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# **Executive Summary**

- P/E in Malaysia: YES
- 2 Key findings: Witholding Tax for Vietnam, Thailand and Malaysia
- Transfer Pricing methods: CUP method, CLM, TNMN
- Arm's length interest rate using CUP method and Intercompany sales using Cost plus pricing method
- 2 strategic for tax planning

### VietTech Co.

# Main Product: Advances microchips and Sensors, AI technology trained

	Function	Asset	Risk
VietTech	<ul> <li>R&amp;D activities for microchips and Sensors</li> <li>Owning IP</li> <li>Core manufacturing</li> </ul>	<ul><li>IP: Intangible asset</li><li>Final products</li></ul>	<ul> <li>Supply chain disruptions or quality issues</li> <li>Malfunction, damage, or obsolescence of plant</li> <li>Loss or theft of intellectual property</li> </ul>
ThaiTech	<ul><li>Assembling plant</li><li>Distribution and selling</li><li>Using royalties from IP</li></ul>	<ul><li>IP rights from VietTech</li><li>Component from VietTech</li><li>Plant and equipment</li></ul>	• Forming PE • Reputational damage • Potential legal
Malaysia Branches	<ul><li>Selling and marketing to the jurisdiction</li><li>Receiving training from VietTech</li></ul>	<ul><li>Final Products</li><li>Marketing and sell Employees</li></ul>	<b>(•-Forming PE)</b> <b>(•-</b> Human Capital Risk
SingTech	<ul> <li>Procurement and Financing Centre</li> <li>Purchasing Material</li> <li>Selling Material</li> <li>Providing intercompany loan, financing for the group</li> </ul>	<ul><li>On-going Material</li><li>Financial asset</li></ul>	Financial Risk     Compliance Risk

FUNCTIONAL ANALYSIS MODEL

EXECUTIVE SUMMARY BACKGROUND KEY RECOMMENDATION KEY TAKEAWAY

#### **Tax-Consideration:**

## Strategy Suggestion

More income source in Vietnam as a main tax Authority

# Considerati on

Public Adviser to Vietnam Government suggest Tax refund for incorporate has income source in Vietnam

Risk

Politicy Delayed or Cancellation

# Focus on ESG aspect

- Focus on ESG aspect for more "intangible value"
- Effective tax planning for

Tax incentives for ESG pioneer corporates

Overbudget expense more than "Tax expense"

#### **Activities**

### Sale and Marketing

# **Physical** presence



# 🤋 Regulatory Compliance 🥮



The term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

They has office

Risk

X The use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise;



Malaysia need to constitute to PE

KEY RECOMMENDATION BACKGROUND KFY TAKFAWAY **FXFCUTIVE SUMMARY** 

# Potential tax considerations for employees: DURATION and PE

#### **Duration**

The place of business must be maintained for a certain period. While there is no universally fixed timeframe, tax treaties may specify thresholds (e.g., >=183 days in 12 months in Vietnam).

High possibility that occur the double personal income tax

#### **SERVICE PE**

VietTech send employees training and guidance services the employees to

High possibility that service PE will be formed

Considerations regarding taxes between the VN and market countries:

- DTT and DTA (exemption/ credit machinism)
- Authority to sign contracts, Labor payroll, Labour accomodation,..

## Interest

# Royalties

# Dividend payment

VietTech	Domestic	n/a	n/a	n/a
	International	-	-	n/a
Malaysia Office	Domestic	n/a	n/a	n/a
	International	15%	10%	n/a
ThaiTech	Domestic	1%	3%	10%
	International	15%	15%	10%
SingTech	Domestic	n/a	n/a	n/a
	International	15%	15%	n/a

#### **CUP** method

#### Cause

- VietTech grants exclusive licence to ThaiTech for manufacturing the microchips
- Product is the most pivotal factor in determining the transactions between two entities

#### **Method**

Commercial data base to benchmark ATA: %/revenue

#### **Pros**

- Directly compare prices between transactions, easy to apply becuase similar independent transactions.
- Accurate results can be provided by applying good comparative data are available.

#### Cons

- May not fully account for the impact of proprietary technology and other factors on price
- Accurately calculating the expenses involved in manufacturing can be challenging.

# Transactional net margin method

 A large amount of operational expenses are not taken into account in CUP method, leading to inaccuracy in the royalty fee calculation

Benchmark CTC: Markup on transaction

- More flexibility in determining transaction value.
- Reflects overall business performance encompassing administration cost.
- The results may be impacted by various unrelated variables.
- Additional financial information from similar companies is required.

# **R&D** Cost charged from VietTech to subsidiaries

#### **VietTech**

- Conducting main R&D activities for the products (microchips and sensors)
- Licenses IP to subsidiaries

#### **TP Method**

#### **Cost plus pricing method**

- Consistent with the characteristics of R&D, where direct market prices are not always available, adding profits to costs is a reasonable way to estimate value
- Real value representation: Based on actual costs, this method helps to accurately depict the value contribution of R&D activities

#### **CONSIDERATION**

To benchmark markup by using comparable data:

- Internal: data of agreement between VietTech and subsidiaries
- External: using industry cost to benchmark and compare (Revenue scale,..

# The intercompany loans provided by SingTech to VietTech and ThaiTech

# **Loans transaction**

# TP Method



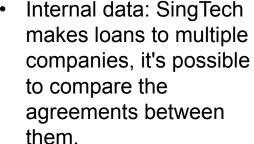
#### **CUP** method

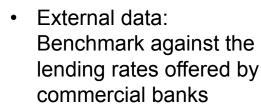
- Loan agreements can be compared based on publicly available data about loan agreements on the market
- Ensuring that the determination of interest rate falls within the arm's length range of the market

# **Arm's length rate**



### **Comparable data**







## **Consideration**



### **Key actions**

- By accessing to All star rate, tax advisor can determine precisely interest rate for company
- Tax comliance for SingTech: Master file, Local file and a copied country-to-country report





**KEY RECOMMENDATION BACKGROUND** KFY TAKFAWAY **FXFCUTIVE SUMMARY** 

# Intercompany sales from VietTech to ThaiTech

# **TP Method**



#### Cost plus pricing method

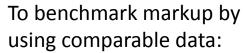
- Appropriate for situations where Company A is solely a manufacturer and not exposed to market fluctuations.
- Company B is responsible for sales and bears the market risk.

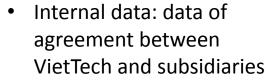
# 2

# **Arm's length rate**



### **Comparable data**





 External data: using industry cost to benchmark and compare (Revenue scale,...



# **Consideration**



#### **Key actions**

- By accessing the TP catalyst tax advisor it is possible to accurately determine the cost basis.
- Tax comliance for SingTech: Master file, Local file and a copied country-to-country report





# **Keytake aways**

#### **Current**

- Malays
- Thailand
- Royalty transaction
- R&D activities provided by VietTech
- Intercompany loans provided by SingTech
- Intercompany sales provided by VietTech
- Two scenarios for potential strategic tax planning

## Proposed

#### Tax planning

ü Viet Nam income's source

#### PE

- ü Create a subsidiary entities instead of branches.
- ü Thailand
- ü Malay constitutes two PE

#### **TP Methods**

- ü Royalty transactions: CUP method and TNMM
- ü R&D Activities: Cost plus method
- ü Loans transaction: CUP method
- ü Intercompany sales: Cost plus method

