Tax impacts due to Covid-19 pandemic

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Tran Ngoc Tu Uyen: From Deloitte Vietnam, I'm Tu Uyen, Senior Manager of the Clients & Markets team, and welcome to the Podcast series: "Post Pandemic - Challenges and Opportunities in Vietnam".

After more than three months since Covid-19 was officially announced, the economy in general, as well as companies in particular are gradually entering the "new normal" state to recover and thrive in.

While the Covid-19 pandemic posed diverse challenges to enterprises in their business processes which includes disruptive business operations, bad debts risks, changes in consumer behavior, etc – it has also opened up opportunities for businesses to transform the operations, accelerate the digitisation procedure, and enhance efficiency.

As the leading consulting firm that has always stood by businesses, Deloitte Vietnam identifies notable issues that businesses will need to improve in order to overcome difficult times caused by the pandemic.

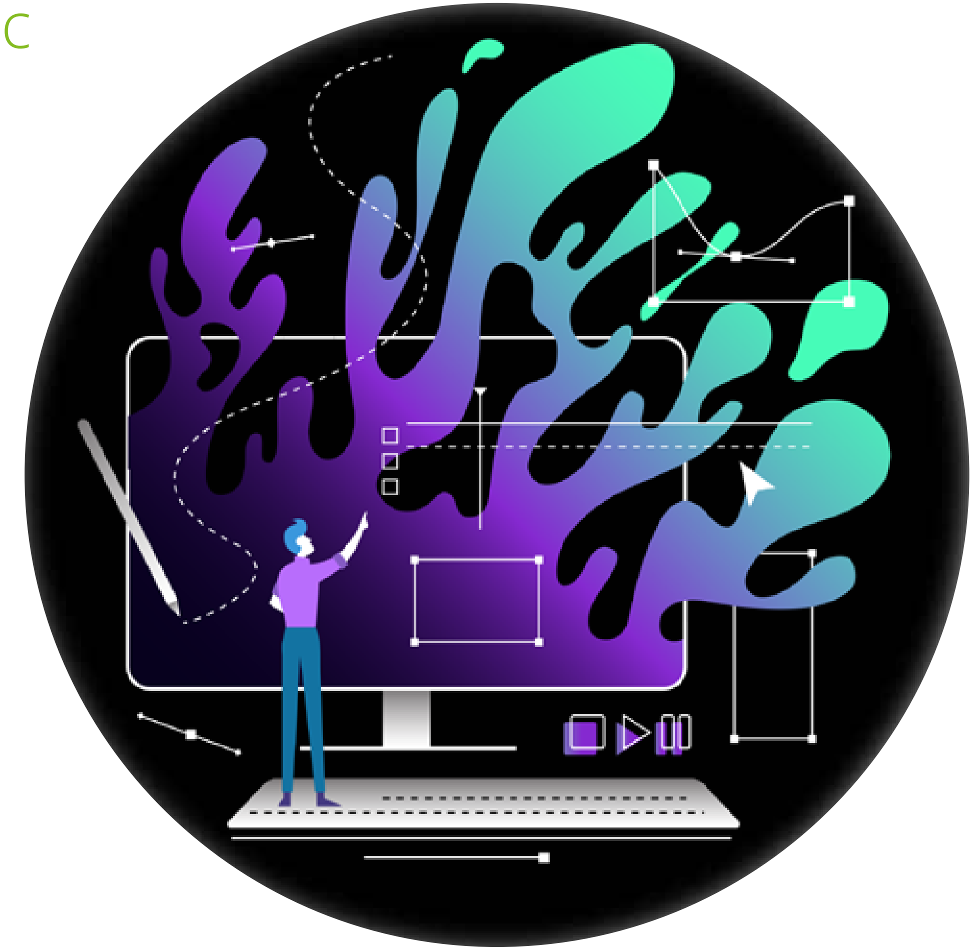
Strategic forecasting, recommendations, and helpful solutions are what Deloitte Vietnam's experts will share in every episode of this series.

Today, in the 1st episode – Tax Impacts due to Covid-19 Pandemic – we will discuss notable issues that businesses could encounter during and post Covid-19 pandemic, thereby highlight potential tax risks that need to be considered and well-prepared by the management for the future tax inspections/ audits.

Now, please join me to welcome to the show two speakers who are Deloitte Vietnam tax experts: Mr. Phan Dang Phuoc Vinh, Business Tax Senior Manager.

Phan Dang Phuoc Vinh: Hello Ms. Uyen and audiences.

Tran Ngoc Tu Uyen: And also joining us today, we have Ms. Nguyen Thi Thao Ly, Business Tax Director.



Nguyen Thi Thao Ly: Hello Ms. Uyen and audiences

Tran Ngoc Tu Uyen:
Thank you for being our speakers today. The Covid-19 pandemic has been contained in Vietnam and businesses are also starting to resume production and business activities. So can Vinh and Ly share some notable points affecting the state budget collection in Vietnam?

Phan Dang Phuoc Vinh: While 2019 is a year with a bright promises, 2020 proved to be a challenging year for the state budget collection in Vietnam.

Specifically, we can list out a few numbers as follows:

The Government's report shows that the state budget collection in 2019 was very positive, accordingly, more than VND 1.5 million billion, which increased to approximately VND 140 trillion compared to the forecast.

Among the contributions, collection from crude oil accounted for an important portion, specifically reaching over VND 56 trillion, exceeding VND 11.65 trillion compared to the forecast.

This result was mainly due to the average crude oil price of 67.5 USD/barrel, which increased by 2.5 USD/barrel compared to the forecast.

The export of crude oil in 2019 also had an impressive growth.

The situation in 2020 shows an opposing picture, and the main reason as we all know – is the impact of the Covid-19 pandemic.

The main factors affecting state budget collection this year can be listed as follows:

Firstly, economic growth is likely to be lower than the expectation of 6.8% that was set out. According to Mr. Dinh Tien Dung - Minister of Finance: "Under the impact of the Covid-19 pandemic, many businesses had to narrow their production and business activities due to difficulties in the market, supply chain disruption, demand for goods and services slumps ... creating increasing pressure on state budget collection."

Therefore, achieving a 6.8% growth target will be a huge challenge.

According to evaluations of international financial institutions in early April, the damage to Vietnam economy depends mainly on when the pandemic will be over – The World Bank forecasts Vietnam to grow at 4.9% in 2020 whilst the Asian Development Bank (ADB) and International Monetary Fund (IMF) forecast at 4.8% and 2.7% respectively.

Next is the price of crude oil likely to be adjusted and deeply decreased. The Government's report also shows, "The average crude oil price in the first 4 months was around 58 USD / barrel."

Assuming that the year's oil production meets the target of 9.02 million tons and the oil price in the last 8 months of the year is maintained at USD 25 - 28/ barrel, the average annual oil price is about USD 30-35/ barrel, thereby decreasing approximately 50% compared to 2019".

Tran Ngoc Tu Uyen: Thanks, Vinh for the very specific sharing. And in your view, Ly, do you want to add more points?

Nguyen Thi Thao Ly: From my observation, there are also several factors such as adjusting the policy of state budget collection to reduce difficulties for businesses, organisations, households, and business individuals affected by the COVID- 19.

Specifically, the Government of Vietnam promulgated Decree 41/2020 on tax and land rent deferral payment and Resolution 954/2020 adjusting family circumstance deduction rates for PIT.

This action, although harms the state budget collection in 2020, it is a great effort froim the government of Vietnam and has a positive impact on the society in general.

The last point will be the fact that the equalisation progress of state-owned enterprises is still behind schedule. It is a common status of M&A activities in Vietnam and indirectly impacts to state budget collection from the equitization and divestment of state-owned enterprises.

Tran Ngoc Tu Uyen: Thanks, Ly and Vinh so much for your sharings. In the context of budget forecasting constraint in 2020, in your opinion, how should businesses be well prepared for increased scrutiny from the tax authority in later tax audits/ inspections?

Phan Dang Phuoc Vinh: This is an interesting question.

Firstly, I agree that 2020 promises to be a challenging year for both taxpayers and the Vietnam tax authorities.

In respect of business, challenges could be from business interruption, increased inventory management costs, bad debt risks, changes in consumer behavior, etc.

On the other side, there is no information about revision on budgeting tax collection from the Tax Authority.

On this basis, it could be understood that the tax authority still has to meet the budget set at the beginning of the year, when the situation of taxpayers was better than now.

This could be huge pressure for the tax authority. In the meantime, this could be an indirect pressure for taxpayers.

Therefore, regarding current regulations, businesses should review all transactions and expenses incurred in 2020 and prepare legitimate supporting documents to present upon request by the tax authority in the future tax audits/ inspections.

Based on my observations, susinesses should take note of certain challenges as follows:

- The idle fixed assets, including machinery and equipment due to production and business disruptions, may raise concerns about the deductibility of depreciation expenses under tax regulations.

This would be because under current regulations, only in case fixed assets used for production and business have to be temporarily left unused (i) due to seasonal production for less than 9 months, or (ii) repair, relocation or periodic maintenance less than 12 months, the relevant depreciation expenses would be deductible for tax purposes (provided the enterprises could provide sufficient dossiers regarding non-operation of fixed assets upon request).

- Slow inventory movement caused by the drop in demand makes the businesses incur more provision for the devaluation of inventory or goods disposal and hence the incurred expenses may not be accepted as deductible expenses for tax purposes.

This potential risk might arise due to strict regulations on limited cases (i.e. natural physical, biological or chemical reason without compensation, or loss by natural disasters, epidemics, fires) in which disposal expenses shall be accepted.

- The sudden increase in bad debt would lead to increased provisions for doubtful debts or written-off debt, which could cause the risk of rejecting deductible expenses due to the failure to arrange necessary supporting documents or make provisions, not in line with the regulations.

We would like to note that Circular No. 48/2019 guiding treatment of provisions, effective from the financial year 2019, has delivered significant updates and changes in terms of provisions of doubtful debts and other provisions that enterprises should be aware of and apply efficiently.

Tran Ngoc Tu Uyen: And Ly, how about you? Is there anything else that businesses should pay attention to?

Nguyen Thi Thao Ly: As per Deloitte Vietnam's practical experience in assisting businesses:

- Welfare benefits such as masks, hand sanitizer or other protection gears along with donations, sponsors to fight against Covid-19 pandemic may be subject to the risk of being non-deductible expenses since the prevailing tax regulations for deductible expenses have not stipulated these types of donation, or by lacking required supporting documents.

Based on our latest observations, several local tax authorities have issued official letters, in which such Covid-19 related expenses should be accepted for tax purposes provided that documentations such as the company's policy and the proper sponsorship certificate are sufficient.

- The legitimacy of invoices for goods and services purchased in the context of increased runaway businesses, businesses with tax debts, tax evasion or failure to do business at the registration places, whilst the tax authorities are unable to contact businesses during quarantine, could lead to the challenge from the local tax authorities to disallow the deduction for the expenses of these invoices.

Thus, we recommend that enterprises should check on the official list of runaway businesses, businesses with tax debts, tax evasion or failure to do business on General Tax Department's website before making the payments to avoid any fraudulent transactions with these parties (especially medium, small enterprises, and households).

- Difficulty in the market would lead to the profit growth of the enterprises in 2020 at a very low rate or even at the loss position, while during this period, the enterprises could incur the loans to have the cash-flow to maintain their operation.

The consequence of such loans could be that enterprises have the interest expenses exceeding the regulated threshold to be non-deductible expenses (the threshold of EBITDA cap has just increased to 30% based on Decree 68/2020).

- Supports among group companies with no interest rates or interest rates lower than the market rates may draw attention to the local tax authorities to review the reasonableness of the supports, or to deem the interest rates to result in additional taxable income.
- Trade discounts, rebates, and promotions to boost sales post Covid-19 period need to comply with commercial, accounting, and tax regulations.

In case of enterprises neither register/inform promotion programs to DOIT nor provides sufficiently supporting documents, it may pose the risk of rejecting the related expenses as the deductible expenses.

Tran Ngoc Tu Uyen: Thanks, Ly. Such an interesting and specific tax trend in 2020.

We are going to end this episode with a question aside from technical aspects, in your opinion, what should businesses well-prepared for the challenging and unprecedented year?

Phan Dang Phuoc Vinh: "In danger lies opportunity". I think this is the time for businesses to show truly resilient DNA to deal with challenges and opportunities during post-COVID-19. In Deloitte Vietnam, we call it "Resilient Leadership".

Depending on the business scale and nature, the resilient leadership is exemplified by:

1. To implement a self-review and restructure to an efficient and relevant business models in order to seize the opportunity of a 'new normal stage'.
2. Build the right beliefs and attitudes for human resource – the most valuable asset of a business, to together overcome difficulties, turning challenges into opportunities.

When these elements are deeply rooted in the cellular level of the business, it will not only help the business recover but also thrive quickly and strongly in this unprecedented time.

Tran Ngoc Tu Uyen: And in this journey, Deloitte Vietnam will always listen and stand by businesses. We hope that this series and the upcoming publications would provide insightful information for the executives to do finance and tax planning in Vietnam.

Thank you Vinh and Ly for joining our podcast today to share such helpful and reliable sources for businesses' reference during the recovery and booming step.

You have reached the end of the first episode - Tax Impacts due to Covid-19 Pandemic.

Stay tune for our next episode in August. Thank you for listening!