

Fundamentals Level – Skills Module

# Taxation (Vietnam)

Monday 2 June 2008

**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)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black rectangular background.

## SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made 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 and allowances 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%

Standard rate for enterprises under the Law on Enterprise

– For licences issued from 1 January 2004 28%

### Foreign Contractor Tax Regime

No	Scope of services and activities of the Foreign Contractor (FC) under the contracts	Deemed Added Value margin (provided in Circular 05)	Applicable VAT rates (provided in Article 8 of the VAT Law)	Deemed VAT rate	Deemed CIT rate (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	N/A	Exempt	Exempt	10%
7	Royalties	N/A	Exempt	Exempt	10%

### Personal Income Tax (PIT)

Regular income tax rates for Vietnamese citizens and other residents in Vietnam

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

Regular income tax rates for foreigners working in Vietnam and Vietnamese citizens working overseas

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

### Exchange Rates

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

Euro 1 = VND20,000

USD1 = VND16,000

AUD1 = VND12,000

**ALL FIVE questions are compulsory and MUST be attempted**

- 1 (a)** Hoa Dien Ltd is an enterprise established under the Law on Investment in Vietnam. It operates a seat belt manufacturing factory in Hanoi. For the year ended 31 December 2007, the company reported a net accounting loss of VND80,000,000. This loss is arrived at after charging/(crediting) the following items:

	VND
Fines	8,000,000
Including fines for administrative offences [VND6,000,000]	
Cost of salaries and wages	23,000,000
Including incorrectly implemented labour contracts [VND500,000]; and board of management fees [VND1,500,000]	
Other expenses	15,000,000
Including amounts advanced but not expended in full [VND750,000]; and expenses for retraining female employees [VND500,000]	
Expenses for advertising, marketing and promotion	750,000
Including broker's commissions [VND50,000]	
Cost of hired services	25,000,000
Including statutory audit fees [VND12,000,000]; and lease payments for assets [VND5,000,000]	
Contingency provisions	15,000,000
Including a general provision at the discretion of management [VND10,000,000]	
Cost of goods sold	20,000,000

**Required:**

- (i) Compute Hoa Dien Ltd's corporate income tax liability for the year ended 31 December 2007. You should commence your computation with the accounting loss figure and list all the individual items specifically referred to in the question, indicating with '0' those for which no adjustment is required (i.e. they are tax deductible). (12 marks)**
- (ii) Briefly explain the treatment of the following items:**
- **the advertising, marketing and promotion expenses (1 mark)**
  - **board of management fees (1 mark)**
  - **the general provision at the discretion of management. (2 marks)**
- (b)** Frankie Limited and Johnny Limited are wholly owned licensed subsidiaries in Vietnam of Company Zee, a company incorporated in Australia.

Frankie Limited has a tax loss in the year 2007 of VND1,500,000,000. It also has available losses for the year 2006 in the amount of VND15,000,000,000.

Johnny Limited has a taxable profit of VND88,000,000,000 in the year 2007, before adjusting for carry forward losses of VND35,000,000,000.

**Required:**

- (i) Calculate the taxable income for Frankie Limited and Johnny Limited for the year 2007. (3 marks)**
- (ii) Calculate the minimal total taxable income of Frankie Limited and Johnny Limited combined for the year 2007, stating the administrative procedures that must be completed in order for this basis to apply. (4 marks)**

**(c) The scope of corporate income tax includes overseas companies conducting business activities through a resident establishment in Vietnam.**

**(i) Define the term 'resident establishment'. (2 marks)**

**(ii) State when a representative in Vietnam of an overseas company will constitute a resident establishment. (3 marks)**

**(iii) Provide two additional examples of activities that will give an overseas company a resident establishment. (2 marks)**

**(30 marks)**

**2 (a) Define irregular taxable income for the purposes of personal income tax and state the rate(s) at which the different types of irregular income are taxed.** (5 marks)

**(b)** Mrs Hoang Thi Kim is a 28-year-old Australian national. She is married with a three-year-old son and a one-year-old daughter. Since the year 2004, Mrs Kim has been working in Vietnam as the Chief Financial Officer for NAP Investments Ltd (NIL), a joint venture (JV) established under the Law on Foreign Investment in Vietnam in 2000. She served the last three months of her four-year employment with NIL in 2008, finishing her employment on 31 March 2008. Her remuneration from NIL during these three months comprised the following:

- 1 Salary of AUD60,000 (AUD20,000 per month).
- 2 Housing allowance of AUD6,000 (AUD2,000 per month). The unused housing allowance was paid in cash. Mrs Kim stayed in a house at a cost of USD1,000 per month from January through to March 2008.
- 3 Free use of a company car which cost NIL USD800 per month. The company has a policy of employees using their company car only for business purposes. All running expenses relating to the car were borne by NIL.
- 4 Three free return air-tickets to any destination of Mrs Kim's choice, as long as the cost of each return trip did not exceed AUD2,500. Mrs Kim made the following return trips, keeping all travel documents:

	<b>Cost to NIL (AUD)</b>
Vietnam to Melbourne, direct flight to her hometown in Australia	2,000
Vietnam to London, United Kingdom for a holiday	2,500
Vietnam to California, USA for a holiday	2,300

Mrs Kim's family did not accompany her on any of the above trips.

- 5 Premiums of AUD1,000 for the period 1 January 2008 to 31 March 2008 were paid by NIL as compulsory pension contributions in Australia for Mrs Kim. NIL also paid AUD800 for the same period in contributions to a pension fund which was discovered to be non-compulsory.

Mrs Kim also earned the following other income in the three month period to 31 March 2008:

- (i) A director's fee of AUD12,000 from Country Road, an Australian resident company. The fee was approved at the company's annual general meeting held in Melbourne, Australia, on 27 February 2008, and credited directly into Mrs Kim's bank account in Australia on the same date.
- (ii) A royalty of USD15,000 paid into Mrs Kim's bank account in Australia from an English publishing company for permission to publish in England, 1,000 copies of a book entitled 'Secrets of a Successful Business Woman'. This book was authored by Mrs Kim whilst she was on home leave in Australia in 2006. She does not, however, have any intention to become a professional writer in the foreseeable future.
- (iii) Gross interest income of AUD2,000 from a bank deposit in Australia remitted to Mrs Kim's bank account in Australia. The net interest (i.e. after a deduction of 15% Australian withholding tax) was used to purchase shares on the Vietnamese stock market.

Expenses incurred by Mrs Kim during the last three months of her stay in Vietnam included:

- A USD1,500 cash donation made to the Saigon Anti Smoking Society
- USD400 for a domestic maid engaged to look after her two children.

Mrs Kim left Vietnam on 31 March 2008 to pursue an exciting career at a prestigious accounting firm in London.

Mrs Kim received a bonus from NIL's head office in Australia on 15 April 2008 of AUD20,000.

**Required:**

- (i) **State giving reasons if Mrs Kim will be subject to personal income tax in Vietnam for the year 2008.** (3 marks)
- (ii) **Assuming that Mrs Kim is subject to personal income tax in Vietnam, calculate her tax liability for the three-month period to 31 March 2008. Your computation should list all of the items of income specifically listed in the question, indicating which are not taxable in Vietnam.** (15 marks)
- (iii) **Briefly explain the treatment for taxation purposes of the pension fund contributions.** (2 marks)

Note: for the purposes of this question, the double tax treaties can be ignored as they do not change the Vietnam domestic tax treatment of any of the items of income received by Mrs Kim.

**(25 marks)**

**3 (a) List the four main taxes, together with the tax base to which they will be applied, that might be levied against in respect of the activities in Vietnam of a foreign contractor.** (6 marks)

**(b)** K Larsen Limited (K Larsen) is incorporated in the United States and has its operational base in San Francisco (United States). K Larsen is a specialist in providing maintenance and maintenance equipment to the health and beauty industry. It has entered into a long term agreement to provide maintenance equipment and maintenance services to a joint operating company (JOC) in Vietnam, which has been successful in establishing a market for K Larsen's equipment and services.

The contract negotiated is for a fixed lump sum amount, which is payable in equal monthly instalments over the twelve month life of the contract.

The components of the contract are:

1	Equipment (materials to be supplied on site)	USD12,000,000
2	Training Services	USD4,000,000

Both contract values are stated net of any taxes payable.

K Larsen will use the non-VAS registered method for calculating the foreign contractor tax (FCT).

There is no tax treaty between Vietnam and the United States.

**Required:**

**(i) Calculate the FCT payable on the first payment under the contract.**

Note: you may make this calculation in USD. (8 marks)

**(ii) State the responsibilities of the JOC as the Vietnamese party to the contract, with regard to FCT.** (4 marks)

**(iii) State, giving reasons, one change to the contract arrangements which could have reduced the amount of FCT payable.** (2 marks)

**(20 marks)**



4 Nguyen Ltd (Nguyen) is an enterprise established under the Law on Enterprise in Vietnam. It provides janitorial (cleaning) services to State owned enterprises, enterprises under the Enterprise Law, enterprises under the Law on Foreign Investment in Vietnam and also to companies outside of Vietnam.

Nguyen currently has a value added tax (VAT) code and uses the tax credit method to determine its VAT liabilities. Nguyen had the following transactions during the financial year ending 31 December 2007:

	Date service provided	Date invoice issued	Value (USD)	Service Provided
1	25 March 2007	2 April 2007	10,000	Training course conducted in Vietnam.
2	25 June 2007	30 June 2007	19,000	Training course (USD17,500) and separate course books (USD1,500) conducted in Vietnam
3	30 June 2007	7 July 2007	18,000	Training course conducted in Singapore for a company that is contemplating investing in Vietnam for the first time. The Singaporean company currently has no legal presence in Vietnam.
4	Every month	Last day of month	3,000	Monthly janitorial (cleaning) service fee revenue from a FIE in Vietnam.
5	Every month	First day of month	1,500	Rent expense
6	Every month	Not applicable	2,000	Wages to staff
7	10 December 2007	1 December 2007	100,000	Development of a new software program for janitorial professionals to log their daily activities

All monetary amounts are stated exclusive of any applicable VAT and all invoices referred to are tax invoices.

**Required:**

(a) **Compute the output VAT payable and input VAT credit available for Nguyen Ltd's June VAT accounting period, giving brief explanations for the exclusion of any of the items listed.**

Note: you may make this calculation in USD. (9 marks)

(b) **State the conditions and procedures that must be complied with for a credit or refund of input VAT in relation to the export of goods or services.** (6 marks)

**(15 marks)**

- 5 Mr Huong, a Vietnamese citizen, has been employed by Ho Hanh Ltd, a Vietnamese company, since July 2006. In the year 2007, Mr Huong had no income other than his remuneration from Ho Hanh Ltd.

**Required:**

**Outline the procedures for the deduction and collection of the personal income tax payable by Mr Huong for the year 2007. Clearly state who is responsible for carrying out the procedure(s) and any time limits that apply.**

**(10 marks)**

**End of Question Paper**