

**Tax newsletter**

**General Department of Taxation announced the results of the tax investigations in 2015 and the first 6 months of 2016; and requested the local Tax Departments to focus on transfer pricing inspection.**

September 2016



# 1. The General Department of Taxation announced the results of the tax investigations in 2015 and the first 6 months of 2016

According to the General Department of Taxation, Vietnam's economy was on recovery path in 2015 but sustainability is a concern. Through the Resolutions of the Government on the tasks and major solutions to direct and administer the implementation of the social-economic development plans and State budget estimates and the action plan of the Ministry of Finance, the tax authority has carried out a comprehensive and synchronous investigation and control of tax violations, tax evasion or tax fraud, violation of tax refund, searching for revenue resources, to reduce losses to the State Budget.

The results of tax investigation in 2015 were widely publicized as follows:

- Inspection and examination of 79,297 enterprises, equal to an increase of 18.26% compared to 2014.
- The total amount of tax revenue increased during the investigation by VND12,350.83 billion, equal to 116.94% compared to 2014;
- Reduction in creditable tax amount: VND1,239.1 billion, equal to 118.83% compared to 2014 and reduction of company losses through the investigations of VND23,044.45 billion, equal to 116.90% compared to 2014,
- The amount paid to State Budget: VND9,136.62 billion, accounted for 73.97% of the increased tax collection amount through investigations and 118% compared with the same period of 2014.

However, the General Department of Taxation announced that the local tax departments have not completed the inspection plans and investigation missions in 2015 (only reaching 97.04% of the inspection plans and investigation missions).

For 2016, according to the forecast that Vietnam's economy will continue to face many challenges, the General Department of Taxation has issued the following Decisions:

- Decision No. 76/QD-TCT dated 14<sup>th</sup> January 2016 on assigning the duties of investigating enterprises in 2016 to the Tax Departments of Provinces and Cities under the Central Government.
- Decision No. 77/QD-TCT dated 14<sup>th</sup> January 2016 on approving the inspection plan of enterprises in 2016, requested the Tax Departments to implement the investigation of **at least 18%** of active enterprises.

To concretize this decision, the General Department of Taxation has directed the local Tax Departments to:

- Focus on preparation of the investigations at the offices of the taxpayers, then conducting in-depth analysis to select the essential content for investigation.
- Request taxpayers to provide required information via mailbox (exclude information and documents that the taxpayer has submitted to the tax authorities) to shorten the inspection periods at taxpayers offices and to ensure high efficiency of the investigation.
- Use the software application when assessing VAT and CIT declaration dossier.
- Strengthen the implementation of investigating taxpayers who show signs of tax risks by
  - ✓ Reviewing, focusing on inspection, instantaneously investigating of enterprises with high tax risks, tax refunds; the use of illegal invoices, vouchers; tax incentives.
  - ✓ Conducting effective professional guidance on examining tax refund dossiers.
  - ✓ Using the information from the Customs declarations and other customs information as reference data when assessing tax refund dossiers, for cases where inspection is carried out before refund.



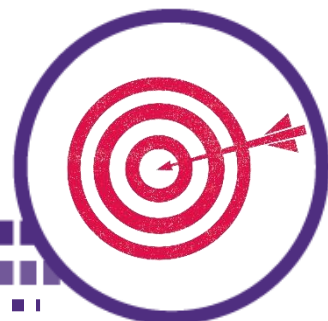
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- Focus on investigating enterprises where high amounts of tax can be collected in the following sectors and operations:
  - ✓ Oil and Gas
  - ✓ Electricity
  - ✓ Telecommunications and business of telecommunications equipment, materials
  - ✓ Capital and brand transfer; projects transfer
  - ✓ TV advertisement
  - ✓ International linking training
  - ✓ Hospitals
  - ✓ Aviation
  - ✓ Banking
  - ✓ Transportation, Taxis
  - ✓ Pharmaceuticals
  - ✓ Business of hotels, restaurants
- Focusing on tax investigation of large enterprises:
  - ✓ Large real estate companies
  - ✓ Companies with social housing projects
  - ✓ Lottery companies; e-commerce businesses
  - ✓ Foreign invested groups in Vietnam: Honda, Yamaha, Toyota;
  - ✓ International wholesale and retail Corporations: Parkson, Central Vietnam (Robbins);

- ✓ Enterprises that have not been inspected, examined for 5 years or more, especially large enterprises;
- ✓ Enterprises that are entitled to preferential tax exemptions or reductions;
- ✓ Enterprises with high tax payments to the state budget

With the above specific plans, the General Department of Taxation has announced tax investigation results of the first 6 months of 2016 as follows:

- Number of enterprises inspected: 32,493 enterprises, reaching 36.25% of the plan.
- The tax revenue increased through investigation by VND5,701.5 billion, which is 19.78% higher than the same period in 2015.



## 2. The tax authorities focus on Transfer Pricing inspections

In the previous Newsletters, Grant Thornton Vietnam has highlighted the establishment of Transfer Pricing Inspection Divisions at the General Department of Taxation as well as in Hanoi, Ho Chi Minh City, Binh Duong and Dong Nai Tax Departments.

In 2016, the General Department of Taxation has directed the Transfer Pricing Inspection Divisions to focus on the establishment of databases for related party transactions and profit margins of independent trading businesses in several industrial sectors in which related party transactions incurred.

Accordingly, these Divisions are carrying out:

- Analysis of functions as well as the value chain that was created from such functions
- Analysis of transactions with related parties
- Analysis of value chain created from related parties
- Analysis of the financial situation and identification on the contents and risks of related party transactions based upon which decisions for inspection/audit of enterprises can be issued.

At the same time, benchmarking analysis shall be performed, using the established database of profit margin, to identify the independent comparable transactions with adequate reliability in order to adjust the declaration and calculation of corporate income tax liability arising from the non-compliant related party transactions as stipulated in Circular No. 66/2010 /TT-BTC.

## 3. Grant Thornton Vietnam's support for enterprises

Grant Thornton Vietnam recommends enterprises as follows:

- Board of Directors of enterprises should consider having the Chief Accountant focus full-time on the accounting function/internal management systems to ensure the timeliness and accuracy of accounting information and consider outsourcing the tax declaration task to control tax risk by using the services of professional and reputable tax services firms.
- Arranging staff specializing in the tax declaration and other specialized personnel responsible for the review of tax declarations to ensure risk control on tax administrative procedures and tax declarations.
- Reviewing the declaration of information on the Transfer Pricing Disclosure Form to ensure information of related parties, data and transfer pricing method(s) applied have been accurately disclosed. In addition, Chief Accountant and Board of Directors should determine whether the supporting documents proving the arm's length nature or transfer pricing risks of the enterprise are available and well documented.
- Choosing a professional and appropriate tax advisors to ensure the problems and questions of the Chief Accountant / Board of Directors are dealt with in a timely and practical manner.
- Consulting your tax advisors to determine tax liabilities and potential risks before implementing any new/important transactions.
- Proactively inviting Tax authorities to conduct tax investigation after self-review and preparation of sufficient supporting documentation.



# Contacts

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## Hanoi Office

18th Floor, Hoa Binh International Office Building, 106 Hoang Quoc Viet Street  
Cau Giay District  
Hanoi, Vietnam  
T +84 4 3850 1686  
F +84 4 3850 1688

## Hoang Khoi

Tax Partner  
D +84 4 3850 1618  
E Khoi.Hoang@vn.gt.com

## Nguyen Dinh Du

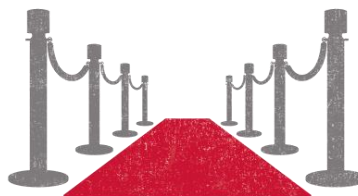
Tax Partner  
D +84 4 3850 1620  
E Du.Nguyen@vn.gt.com

## Kaoru Okata

Director – Japanese Desk  
D +84 4 3850 1680  
E Kaoru.Okata@vn.gt.com

## Phạm Ngọc Long

Tax Director  
D +84 4 3850 1684  
E Long.Pham@vn.gt.com



## For download

Please visit our website:

[www.grantthornton.com.vn](http://www.grantthornton.com.vn)

## Ho Chi Minh Office

14<sup>th</sup> Floor, Pearl Plaza  
561A Dien Bien Phu Street  
Binh Thanh District  
Ho Chi Minh City, Vietnam  
T +84 8 3910 9100  
F +84 8 3910 9101

## Nguyen Hung Du

Tax Partner  
D +84 8 3910 9231  
E HungDu.Nguyen@vn.gt.com

## Valerie – Teo Liang Tuan

Tax Director  
D +84 8 3910 9235  
E Valerie.Teo@vn.gt.com

## Tran Hong My

Tax Director  
D +84 8 3910 9275  
E HMy.Tran@vn.gt.com

## Tomohiro Norioka

Director – Japanese Desk  
D +84 8 3910 9205  
E Tomohiro.Norioka@vn.gt.com

## Tran Nguyen Mong Van

Tax Director  
D +84 8 3910 9233  
E MongVan.Tran@vn.gt.com

