Global Tax Update

Vietnam

Deloitte Tohmatsu Tax Co.

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Update on tax audit and inspection trend in 2015

The General Department of Taxation ("GDT") recently has assessed the actual performance of tax audit, tax inspection and tax debt for the first 4 months of 2015, and proposed an action plan for the rest of 2015 in order to reach the outline targets of state budget collection and tax audit based on risk management methodology. The plan was targeted to conduct tax audit and tax inspection on 15% of existing tax-registered enterprises; conduct post tax inspection on 100% cases of VAT refund for enterprises which are exposed to tax risk; from which to add-on about VND 12,500 billion of tax collection to the state budget. The assessment comes-up with some significant contents as follows:

(1) The result of tax audit and tax inspection for the first 4 months of 2015 falls short

The result of audit and inspection in the first 4 months of 2015 is below the target of 2015 and lower than the same period of 2014, specifically:

- The number of enterprises which have been tax audited and inspected by all tax departments is below 20% of the annual target and only equal to 40% of the same period in 2014.
- Total additional tax collection resulted from tax audit and inspection was only approximately equal to 87% of the same period in 2014.

Particularly with transfer pricing audit, the number of audit cases that have been carried out by tax authorities were about 42% and the tax claw-back and penalty amount were about 88% that of the same period in 2014.

(2) Tax debt in the first 4 months of 2015 tends to increase

Up till end of April 2015, total tax debt over the country increased 2% compared to that at the end of 2014.

Tax debts in large cities and provinces tend to increase. Ho Chi Minh City, Hanoi, Ba Ria-Vung Tau, Binh Duong, Dong Nai, Thai Binh, Can Tho are the provinces having the tax debt amount accounted for 70% of the total, and have 3 consecutive years (2012, 2013, 2014) in which the next year's tax debt is higher than the previous year's one.

(3) Focus and actions in the remaining period of 2015

The short tax audit results and increasing tax debts in the first 4 months of 2015 are putting pressure on the State Budget. Therefore, the

General Department of Taxation recently issued Official Letter No. 1967/TCT on 21 May 2015 and Official Letter No. 1987/ TCT-QLN on 22 May 2015 to guide local Tax Departments in implementing some main solutions as below:

1) Tax Audit and Inspection shall be focused on 02 groups:

- The high-tax risk enterprises in tax audit plan 2015. Enterprises will be assessed more frequently, and the high-tax risk enterprises identified will be updated frequently and added to the audit list to replace lower tax risk enterprises. Non-risk enterprises will not be audited.
- Enterprises belong to industries, sectors specifically selected for tax audit such as: real estate business; e-commerce; medical equipment business, scientific and technical equipment, etc.; enterprises which are under tax incentives, tax exemptions; especially focusing on enterprises which have engaged in various related party transactions, having sign of transfer pricing issues.

2) Implement Action Plans:

- Broaden the application of software to assist in tax audit, inspection, and tax debt management (for example: risk assessment, examination of tax filing dossier in relation to Value Added Tax and Corporate Income Tax).
- Audit and inspection focus: tax declaration, submission; tax returns; usage of invoice, vouchers; tax incentives.
- Publicly propagate issues with serious violations in mass media so as to deter, prevent similar behaviors of tax frauds and evasion.
- Increase resources for tax audit and inspection, so as to ensure that the tax inspection staffs account for approximately 35% total number of tax staffs.

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