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International Experience in Applying Corporate Income Tax Accounting for Viet Nam in an International Integration Context

Dao Tuyet Lan

Faculty of Accounting and Auditing, Van Lang University, Ho Chi Minh City, Vietnam
Email: lan.dt@vlu.edu.vn

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Abstract

This research examines and analyzes international experiences in applying corporate income tax (CIT) accounting, thereby proposing some policy implications to improve the effectiveness of CIT accounting in the context of international integration. To achieve this goal, the study uses the method of reviewing previous studies, analyzing and synthesizing theories, and comparing VN and IFRS accounting regulations in order to examine the differences between Accounting and Finance. In addition, the research analyzes some experiences of countries around the world in applying CIT accounting in the process of international integration. On that basis, part 4 of the research proposes many solutions to improve the efficiency of applying CIT accounting in the context of international integration, such as a Group of complete solutions in accounting, a group of comprehensive solutions on tax, and a group of thorough explanations on how to approach CIT indicators.

Keywords

CIT, CIT Accounting, International Integration, IFRS

1. Introduction

International integration has created drastic changes in all aspects of socio-economic life, thereby creating the circulation of capital, products, cultural features, and ideas among countries around the world (Phuong & Nguyen, 2012). International integration is the process of increasing the connectivity and interdependence of markets and businesses in the world. International integration is defined as market integration, overcoming cultural barriers, and trading information in many ways, impacting policymakers (Dreher, 2006). International integration leads to increased output, countries producing more and more, more jobs, lower prices, and higher wages. However, at the same time, lower product prices and the movement of capital and goods increased. The trend towards harmonization or convergence with International Financial Reporting Standards (IFRS) has interested both developed and developing countries (Phuong & Nguyen, 2012).

In Vietnam, the issue of international harmonization has been emphasized since Vietnam started focusing on developing accounting standards—VAS (Phuong & Nguyen, 2012). Therefore, these standards are almost entirely consistent with IASB 2003. However, according to Pham's (2016) study, the overall legal convergence rate between VAS and IAS/IFRS is only 68% because VAS inherits essentially from the IAS 2003 version, so it is not an exact copy of IFRS. According to (Phuong & Nguyen, 2012), VAS cannot recognize the potential benefits of applying IAS/IFRS. Furthermore, if Vietnam wants to attract foreign investment through the market opening, it is mandatory to apply IFRS to prepare and present information in the financial statements of enterprises (Tran, 2014). From that fact, the Ministry of Finance has issued a roadmap to apply IFRS in Vietnam, starting from 2022 to 2025. For listed enterprises, foreign-invested enterprises, and state-owned enterprises (state control over 51%) encourage all businesses to apply after 2025. This process will promote the preparation and presentation of the financial statements of enterprises in Vietnam to be consistent with the financial statements of enterprises worldwide.

Today, as the market share of companies expands to become more global, a constant effort exists to maintain their competitive edge against the domestic and foreign competition (Herath & Melvin, 2017). Multinational companies outsource their services from abroad, moving their business operations to countries with lower labor costs or lower tax rates, which has resulted in the loss of government control over tax revenue. This becomes a risk to budget stability as the government loses tax revenue. Changing the standard from national GAAP to IFRS will have tax implications due to the different principles used to report a company's financial performance (Mulyadi et al., 2012). As Nobes (2002) pointed out, harmonization is the process of enhancing the consistency and comparability of circulation of capital mobility and information exchange internationally by reducing differences in accounting and tax laws. However, the adoption of this internationally harmonized standard has raised concerns about its impact on the tax burden of reporting entities. Nevius (2008) questioned how IFRS would affect tax practitioners and found the immediate tax implication that certain items would generally be treated out of the balance sheet, such as certain types of leases, will now be reflected on the balance sheet, facilitating a fairer presentation of financial statements. It can be seen that the application of IFRS will change the arrangement of the content of the financial statements. It can also be predicted that applying IFRS may change the reporting entity's financial statements (Hickey et al., 2003). Although each company will have a different financial impact on adopting IFRS, Teixeira (2004) and Bradbury and Van Zijl (2005) also pointed out the following reporting areas for companies such as: 1) income tax due to fundamental changes in the concept and method of recognition of deferred income taxes, assets, and liability; 2) the plant and equipment when offsetting the revaluation increase and decrease no longer occurs in an asset class; 3) revenue recognition and intangible assets because there is no equivalent standard of Vietnamese Accounting Standards (VAS); 4) financial instruments, where derivatives are recorded at fair value and the detailed rules applied to account for hedges or business combinations, due to a change in the accounting treatment for goodwill on consolidation… Furthermore, alternative accounting methods may be acceptable to accounting standards, but the choice of that method may be inappropriately influenced by tax implications (Abedana et al., 2016). Therefore, the application of CIT accounting in the context of international integration faces many difficulties and needs to be explicitly considered.

This research examines and analyzes international experiences in applying CIT accounting in some countries in the world. From there, some policy implications are proposed to improve the effectiveness of CIT accounting in the context of international integration for Vietnam. To achieve this goal, Part 2 of the research examines the differences between Vietnamese and International CIT regulations. In Part 3, the research analyzes some experiences of countries around the world in applying CIT accounting in the process of international integration. In Part 4 of the research, the author proposes solutions to improve the efficiency of applying CIT accounting in international integration.

2. The Difference between the Provisions of CIT Accounting in Viet Nam and International

As mentioned above, the Vietnamese Accounting Standards (VAS) use IFRS as a basis. However, the two standards also have fundamental differences in terms of terminology, application methods, and scope of presentation. Vietnam has 26 VAS accounting standards issued through 5 phases, including five decisions (149/2001/QD-BTC on December 31, 2001; 165/2002/QD-BTC on December 31, 2002); 234/2003/QD-BTC dated 30/12/2003; 12/2005/QD-BTC dated 15/02/2005 and 100/2005/QD-BTC dated 28/12/2005) and 3 Circulars (161/2007/TT-BTC dated 31 December 2007; 20/2006/TT-BTC dated 20 March 2006; 21/2006/TT-BTC dated 20 March 2006). Compared with the provisions of Vietnam CIT Accounting and IAS/IFRS, the similarities and differences are detailed below as follows (**Table 1**).

When developing accounting standards in general and accounting standards for corporate income tax (VAS 17) in particular, the Ministry of Finance has selectively applied the contents of the international reporting standards on corporate income tax (IAS 12) following suitable the characteristics and economic condi-tions of Vietnam at that time. Therefore, in general, VAS 17 is quite similar to the provisions of IAS 12. However, VAS 17 is still quite different from IAS 12 in determining the value after initial recognition. Specifically: the tax loss under IAS 12 allows the enterprise to offset all or part of the tax loss against the tax

Table 1. Income Tax—IFRS/IAS 12 and VAS 17.

Features	IAS 12/IFRS	VAS 17
Recognition of current income tax payable and current tax assets	Current tax for the current and prior periods, if not paid, should be recognized as a liability. The excess will be recognized as an asset if the amount paid concerning the current and previous periods exceeds the amount payable for that period.	
Recognition of deferred tax liabilities and deferred tax assets	A deferred tax asset/liability is recognized for all taxable/deductible temporary differences, except: 1) The deferred tax liability arises from the initial recognition of goodwill; 2) Initial recognition of an asset or liability in a transaction that does not arise in a business combination and affects neither accounting profit nor taxable profit at the time of the transaction; 3) Differences relating to investments in subsidiaries, branches, associates, and investments in joint ventures (e.g., arising from undistributed profits), due to The timing of the reversal of such differences can be controlled by the company, the reversal may not occur in the near future, and taxable profit will cover the differences.	The Standard covers only one situation when a deferred tax asset arises from the initial recognition of an asset or a liability in a transaction that does not affect accounting profit at the time of the transaction. Taxable profit and taxable profit (tax loss), no taxable differences or temporary tax deductions are required.
Unused tax losses, unused tax incentives	Deferred tax assets are recognized for unused tax losses and unused tax credits only to the extent that it is probable that future taxable profit will be available to offset the unused tax losses or unused tax incentives.	
Value confirmation	Current income tax payable (or current tax asset) for the current and prior years is determined at the amount expected to be paid (or recovered from) by the tax authority, using tax rates (and tax laws) in effect at the balance sheet date. (paragraph 32.VAS17) Deferred tax assets and deferred tax liabilities should be measured at the expected tax rates for the year in which the asset is recovered, or the liability is settled, based on tax rates (and tax laws) in effect at the balance sheet date.	
Record current tax payable and deferred tax	When different tax rates are applied to each level of taxable profit, the deferred tax assets and liabilities are determined using the average tax rate expected to apply to the taxable profit (tax loss). Of the periods for which the temporary differences are expected to reverse.	No mention of this issue.
	Current and deferred tax should be recognized as an income or expense in the income statement, except when the tax arises from a transaction or other event recorded directly in equity; or business combination.	The Standard does not provide specific guidance on accounting for current and deferred tax when a tax liability arises from a business combination.
Present deferred tax assets and deferred liabilities	No mention of this issue. However, it is customary to present deferred tax assets/liabilities as long-term assets/liabilities.	The Standard requires that deferred tax assets and liabilities be presented separately from other and current assets and liabilities. Deferred tax assets (liabilities) are not classified as current assets (liabilities).

Source: (According to Deloitte).

liability of the current year or previous years. In other words, businesses can carry tax losses to prior years instead of setting off for subsequent years. But according to VAS 17 regulations, losses are carried forward for five consecutive years from the year of loss.

3. Methodology

The study conducts a survey method of related studies, through this method to synthesise all information related to regulations and practice of applying CIT accounting in Vietnam and international accounting standards. (IFRS) Summarize the differences in the provisions of the two measures.

The method of comparison and contrast is used to support the evaluation of the process of applying IFRS to CIT accounting in some specific countries over the period. From there, the study draws on the practical experience of these countries to draw lessons in applying IFRS to Vietnam.

Methods of analysis and synthesis: used throughout the research process. After the information is collected, it will be statistically aggregated, selected, analysed, evaluated, and used examples, quotes, etc., to illustrate the fundamental analysis and application of the plan CIT accounting in Vietnam and international accounting standards (IFRS). Thereby, conclusions will be drawn to specify the nature of the collected information to ensure the reliability of the research results. After analysing and evaluating the process of checking the practice of applying international accounting standards of countries, this study draws conclusions to find solutions in applying IFRS to Vietnam.

4. Some Experiences of Countries around the World on Applying CIT Accounting in the Process of International Integration

IFRS is a set of rules governing financial accounting that prescribes a common set of globally applicable reporting standards. In comparison, tax laws are applied based on different jurisdictions from country to country. Therefore, when countries applying IFRS prepare financial statements may also have changes in tax regulations; it is also possible for tax authorities to require companies to prepare financial statements based on national GAAP for tax purposes or also Financial statements for tax purposes and financial statements for accounting purposes are different, so there is no effect when companies apply IFRS to prepare financial statements.

According to the research results of Mulyadi et al. (2012), the tax authorities and the Government have many different responses to CIT when applying IFRS, specifically:

4.1. Experience in Applying CIT Accounting According to International Standards in the Americas

In the Americas, Mulyadi et al. (2012) analyzed countries: Brazil, Canada, and the United States. The research results are:

In Canada, the USA, and Brazil, there is no change in tax regulations due to the implementation of IFRS because, In Canada, IFRS became one of the accounting standards they can use for tax purposes. Taxpayers can choose which accounting standard they consider most appropriate for the company's operations. Changing the accounting standard from Brazil GAAP to IFRS will not increase the amount of tax because the Brazilian legislature also promises tax neutrality. In the US, accounting for tax purposes is not the same as bookkeeping. As a result, there are currently no changes or adjustments in tax regulations related to implementing IFRS in the United States.

The current CIT in Brazil is calculated from actual or estimated profits. The actual profit is calculated after adjusting some tax regulations from taxable book income. Assumed profit is calculated quarterly as a gross income percentage and adjusted for specific tax regulations.

To value inventory, Canadian taxpayers can use fair market value or the lower cost and fair market value. For calculating the ex-warehousing price, enterprises can use all methods except the LIFO method. The U.S. Internal Revenue Service asks taxpayers to use actual or lower market costs based on the FIFO method to value inventory. Taxpayers using LIFO expenses are also acceptable, but there must be a match between tax reporting and books. Actual average cost or cost of last purchased or manufactured inventory valued at inventory for tax purposes in Brazil.

The difference between short-term and long-term capital gains is considered ordinary income in Canada. Capital gains are also considered ordinary income in the US and Brazil, so it is taxable under CIT.

4.2. Experience in Applying CIT Accounting According to International Standards in the Asia Pacific

Research by Mulyadi et al. (2012) focused on Australia, Korea, India, Indonesia, and New Zealand to study IFRS and tax issues in Asia Pacific.

There is also no change in tax regulations in Australia and India due to the implementation of IFRS because the Indian tax authorities use a different standard for tax reporting; In Australia, IFRS has been implemented since 2005. There have been some changes in tax regulations in Korea and New Zealand, specifically: To support the progress of IFRS implementation in Korea, there have been some changes. In tax regulation, i.e., K-IFRS is applied for tax purposes. The LIFO method cannot be used to calculate inventory costs for companies that use K-IFRS as a reporting standard. Several timing rules have been made for revenue and expense recognition. Two new methods have been implemented, the expected value method and the fair equity method, to help reduce the risk and volatility associated with IFRS implementation.

To value inventory, Australian taxpayers can choose the full absorption costing, market selling price, or replacement cost method. This valuation for tax purposes is not necessarily consistent with bookkeeping purposes. In Korea, Inventory is used in one of seven ways: lower cost or market, specific identifier, FIFO, LIFO, weighted average, moving average, and retail. In India, inventory valuation is used according to cost, FIFO, or average methods. Capital gain is considered ordinary income and is subject to final income tax.

Capital gains in Australia and New Zealand: Capital gains from fixed assets will be treated as ordinary income and subject to CIT. There are several regulations governing capital gains with different tax rates for capital gains in Korea.

4.3. Experience in Applying CIT Accounting According to International Standards in Europe

In Europe, all three countries, including Italy, Germany, and the UK, in the research results of Mulyadi et al. (2012), have no change in tax regulations due to the implementation of IFRS that Italian tax authorities have issued. There are two principles for companies that adopt IFRS as their reporting standard: the derivative principle and the neutral principle. Under the derivation principle, the tax base is determined starting from the net income arising from profit or loss, increasing or decreasing according to the items recognized directly in equity under IFRS. The neutrality principle is intended to neutralize the effects of switching to IFRS (first-time adoption). Average, FIFO, and LIFO methods can be used to value inventory. Capital gains are taxable under tax regulations at specific rates, but capital gains from financial investments are generally not taxable.

In Germany, matching between bookkeeping and tax returns is not required to calculate corporate income tax. As a result, Germany has no changes in tax regulations due to the implementation of IFRS. The financial statements of the companies are presented reasonably. The valuation of inventories for tax purposes is the lower of cost, replacement cost, and net realizable value. As for the cost, the LIFO method is not allowed unless the assumptions used are similar to reality. Capital gains from fixed assets are considered ordinary income and are subject to CIT.

For the UK, the tax authority allows a UK company to use any authorized accounting standard as a starting point to calculate its tax liability. Book and tax matching is required for inventory valuation, where the most commonly used method is the lower between cost or net realizable value. Capital gains are considered ordinary income and taxable under CIT.

Summary, according to the research results of Mulyadi et al. (2012) on the impact of the application of IFRS on taxes in countries is mainly divided into two categories: 1) No changes in regulations tax to meet the implementation of IFRS, as tax authorities use other standards for tax reporting such as USA, India, Germany; 2) tax authorities allow companies to use any authorized accounting standard as a starting point for calculating tax liability such as UK, Italy, Australia; 3) IFRS accounting reports are tax reports because these countries have prepared IFRS financial statements such as Canada; 4) there are some changes in tax regulations such as Korea, New Zealand. This is also consistent with the fact that when the purpose of tax and the purpose of accounting is different, the change in accounting policy also more or less leads to the impact of the tax in general and CIT in particular. However, there will not be a standard formula for all countries applying BTC under IFRS that will have changes in CIT. Nevertheless, depending on the relationship between accounting and tax, the goal, and the application conditions, each country will have its application guidelines.

5. Solutions to Improve the Efficiency of Applying CIT Accounting in the Context of International Integration

Based on considering the difference between the regulations of Vietnam and international CIT accounting and analyzing some experiences of countries around the world on the application of CIT accounting in the process of international integration, this section proposes several solutions to improve the effectiveness of CIT accounting in the specific context of international integration.

5.1. Group of Complete Accounting Solutions

To facilitate enterprises to apply IFRS, the Ministry of Finance needs to develop a Circular guiding the application procedure. This Circular is not a technical guideline for IFRS application but a general guideline on the format. The issuance of this circular is necessary because the circular is a legal basis for enterprises to prepare and present financial statements according to IFRS and no longer have to prepare financial statements under VAS. In addition, the circular will raise important issues such as the effective date of IFRS application in Vietnam; the International Financial Reporting Standards Committee will issue the effective date in the future or the time the standards expire in accordance with the provisions of the International Financial Reporting Standards Committee. Enterprises applying IFRS can build their own accounts to reflect the characteristics of their business activities accurately.

The Ministry of Finance is not required to issue a financial statement form like the accounting regime of Vietnamese enterprises because the financial statement forms need to comply with IFRS principles. There are many other regulations, such as the application of IFRS must be consistent and synchronized with all IFRSs, not enterprises that choose to apply a few IFRSs.

5.2. Group of Complete Tax Solutions

The current tax laws of Vietnam depend a lot on the regulations of the accounting standards and accounting regime. The recognition of differences between tax and accounting regulations by local tax authorities is limited in practice. The difference between accounting and tax will be huge if IFRS is applied. IFRS requires a comprehensive disclosure of the significant accounting policies, assumptions, judgments, and estimates in preparing financial statements. Therefore, tax regulations must be independent of accounting, and local tax authorities must understand this and have an appropriate mechanism to determine tax liability independently.

In parallel with the road map to apply IFRS in Vietnam, on April 23, 2022, the Prime Minister issued Decision No. 508/QD-TTg approving the Tax System Reform Strategy to 2030, building a modern, lean, and effective tax system in Vietnam, effective; unified, transparent, intensive, and professional management of taxes, fees according to risk management methods, promoting information technology application, simplifying administrative procedures, reducing compliance costs. With the view that the tax system is perfected and synchronous, the government budget revenue is restructured to ensure sustainability, contributing to improving the investment and business environment in the direction of expanding the tax base, and rationally mobilizing revenues for the government budget. Tax policies are only specified in tax documents and are completed, amended, and supplemented to ensure consistency in legal effect between tax laws and relevant legal documents.

In the government's view, it is required to ensure that tax policies are only specified in tax documents and are completed, amended, and supplemented to ensure consistency in legal effect between tax laws and other tax laws' relevant legal documents. This is also the trend of international tax integration when applying IFRS international financial reporting standards.

5.3. The Group of Solutions Complete on How to Approach the CIT Accounting Process

This group of solutions includes eight steps as follows:

- Step 1: Determine the difference between books and taxes. Then determine the temporary differences to determine the deductible and non-deductible expenses of the current corporate income tax. At the same time, determine the deferred tax expenses to increase the taxable income and the deferred tax assets of previous years to adjust the taxable income in the current year.
- Step 2: List the book value of assets and liabilities recognized on the balance sheet or the consolidated balance sheet; at this step, the tax accountant needs to identify whether there are deferred income taxes payable (based on the difference in taxable timing to reverse in the future) that may be available to offset against the asset deferred income tax? A deferred tax asset can be recognized when a deferred tax liability can be offset).
- Step 3: Determine the tax base for each recorded asset and liability; determine whether there is a deferred tax asset, which is divided into temporary deductible difference; carry forward unused tax losses; and carry forward unused tax credits such as deductible tax, alternative minimum tax available for future offset).
- Step 4: Calculate temporary differences; Check if contingencies or uncertain tax positions have been recognized. If the temporary differences are deductible, net operating losses or tax credits can be used to offset (recognize) the tax provisions. If they materialize, this deferred tax asset can be recognized.
- Step 5: Determine the temporary differences that give rise to the deferred tax asset, taking into account the exceptions initially recognized;

- Step 6: Calculate the deferred tax payable on such temporary differences by multiplying each temporary difference by the tax rate of 23% expected to apply when the temporary difference reverses;
- Step 7: Evaluate temporary deductible differences, tax losses, and tax deductions for recovery ability;
- Step 8: Reconciling the variation between the deferred income tax balance on the annual balance sheet and in the income statement, other general income, or statement of changes in equity, if appropriate.

In summary, to improve the process of applying corporate income tax accounting under IFRS in Vietnamese enterprises in the coming time, enterprises need to focus on specific factors, including completing the system of legal documents, training human resources to meet the needs of implementing IFRS, building a culture of active participation in applying IFRS throughout the enterprise, applying technology, streamlining the implementation process, and accounting solutions corporate income tax according to international financial reporting standards.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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