

Tax Alert

Tax and Legal

September 2019

GUIDANCE ON MAKING AND HANDLING PROVISIONS

On 8 August 2019, the Ministry of Finance issued Circular 48/2019/TT-BTC ("Circular 48") promulgating on making and handling provision expenses. Circular 48 will supersede Circular 228/2009/TT-BTC and other relevant guidance from 10 October 2019 and be applied for fiscal year 2019 onward.

Hereunder are some notable changes under Circular 48:

1. Provision for devaluation of inventory

- Work-in-progress goods and services are no longer categorised as "inventory" for provision making purpose;
- Extend the allowable provision expenses to goods in transit, goods received on consignment for sale, goods stored in tax-suspension warehouse;
- Taxpayers are allowed to use the valuation services from a third party to determine the value of inventory destroyed/liquidated.

2. Provision for investment loss

- Supplement the Government bond, provincial Government bond, Government guarantee bond and corporate bond into the list of securities subject to provision making for investment loss;
- Specify the market price of the securities for provision making in certain cases, including:
 - Listed securities having no transactions within 30 days prior to the provision making date;
 - Stocks of non-listed companies registered to be transacted and those public offerings of equitized State-owned-enterprises (Upcom);
 - Bonds as noted above.

- Supplement the guidance on provision making for debt trading companies having the investment in a joint stock company via debt conversion into capital;
- The investor company is not allowed to make provision in case the financial statements of investor company and investee company are not issued at the same time, with certain exceptional cases; and
- Supplement the guidance on provision handling in case the investment is transferred.

3. Provision for bad debt

- The confirmation of outstanding payable for bad debt provision can be replaced by the letter requesting for debt collection sent to the debtors, certified by post office or express delivery couriers;
- Supplement the guidance on bad debt provision for telecommunication services and retail businesses, accordingly those taxpayers are allowed to make provision for debt overdue from 3 months (instead of 6 months as other normal businesses);
- Supplement the guidance on bad debt provision for debt trading companies;
- Provision for long outstanding receivable dividend and profit sharing deriving from investment in other companies is not allowed;
- In case of having both receivable and payable to one party, provision for the outstanding receivable shall be made after the reconciliation and offsetting receivables against payables; and
- Uncollectible receivables must be supervised and presented under Notes to Financial Statement presentation within a minimum of 10 years, no maximum of timeline limitation.

4. Provision for warranty to goods sales, service provision and construction works

- Provision for warranty can be made to services; and
- Reversion of provision for warranty shall be recorded as an expense decrease entry in the current period. Exceptionally, in case the taxpayers do not have to spend any warranty expenses, or the provision for warranty is higher than the actual expenses upon the expiry date of warranty period, the balance of provision shall be recorded as an “other income” in the current period. Under Circular 78 on CIT, reversion of provision for construction work warranty is treated as an “other income” item.

5. Other notable changes

- Provision making for financial institutions and branches of foreign banks operating in Vietnam

shall follow the guidance of Circular 48, except for the provision making for operational risks which must follow the specific guidance from the State Bank of Vietnam;

- Provision for investments to overseas is not allowed. Any brought forward balance of the provision for investments to overseas must be reverted to decrease expenses in fiscal year 2019; and
- Timing for provision making is at the fiscal year-end. Provision for interim reporting as previously is no longer regulated under Circular 48.

Should you need any assistance related to the application of Circular 48, please contact KPMG for further advice.

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