

Vietnam's Annual Tax Finalization – Challenges and Recommendations

Annual Tax Finalization -
Challenges and Risks Involved

P.05

Preparation for Tax
Finalization

P.09

About Dezan Shira & Associates

At Dezan Shira & Associates, our mission is to guide foreign companies through Asia's complex regulatory environment and assist them with all aspects of establishing, maintaining and growing their business operations in the region. With over 25 years of on-the-ground experience and a large team of professional advisers, we are your reliable partner in Asia. Since its establishment in 1992, Dezan Shira & Associates has grown into one of Asia's most versatile full-service consultancies with operational offices across China, Hong Kong, India, Singapore, Vietnam, and Indonesia. The firm also maintains partner firms across the ASEAN region and client liaison offices in the US, Europe and Russia. It also advises on strategies concerning China's Belt & Road Initiative.

An Overview of Our Services

Dezan Shira & Associates is a pan-Asia, multi-disciplinary professional services firm, providing legal, tax and operational advisory to international corporate investors. Our mission is to guide foreign companies through Asia's complex regulatory environment and assist them with all aspects of establishing, maintaining and growing their business operations in the region. With more than two decades of on-the-ground experience and a large team of lawyers, tax experts and auditors, in addition to researchers and business analysts, we are your partner for growth in Asia.

- Business Intelligence
- Corporate Establishment and Structuring
- Due Diligence
- Accounting
- HR and Payroll
- Tax
- Audit and Risk Advisory
- Technology
- Outbound Direct Investment



DEZAN SHIRA & ASSOCIATES
Your Partner for Growth in Asia



ASIA BRIEFING

www.asiabriefing.com



ASEAN BRIEFING

www.aseanbriefing.com



CHINA BRIEFING

www.china-briefing.com



INDIA BRIEFING

www.india-briefing.com



VIETNAM BRIEFING

www.vietnam-briefing.com



RUSSIA BRIEFING

www.russia-briefing.com



SILK ROAD BRIEFING

www.silkroadbriefing.com

Follow us

Connect with us for the latest news, events and insights across Asia.



Like *Vietnam Briefing* on Facebook



Follow *Vietnam Briefing* on Twitter



Connect with *Dezan Shira & Associates* on LinkedIn



View *Dezan Shira & Associates* on Youtube



Scan the QR code to follow us on WeChat and gain access to the latest investor news and resources

Vietnam's Annual Tax Finalization – Challenges and Recommendations

Table of Contents

Introduction	04
Annual Tax Finalization - Challenges and Risks Involved	05
Technical vs Non-Technical Issues in Tax Finalization	05
Tax Finalization Information is the Primary Focus of Future Tax Audits	07
Contradiction of Expectations and Goals between Taxpayers and Tax Authorities	08
Preparation for Tax Finalization	09
Annual PIT Finalization	09
Annual CIT Finalization	10

Introduction

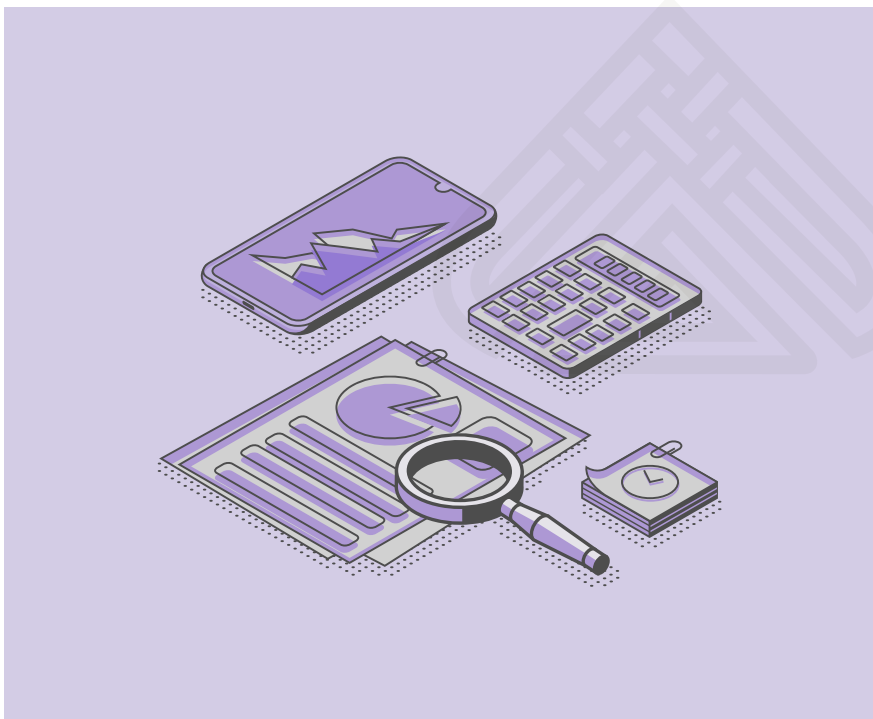
The three-month period from January 1 to March 31 of a calendar year is often referred to as the “high season” for most accountants since this is the period of preparation and submission of Corporate Income Tax (“CIT”) and Personal Income Tax (“PIT”) finalization returns. The deadline for these returns is 90 days from the end of the previous financial year.

Annual tax finalization is typically regarded as a “heavy-duty” job for accountants and involves significant levels of both technical and non-technical issues, which can affect the taxpayers’ compliance status years after the submission of tax returns.

This article will explain why annual tax finalization involves significant challenges and provide a brief outline on how taxpayers can be well-prepared for the upcoming tax finalization for the financial year that ended 2019.



Annual Tax Finalization – Challenges and Risks Involved



Technical vs Non-Technical Issues in Tax Finalization

Practically speaking, both technical as well as non-technical issues are borne by the taxpayer as illustrated in the below table.

Technical issues involve complicated accounting transactions & adjustments, substantial requirements on documentation and frequent changes in applicable tax guidance, which are the primary focus of the tax authorities in future tax inspections or tax audits. Whereas, non-technical issues are the taxpayers' internal problems within the business that can affect their tax compliance status.

Annual Tax Finalization - Challenges and Risks Involved

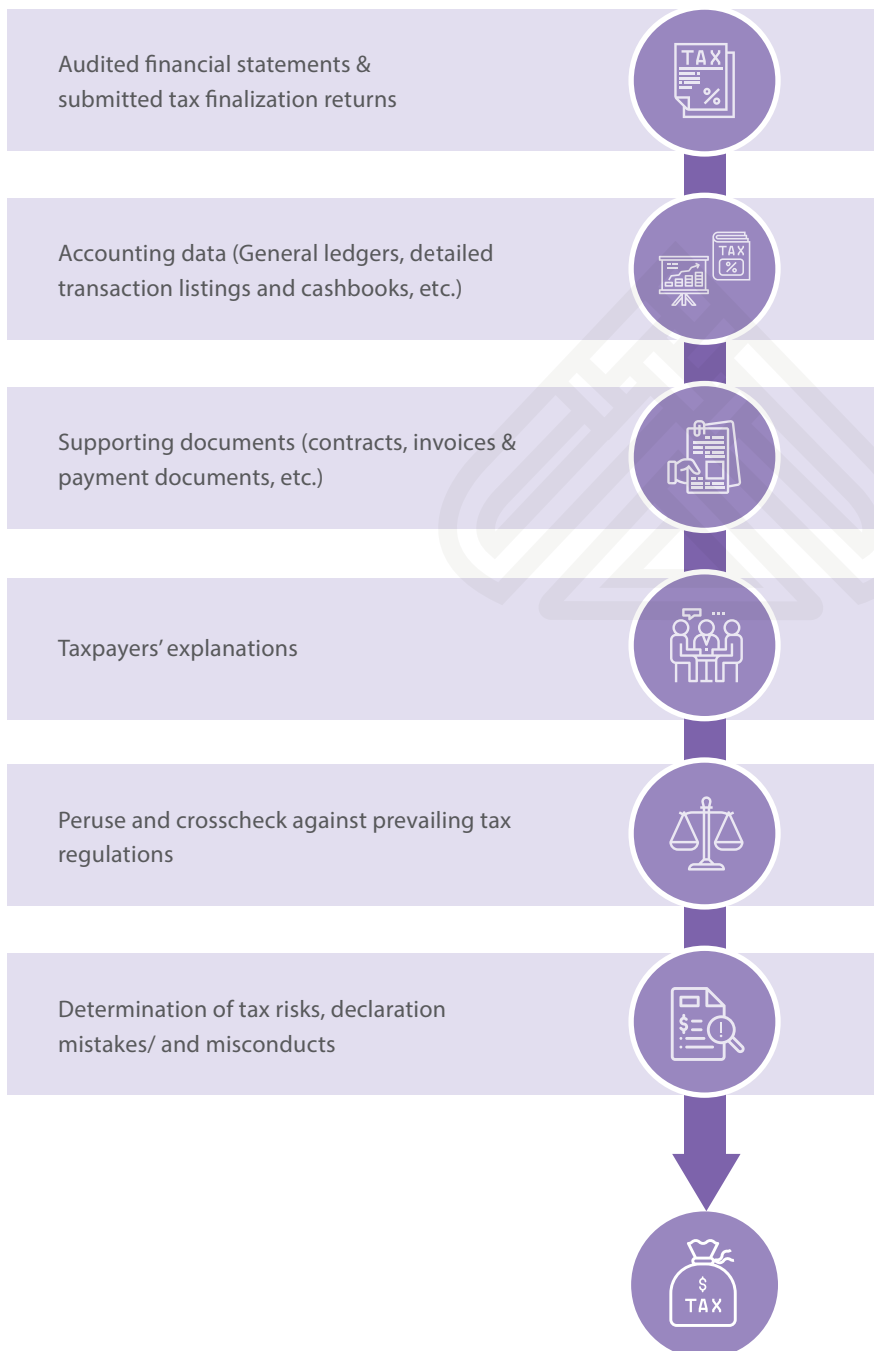
Technical vs non-technical				
Issues	Components	Descriptions	Implications on	
			Tax authorities	Taxpayers
Technical issues	Complicated accounting transactions	<ul style="list-style-type: none"> Incremental/Decremental adjustments on assessable income and deductible expenses Treatment of accruals and provision Review of accounting and other supporting documents 		
	Substantial statutory requirements on declaration dossiers	<ul style="list-style-type: none"> Audited financial statement PIT finalization return, appendices, and other employees' dossiers CIT finalization return and relevant appendices Transfer Pricing Documentation ("TPD") 	Primary focus for future tax audits	
	Significant level of professional skills involved	<ul style="list-style-type: none"> Substantial reporting information In-depth understanding of declared figures and supporting information Accuracy of accounting and tax figures 		
	Frequent changes in tax regulations	<ul style="list-style-type: none"> New regulations and tax guidance are published Continuous tax updates are required Different points of view and application of tax laws 		Borne by taxpayer
Non-technical issues	Lack of preliminary preparation	<ul style="list-style-type: none"> Poor arrangement of accounting records and supporting documents for tax declaration Inefficient internal control of tax planning & risks 		
	Insufficient cash flow	<ul style="list-style-type: none"> Significant additional tax payable Employees' year-end remuneration such as 13th-month salary and bonuses 	"Not my business"	
	Business operation focus	<ul style="list-style-type: none"> Heavy focus on business operation instead of resolving tax compliance risks Incompatible budgets for tax advisory & compliance 		
	Human resources	<ul style="list-style-type: none"> Turnover of responsible personnel after end of calendar year 		

Tax Finalization Information is the Primary Focus of Future Tax Audits

Information declared in the submitted tax finalization returns as well as the audited financial statements will be the first things that are looked at by the tax auditors. Any inconsistency or discrepancy between such information and the taxpayers' accounting books, supporting documents and explanations will be subject to further challenges and the possibility of additional tax owed to the tax auditors.

The procedures of assessing tax finalization information during a tax audit are summarized as follows:

Assessment of information during tax audits

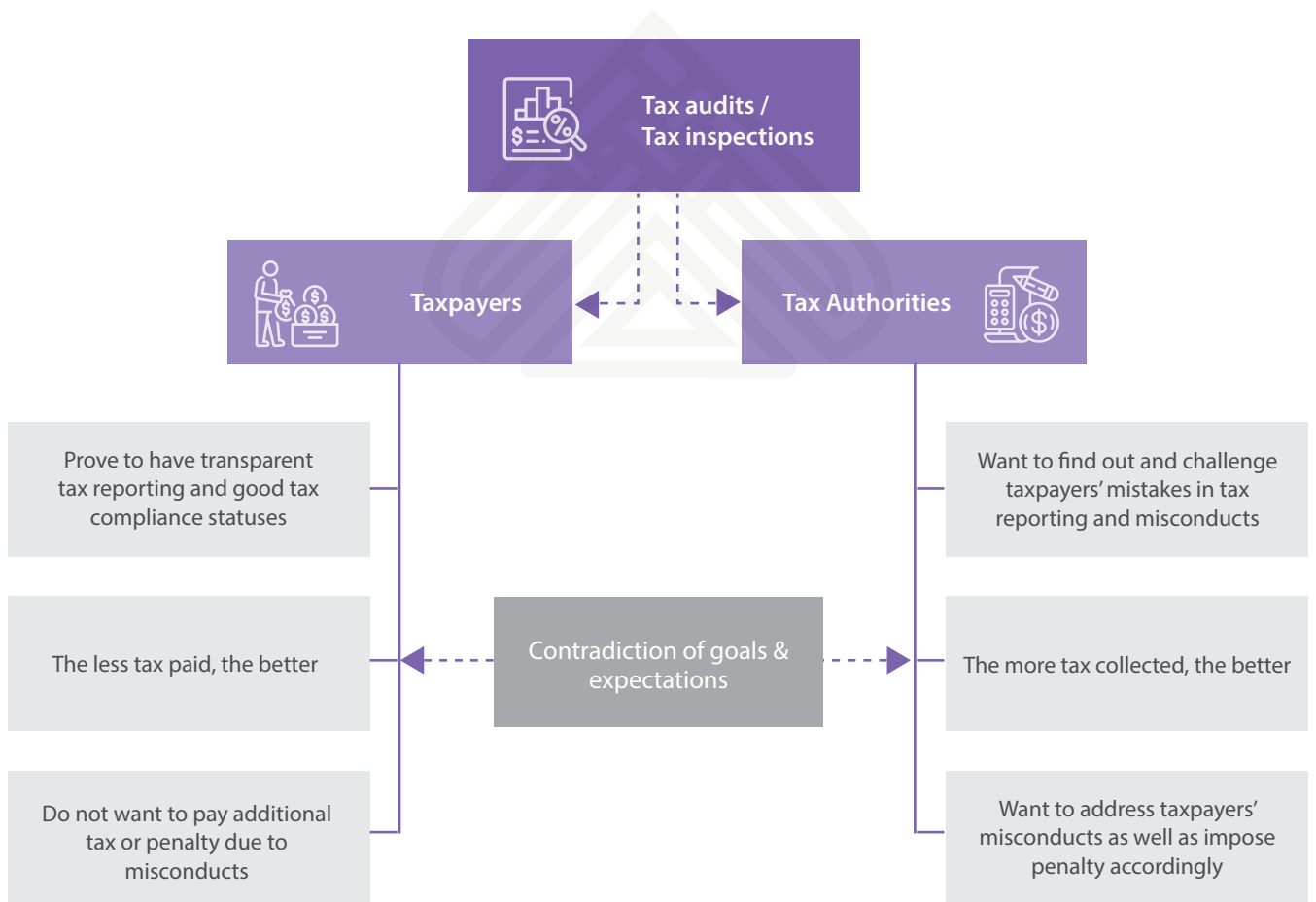


Contradiction of Expectations and Goals between Taxpayers and Tax Authorities

Unfortunately, the professional goals and expectations of taxpayers are nearly different than the tax authorities.

Taxpayers always want to show the tax authorities that they are fully compliant with the prevailing tax regulations and their tax reporting statuses are transparent. Practically speaking, many businesses apply KPIs for their accounting departments. The accountant's performance is therefore measured based on the degree of tax compliance status, level of tax paid, as well as corresponding administrative penalty on misconducts. Therefore, most accountants will do their best to balance the businesses' needs for reduction of tax paid as well as to prove their tax compliance status at the same time.

The tax authorities' goals; on the other hand; are to find out and challenge taxpayers' mistakes in tax declarations as well as impose additional tax and penalties on misconducts. Frankly speaking, the tax authorities do have KPIs for their tax officers. The tax officers' performance is measured on the level of additional tax and penalty that they can impose as well as the level of taxpayers' mistakes or misconducts found during tax inspections or tax audits at the taxpayers' premises.



Preparation for Tax Finalization

In light of the above analysis, taxpayers should ensure they are prepared for the annual tax finalization, not only to comply with the statutory regulations but also to mitigate the risks of being challenged by the tax authorities in future tax audits.

The below tables are brief outlines of suggested steps to be carried out to enhance the tax finalization process.

Annual PIT Finalization

Annual PIT Finalization			
Preparation of PIT finalization documents	Before	During	After
Suggested timelines	End of financial year	Before statutory deadline for PIT finalization	After submission of PIT finalization return
Suggested actions	<ol style="list-style-type: none"> Carry out throughout review of areas which are often examined in detail by the tax authorities, such as: <ul style="list-style-type: none"> Shortfall declaration of taxable income, allowances and other employees' benefits Mandatory insurances Personal and dependent deductions Assess tax residency statuses for expatriate employees (If any) Supplement pending or missing employment documents of employees and their relevant dependents such as: <ul style="list-style-type: none"> Appendices with changes to employment contracts Changes of employees' information Registration of employees' dependents Authorization letter from employees 	<ol style="list-style-type: none"> Assess employees' eligibility for authorizing the employer to conduct PIT finalization on their behalf. Maintain detailed workpapers for payroll calculations. Ensure the calculated figures are straightforward and consistent with the declared information for future explanation. Review and ensure that all required returns and appendices are sufficient before submission, including: <ul style="list-style-type: none"> PIT finalization return (Form 05/QTT-TNCN) Detailed list of individuals subject to progressive tax rates (Appendix 05-1/BK-QTT-TNCN) Detailed list of individuals subject to direct tax rates (Appendix 05-2/BK-QTT-TNCN) Detailed list of employees' registered dependents (Appendix 05-3/BK-QTT-TNCN) 	<ol style="list-style-type: none"> Ensure proper arrangements of employment documents, including: <ul style="list-style-type: none"> PIT documents: PIT withholding returns, tax remittance receipts and finalization returns Employees' documents: Authorization letters, employment contracts & appendices, pay slips and registration of dependents Others: Internal regulations on employees' benefits and other financial policies

Preparation for Tax Finalization

Annual CIT Finalization

Annual CIT Finalization			
Preparation of CIT finalization documents	Before	During	After
Suggested timelines	End of financial year	Before statutory deadline for CIT finalization	After submission of CIT finalization return
Suggested actions	<ol style="list-style-type: none"> Carry out thorough review of areas which are commonly subject to technical risks from the tax auditors' points of view, such as: <ul style="list-style-type: none"> Qualified reductions of revenue (i.e. returns of goods, commercial or payment discounts) Revenue cutoff Changes of conditions for applying CIT incentives Changes in regulations and official guidance which affect deductibility of business expenses Deductibility of intragroup service agreements Accruals, provisions and gains/losses from revaluation of exchange rates Carried-forward losses Supplement pending or missing documents for justification of common business expenses such as: <ul style="list-style-type: none"> Minutes of reconciliation and settlement of tripartite debt settlement agreement Internal financial policies for allowances and employee benefits Supporting documents for business travel expenses Supporting documents to justify actual provision of services Properly estimate the provisional CIT payable for Quarter 04 so that the total provisional CIT paid during the year exceeds 80% of total CIT payable upon finalization. 	<ol style="list-style-type: none"> Reconcile declared figures in CIT finalization return against audited financial statements and accounting books. Ensure discrepancies between tax declaration and accounting records are straightforward for future explanation. Maintain detailed workpapers for declared information in CIT finalization return, such as: <ul style="list-style-type: none"> Incremental/decremental adjustments of taxable income Related-party transactions (If applicable) CIT incentives (If applicable) <p>Review and ensure that all required returns and appendices are sufficient before submission, including:</p> <ul style="list-style-type: none"> Audited financial statements CIT finalization return (Form 03/TNDN) Relevant CIT appendices (If applicable) 	<ol style="list-style-type: none"> Ensure proper arrangements of tax and accounting documents for future tax inspections or tax audits. Note down complicated and unsolved issues which might create long-term impact on tax compliance status. Enhance internal control and tax planning (Internal training, annual independent tax review, consultation with the tax authorities on complicated and unsolved issues)



Are you planning an expansion in Asia?
Get started by speaking to our professionals today

Business Intelligence | Corporate Establishment and Structure | Due Diligence | Accounting
HR and Payroll | Tax | Audit and Risk Advisory | Technology | Outbound Direct Investment

Our Offices in Vietnam

Ho Chi Minh City

+84 28 3930 2828 or +84 28 3930 2818
hcmc@dezshira.com

5th Floor, Anh Dang Building
215 Nam Ky Khoi Nghia street, District 3
Ho Chi Minh City, Vietnam

Hanoi

+84 24 3942 0443
hanoi@dezshira.com

Room 901, 9th Floor, TNR Hoan Kiem Tower,
115 Tran Hung Dao Str, Hoan Kiem District,
Hanoi, Vietnam

Da Nang

+84 28 3930 2828
danang@dezshira.com



Scan this QR code
Visit our mobile page and
get the latest updates investors
news and resources with us



Asiapedia is a collection of resources based on what we have learned about doing business in Asia.

*Asiapedia*TM