000
2005 Loss	(5,700,000)
2006 Profit	10,100,000
2007 Profit	12,300,000

Loser Hosen Vietnam Limited's 2007 taxable profit has been calculated based on sales of USD 142,000,000 less expenses of USD 129,700,000. The expenses comprised:

	USD
Cost of goods sold	71,900,000
Labour costs	12,100,000
Financing costs	9,800,000
Overheads	22,300,000
Depreciation of fixed assets	13,600,000

Required:

- (i) **Assuming Loser Hosen Vietnam Limited utilises its losses as early as possible, calculate the company's taxable profit and corporate income tax payable for each of the years from 2001 to 2007, inclusive.** (6 marks)
- (ii) **Explain how Loser Hosen Vietnam Limited could have reduced its overall tax liability for these seven years (2001 to 2007) by allocating the losses differently and calculate the company's revised taxable profits, together with the possible tax savings.** (6 marks)
- (b) Loser Hosen Vietnam Limited's financing costs in 2007 of USD 9,800,000 relate to the interest on two loans:
- A term loan of USD 90,000,000 from Nguyen Nguyen Commercial Bank (Hanoi branch) which carries interest at the rate of 7% per annum.
- A revolving credit facility from its parent company, Loser Hosen International Holdings Limited, which is based in the Cayman Islands. The average balance on this facility over the year was USD 30,000,000.

Required:

Advise Loser Hosen Vietnam Limited on the deductibility of these interest costs for the year ended 31 December 2007, and calculate the amount of any non-deductible interest. (5 marks)

- (c) Loser Hosen Vietnam Limited has agreed to bear the cost of any withholding tax payable on both of the loans in (b) above.

Required:

In each case, state, giving reasons, whether or not withholding tax is applicable and if so, calculate the amount that Loser Hosen Vietnam Limited should have withheld. (3 marks)

- (d) The figure for overheads of USD 22,300,000 includes the following items:

- USD 6,000,000 for advertising and trade promotion;
- USD 200,000 for the company's business licence fee; and
- USD 5,000 donated to a local children's charity.

Required:

State, giving reasons, whether or not each of the above items is deductible as a reasonable expense of Loser Hosen Vietnam Limited. (3 marks)

- (e) Now that Loser Hosen Vietnam Limited is profitable and paying taxes regularly, the company understands that it must make provisional tax payments for 2008. However, the company is worried that Germany may have an extremely cold winter in 2008 which would mean customers will stop purchasing the lightweight cotton socks, as it will be too cold.

Required:

(i) **Describe the requirements for filing a provisional corporate income tax declaration, including the filing deadline, the basis for calculating the tax liability, and the number of payments the company must make.** (3 marks)

(ii) **Explain the process by which Loser Hosen Vietnam Limited can reduce its provisional tax payments if it starts losing money during 2008.** (4 marks)

(30 marks)

3 Hanh is the project director for a new Ice Skating Stadium that will be built in Ho Chi Minh City by her family company, Hanh Fun Company Limited. Her father, the chairman of the company, has instructed her to obtain bids for the construction of the stadium from reputable international companies.

After a competitive tender process, Hanh has a shortlist of three foreign contractors who may undertake the project. All three of the foreign contractors has satisfied the technical criteria, so the decision must be based solely on the total cost of the project. All three bidders have submitted a price of USD 20,000,000, excluding foreign contractor tax (FCT) which is to be paid by Hanh Fun Company Limited. The three bids were broken down as follows (all figures in USD):

	JapanCo Limited	FrenchCo Limited	KoreanCo Limited
Design	3,000,000	2,000,000	20,000,000
Supply of imported equipment	10,000,000	13,000,000	
Installation	3,000,000		
Construction of building	2,000,000	5,000,000	
Local materials costs	1,000,000		
Local subcontractor costs	1,000,000		

Required:

- (a) Calculate the foreign contractor tax (FCT) that would be payable by Hanh Fun Company Limited in the case of each of the three bids, including the breakdown between corporate income tax (CIT) and value added tax (VAT) for each bidder. (14 marks)
- (b) Based on your calculations in (a) above advise Hanh which contractor to select as the successful bidder. Justify your advice. (2 marks)
- (c) State, giving reasons, whether or not Hanh should consider advising the successful bidder to register to apply the Vietnamese Accounting System (VAS). (4 marks)

Note: all calculations may be made in USD.

(20 marks)

- 4 Mr Tran, the chief accountant at Image Limited, is a keen sportsman, and plans to take a ski vacation to New Zealand in July. He has asked you to complete the company's VAT declaration for the month of June 2007, as he will be on holiday when the declaration must be filed.

Mr Tran supplies you with a list of transactions for this period and tells you to assume that all of the amounts include VAT (where applicable) and that the company has obtained legitimate VAT invoices for all expenditure.

	Expenses (VND)	Income (VND)
Sales		61,023,940,000
Purchase of goods sold	33,000,000	
Salaries	78,700,000	
Electricity bill	3,700,000	
Rent	19,000,000	
Repair of equipment	1,800,000	
Sale of an old computer in the local market		5,000,000
Provisional personal income tax (PIT)	11,000,000	
Purchase of a new computer	15,000,000	
Sale of old staff uniforms (exported to Japan)		10,000,000
Telephone and internet	19,500,000	
Personal gift by the company's manager to his teacher on 'Teachers Day'	11,000,000	
Interest on loan	1,300,000	
Bank charges	55,000	

Required:

- (a) Describe the difference between 'zero rated' supplies and 'exempt' supplies. (3 marks)
- (b) For each of the transactions listed, state the VAT treatment and calculate the VAT content and the amount that can be claimed or declared by Image Limited together with the overall VAT payable by Image Limited for the month of June 2007. (10 marks)
- (c) State the date(s) by which the June 2007 declaration must be filed and the VAT due paid to the tax authority. (2 marks)
- (15 marks)**
- 5 (a) Describe the general principles (conditions) which must be satisfied to obtain a depreciation deduction for the purposes of corporate income tax (CIT) in respect of a tangible fixed asset owned by a company. (6 marks)
- (b) List the four categories of fixed asset that may not be depreciated. (4 marks)
- (10 marks)**

End of Question Paper