

## What are the difficulties in management and compliance issues faced by Investors in restaurant chains?

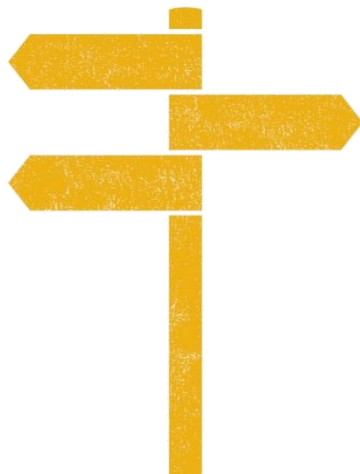
Demand in the Food and Beverage (F&B) industry is growing rapidly due to the increasing disposable incomes of people along with changes in lifestyle and eating out trends, especially in big cities like Hanoi, Ho Chi Minh City, Da Nang, etc which has created various demands in cuisine from low end to luxury. According to the latest survey by Grant Thornton Vietnam on private equity trends in Vietnam, 86% of the respondents expects investment activity to increase in the next 12 months. In this survey, Retailing and Food & Beverage industries are seen as the two most attractive sectors for private equity

In this newsletter, Grant Thornton Vietnam is pleased to share with you about some of the investment policies, tax risks and portfolio of notable difficulties in management and compliance issues in the food and beverage industry (i.e. models of restaurant chains) for you reference.



# 1. Some notes on the investment policy

- Under WTO commitments, food and beverages supplies service (CPC 642 and CPC 643) is regarded as conditional business: **"Within 8 years from the date of accession, supplies of services are carried out in parallel with the construction, upgrading, renovation or acquisition of hotel; then unlimited"**.
- From 11 January 2015, companies with 100% foreign capital will be allowed to provide hotel and restaurant services, including services of catering (CPC 642), and beverages (CPC 643).
- Moreover, the characteristic of restaurant chain business model is having business establishments in different localities through the setting up of branches or additional registered business places in the event ~~if~~ that establishment is in the same province, or municipality where the enterprise is headquartered or with established branches.
- Under the Law on Enterprises in 2014, the names and addresses of branches and business locations is no longer required to be indicated on the certificate of business registration. Hence, if the Investors have several changes to the above information, they are not required to carry out the procedures of amendment of the Business Registration Certificate. However, dossiers for enterprises and branches establishment should clearly explain the feasibility of the project financial resources, legal records of the rented business locations.



## 2. Tax Risk

- Under the current regulations, Enterprises in the catering industry pay VAT at the rate of 10% and CIT at the rate of 20%. Depending on the business model, enterprises should note that:
  - The requirement to register VAT declaration method (i.e. credit or direct method).
  - How to register and declare VAT / CIT for branches in same province, city with the head office and declaration for branches in different province, city to the head office.
- **The Ministry of Finance has issued plans on investigation of anti-tax losses** for non-state owned enterprises and household businesses in the field of trade and catering services. Accordingly, the deployment of investigation of anti-tax losses will be implemented on a national scale and focus more at the provinces and major cities, such as Hanoi, Ho Chi Minh City, Da Nang, Hai Phong, Can Tho, Khanh Hoa, Bac Ninh, Quang Ninh, Binh Duong, Vinh Phuc, Quang Ngai, Dong Nai, Ba Ria Vung Tau.
- **Basis to determine enterprises to be inspected for anti-tax losses** complies with the current regulations on risks management of non-state owned enterprises and household businesses, which should be noted such as: use of large area for business activity; actual business scale larger than the business scale as declared; particularly for household businesses in major cities such as Hanoi and Ho Chi Minh, focus on household businesses with high revenues and regularly employing over 10 employees.



### 3. What are difficulties in management and compliance issues faced by Investors in restaurant chains?

- **In the course of operations, the Investors often face to the following difficulties:**
  - Selection and implementation of restaurant management software.
  - Designing Accounting systems which can be synchronized with the management software as well as with the aim of complying with the Law on Accounting.
  - Setting up accounting management systems with business monitoring report forms to adapt with daily business decisions.
  - Setting up internal control systems, control procedures for each cycle, the inventory management system, and fixed assets.
  - Establishment of recruitment policy, salary, bonus structure, internal discipline prescribed under the Labour Code or evaluation of specific salary mechanisms to attract and develop key employees.
  - Invoice management for headquarters and business establishments.
- Controlling tax declaration in a timely manner and being fully compliant with tax law in the most effective way or handling the situations as follows:
  - Influence of withholding tax in franchise deals on foreign partners and assessing the impact of avoidance of double taxation agreement on signing contract with the foreign party;
  - Doing restaurant business and using drinks and food for entertaining their customers without issuance of VAT invoice, as a gift
  - Time of revenue recognition and billing;
  - Sales to customers without invoices or rationality, legality of payments to suppliers;
  - Requirement to register promotions, and marketing programs will effect the deductibility of expenses; and
  - Periodic tax examination.

**Please contact the experts of Grant Thornton Vietnam for more information.**



# Contact

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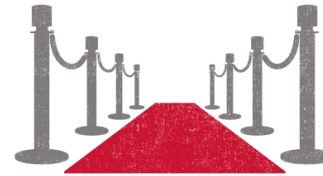
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