

# TAX FOR THE INFRASTRUCTURE DEVELOPMENT COMPANY AND THE MANAGEMENT BOARD OF INDUSTRIAL PARK

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On May 25, 1996, the Ministry of Finance issued Circular 27 TC/CSTC on guidelines for the implementation of financial regime concerning the infrastructure development company (IDC) and the industrial park's management board (IPMB). The circular includes part I: the financial regime for the IDC, part II: the financial regime for IPMB, part III: the implementation provisions.

Taxation and land rent are regulated as follows:

1. IDCs pay tax according to preferential rates ruled by the Law on Promotion of Domestic Investment, Law on Foreign Investment in Vietnam, tax laws and guiding documents.

2. In case the IDC collect proceeds from re-renting land one time, fee of using public facilities...in many years, it must pay tax as follows:

- Turnover tax: Paying turnover tax for the whole earnings from land rent, fee of public facilities...at the time of generating earnings according to the Law of Turnover.

- Profits tax: the IDC has to determine annually earnings from land rent, fee of using public facilities...; reasonable and legal expenses arising in the year (cost of fixed assets amortization, wages, cost of management and maintenance of infrastructure...) with the aim to identify taxable profits in compliance with the Law of Profits Tax.

The IDC A, for example, rented land from the State to build and operate infrastructures in 50 years in the concentrated industrial zone X of which infrastructures and public facilities have been already

built, in January 1996, it leased land to X's enterprises and permitted them to use public facilities: Enterprises B: 100 m<sup>2</sup>; Enterprise C: 200 m<sup>2</sup>; Enterprise D: 150 m<sup>2</sup>. The land rent and fee of using public facilities were determined by the IPMB as: US\$10/year and US\$0.5/m<sup>2</sup>/year. Enterprise B advanced land rent and fee for the first 10 years, Enterprise C for 15 years, Enterprise D for 20 years.

The IP has only three enterprises B,C,D and the Company A's total reasonable and legal costs concerning the turnover in 1996 is US\$3,250 (costs, depreciation, wages, management cost...), in 1996 there is no other operations causing turnover.

The taxable turnover in January 1996 and taxable profit in 1996 is identified as followed:

a. Taxable turnover of Company A is the whole proceeds from land rent, utilization fee arising in January 1996:

+ Earnings from Enterprise B:  
- Land rent: US\$10 x 100 m<sup>2</sup> x 10 years = US\$10,000  
- Public facilities: US\$0.5 x 100 m<sup>2</sup> x 10 years = US\$500  
+ Earnings from Enterprise C:  
- Land rent: US\$10 x 200 m<sup>2</sup> x 15 years = US\$30,000

- Public facilities: US\$0.5 x 200 m<sup>2</sup> x 15 years = US\$1,500

+ Earnings from Enterprise D:  
- Land rent: US\$10 x 150 m<sup>2</sup> x 20 years = US\$30,000

- Public facilities: US\$0.5 x 150 m<sup>2</sup> x 20 years = US\$1,500

Total: US\$73,500

b. Company A's profits subject to profits tax in 1996:

+ The company A's turnover for profits tax calculation in 1996:

- Earnings from Enterprise B: US\$10 x 100 m<sup>2</sup> + US\$0.5 x 100 m<sup>2</sup> = US\$1,050

- Earnings from Enterprise C: US\$10 x 200 m<sup>2</sup> + US\$0.5 x 200 m<sup>2</sup> = US\$2,100

- Earnings from Enterprise D: US\$10 x 150 m<sup>2</sup> + US\$0.5 x 150 m<sup>2</sup> = US\$1,575

Total: US\$4,725

The Company A's taxable profits will be:

US\$4,725 - US\$3,250 = US\$1,500

3. The IPC has to pay land rent to the State (if any), according to current regulations.

The foreign invested IPC pays land rent to the State according to regulations in its investment licence and Decision 1417 TC/TCBN dated Dec 31, 1994 issued by the Finance Minister.

The domestic IPC pays land rent to the State according to decision issued by the Prime Minister (if any) or regulations of the provincial, municipal People's Committee and Decision 1357 TC/QĐ/TCT dated Dec 30, 1995 issued by the Finance Minister.

In case there are companies trading in public facilities apart from the IPC, the determination of prices, fees, taxes, and land rent also applies regulations of this circular.

