Vietnam State Budget and Tax actions in 2016

Tax Alert - Tax and Legal

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Although the significant decrease in crude oil prices in 2015 adversely impacted the Vietnam State Budget, the Ministry of Finance’s data reveals that the total State Budget revenue in 2015 still exceeded the budgeted revenue by nearly 8%. The increase in revenue stems predominantly from more aggressive and expanded tax audits (particularly transfer pricing), increased recovery of tax debts, and the crafting of new tax policies designed to increase tax revenue.

Crude oil prices have shown no signs of recovery and pervasive low prices will make meeting State Budget targets difficult. In Resolution 99/2015/NQ-QH13, the National Assembly approved the 2016 State Budget with total revenue of VND 839.5 trillion, representing a 14.3% increase over the estimated 2015 revenue. Of particular interest is that although the total budgeted revenue for 2016 is higher than 2015, revenue derived from crude oil is estimated to decrease by over 40% year-over-year from 2015.

The Ministry of Finance disclosed that the 2016 State Budget is based on an assumption crude oil prices will remain at $60 per barrel, however, in early 2016 crude oil prices collapsed to below $35 per barrel. Besides, the reduction of tariffs due to international commitments will decrease revenue by VND 10 trillion in 2016. These two factors are the adverse impact to the 2016 State Budget. The Ministry of Finance prepared a number of scenarios to pre-emptively address the concerns. Primarily, the Ministry of Finance set a target to increase domestic revenue by at least 7% to 8%.

The Government Response for 2016

Through Resolution No.01/NQ-CP dated 7 January 2016, the Government sets out some key measures to meet the State Budget revenue targets in 2016.

First, the Government and various Ministries may not propose or issue new policies that will reduce collections, except where an existing international commitment requires such a change or policy.

Second, tax audits, inspections, transfer pricing reviews, tax fraud inspections, and stricter controls on value added tax filings and refunds will be increased an enhanced.

The Government and the Ministry of Finance will introduce important changes in 2016 to strengthen tax laws and policies and likely increase the tax revenue. The Ministry of Finance submitted amendments to the Law on Value Added Tax, Law on Special Consumption Tax, and the Law on Tax Administration to the National Assembly. It is expected the National Assembly will consider the submission in the March 20 session. A heavy set of new tax decrees and circulars should be expected. A separate alert will detail the proposed amendments.

What Does This Mean for Tax?

Near the end of 2015, the Ministry of Finance established the Transfer Pricing Inspector Division at the General Department of Taxation and four major local tax departments, including Hanoi, Ho Chi Minh City, Dong Nai, and Binh Duong. In addition, the Capital Assignment Pricing Inspector Division is also established in Ha Noi and Ho Chi Minh City Tax Departments. It is a significant step and signals loudly and clearly the Ministry's intent on more thorough, detail-oriented, and rigorous audits in transfer pricing and capital transfer in 2016.

We believe that tax audits and inspections will increase in frequency and intensity in 2016. The General Department of Taxation, in conjunction with the provincial tax departments, made plans and determined which companies will be audited and inspected during 2016.

With the anticipated increase in tax and transfer pricing audits and inspections, companies should review their tax declarations and the supporting documentation of open tax years and make necessary corrections before they are notified of a tax inspection or audit by the tax authorities. Having contemporaneous transfer pricing documentation and consistency in transfer pricing disclosures are important before a tax audit. This can help to enhance the tax compliance, pre-emptively correcting errors and inconsistencies to avoid large penalties imposed by the tax authorities when additional tax is assessed during a tax audit.

(Data sourced: MOF website)

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