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TAX ALERT
February 2015

TAX AND CORPORATE SERVICES

TAX ACTION ADDRESSING OIL PRICE FALL

In late 2014, Vietnam's National Assembly passed Resolution No. 78/2014/QH13 passing the State budget targets for 2015. Accordingly, the 2015 total budget revenue is VND911,100 billion (equivalent to USD42 billion). Compared with the annual budget revenue of 2014 (VND782,700 billion), budget revenue for 2015 is increased by 16.4%.

In the context of the recent dramatic fall in world oil prices, the above target revenue of Vietnam may be affected. The 2015 estimated revenue from crude oil is VND93,000 billion (equivalent to USD4.3 billion) on the assumption of crude oil price at 100 USD per barrel. The Ministry of Planning and Investment (MPI) estimates, if the oil price drops from 100 USD/barrel in 2014 to an average 70 USD/barrel in 2015, the budget under-collection will reach almost VND30,000 billion (USD1.3 billion). If oil price falls to average 60 USD/barrel, the budget revenue may decrease further. According to the Ministry of Finance and Resolution 78, the proportion of revenue from crude oil for the 2014-2015 period accounts for around 10.2% of the total budget (compared with a region of 20-25% in the past). The Ministry of Finance has recently confirmed that even in the case of crude oil price being USD 70-75/barrel, Vietnam should still maintain the fiscal balance without a need for fiscal adjustment.

Falling global oil prices are said to have two-way impacts on Vietnam's economy and even the tax revenue. Besides the adverse impacts on revenue from crude oil exports and other revenue from oil, reduced costs on fuel will benefit manufacturers and consumers. Other things equal, higher business profits and consumption from fuel cost saving increases the income tax revenue.

In the current context, the Government will likely take some actions to ensure completion of the State budget revenue for 2015. In accordance with Resolution No. 01/NQ-CP dated 3 January 2015, the MPI will monitor the developments of oil prices and proactively propose responses to ensure revenue and balance the budget in 2015 in the case of large fluctuations in oil prices. Experts remain optimistic that the revenue of Vietnam will not be significantly affected by oil prices. However, given the prospect of dim global economic growth while the oil price keeps falling, budget revenue are under pressures.

As one of the measures to ensure the revenue collection, the Government and the Ministry of Finance will strengthen tax inspection and tax audit activities in the coming year. Specifically, Resolution 01 of the Government outlined the following measures to ensure the State budget for 2015:

- Not propose and issue any new tax policy which may reduce the State budget revenue, except for tax cuts due to international commitments. In late 2014, the Government issued Resolution 63/NQ-CP and the National Assembly passed Law 71/2014/QH13 on a range of tax relief to support businesses. As a response to falling oil prices, the Ministry of Finance issued Circular 03/2015/TT-BTC, with effect from 7 January 2015, increasing the preferential duty rates on a range petroleum products by 7-11%;
- Strengthen revenue control, take drastic measures against revenue loss, transfer pricing and tax evasion;
- Strictly control tax refund; and

- Develop a plan to strengthen tax inspection and tax audit, tax debt recovery, reduce tax arrears.

Of note, the tax authorities are already strengthening the tax inspection and tax audit activities from the very early 2015. The General Department of Taxation has instructed provincial tax authorities to make plans for tax inspection and tax audit in 2015 with the following objectives:

- The tax inspection and tax audit must cover a minimum of 14.65% of total number of enterprises.
- Focus on tax inspection and tax audit of the certain sectors, including oil and gas, power, telecommunications, real estate, transfer of capital, mining, banking, aviation, manufacturing, dairy business, wholesale and retail;
- Carry out post refund tax audit for 100% of tax refund dossiers involving large amounts of refund;
- Focus on tax inspections, tax audit of enterprises which have not been audited by tax authorities for many years; and
- Audit of enterprises which have related party transactions, large consecutive tax losses and signs of abusive transfer pricing.

Given the plan on tax inspection and tax audit, businesses should review their current tax and transfer pricing compliance, for example have a tax health check and make voluntary adjustments to avoid administrative non-compliance penalties.

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