

## PwC Vietnam NewsBrief

# New Corporate Income Tax (“CIT”) Circular

The Ministry of Finance issued Circular 96/2015/TT-BTC on 22 June guiding changes set out in Decree 12/2015 and amending previous CIT Circulars, i.e. 78/2014, 119/2014 and 151/2014. Circular 96 is effective from 6 August and applies for tax year 2015 onwards.

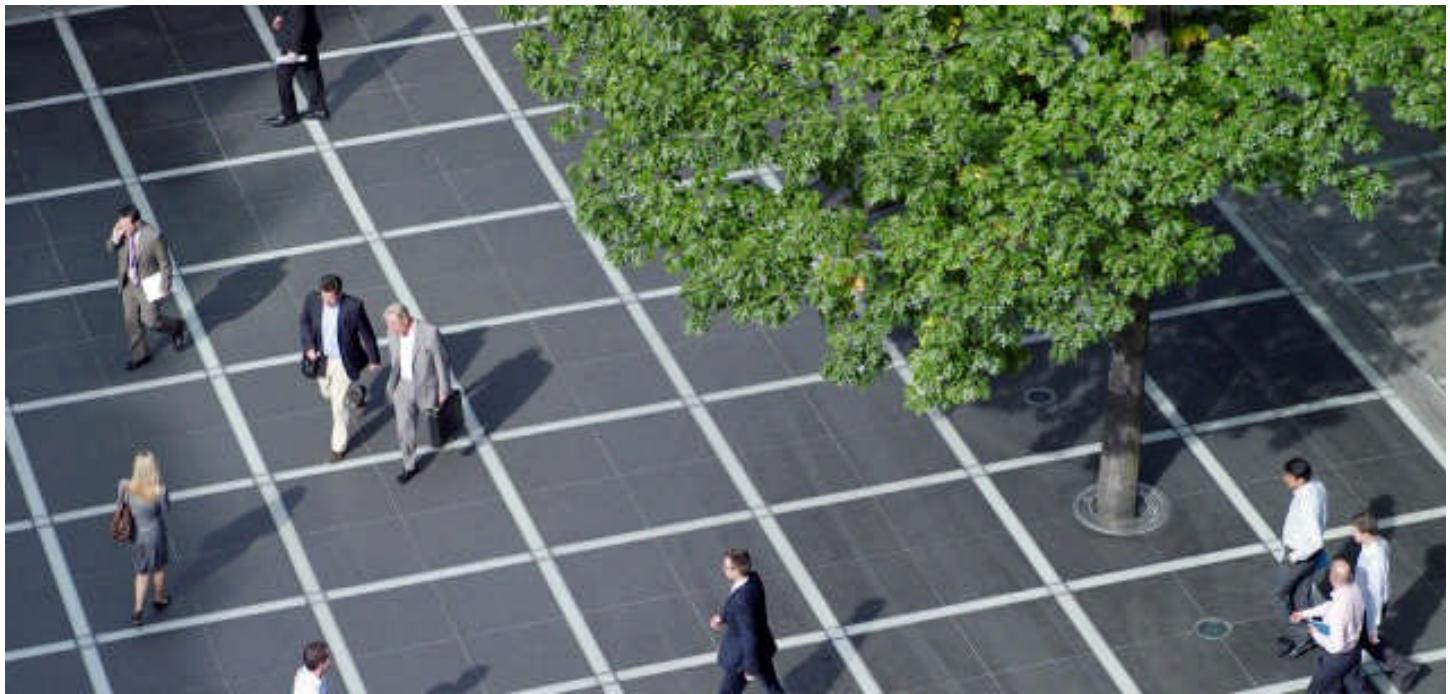
In case a company's financial year is not a calendar year, there are various transitional provisions.

Notable changes include:

### 1. CIT incentives

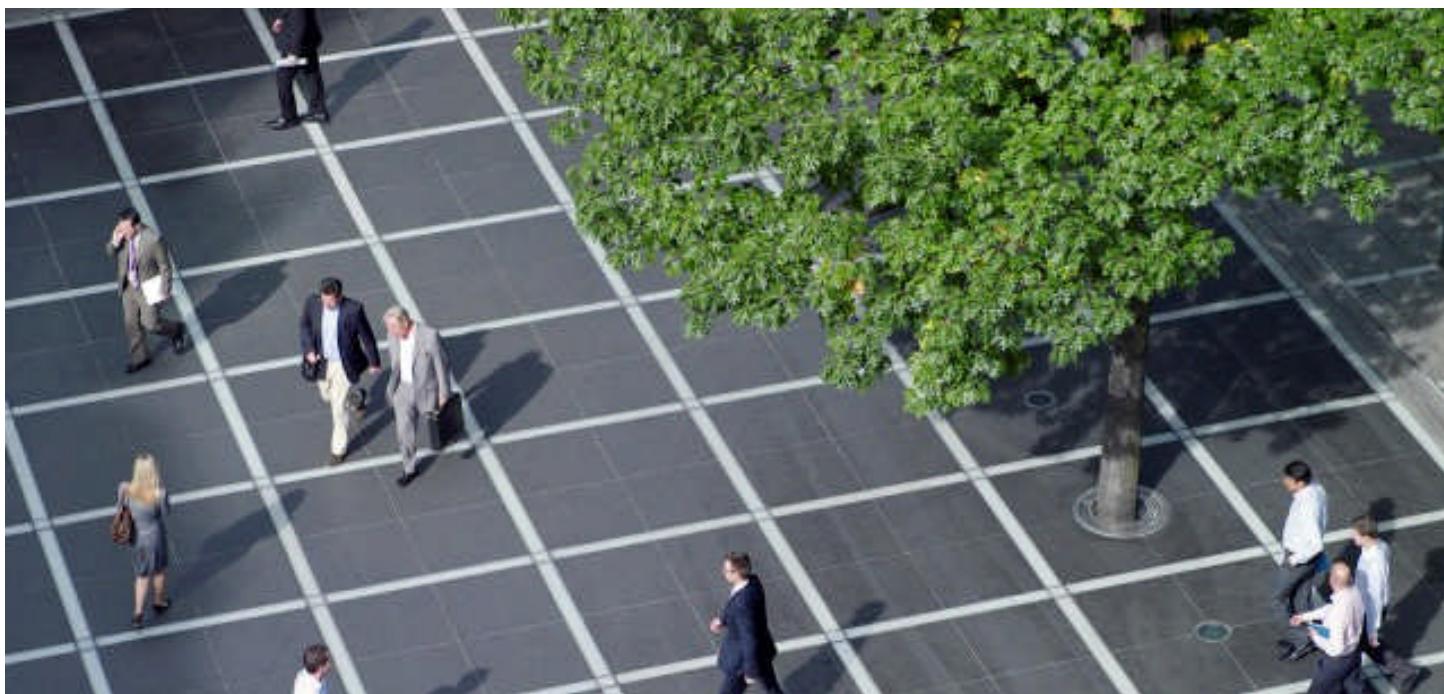
- New investment projects included in the list of industrial support products prioritized for development (i.e. the list currently promulgated under Decision 1483/QĐ-TTg dated 26/08/2011) are entitled to a 10% CIT rate for 15 years, 4 years CIT exemption and 9 years CIT reduction if they meet one of the following conditions:
  - ✓ The products support the high technology sector; or
  - ✓ The products support, *inter alia*, the garment, textile and footwear, IT and automobile sectors, and are not produced domestically as at 1 January 2015, or if produced domestically, they do meet the quality standards of the EU or equivalent.
- The incentive regime is also amended to align with the Law on Investment, by allowing investment projects to access any more favorable tax incentives available under an amended or new law on CIT for the remaining project period, from tax year 2015. This entitlement is specifically applicable to the following cases:
  - ✓ Expansion projects licensed or implemented during the period from 2009 to 2013 which were not entitled to any CIT incentives previously.
  - ✓ Investment projects commencing operations in industrial zones during the period from 2009 to 2013 which were not entitled to any CIT incentives previously.
  - ✓ Investment projects located in areas which were not previously designated as encouraged.





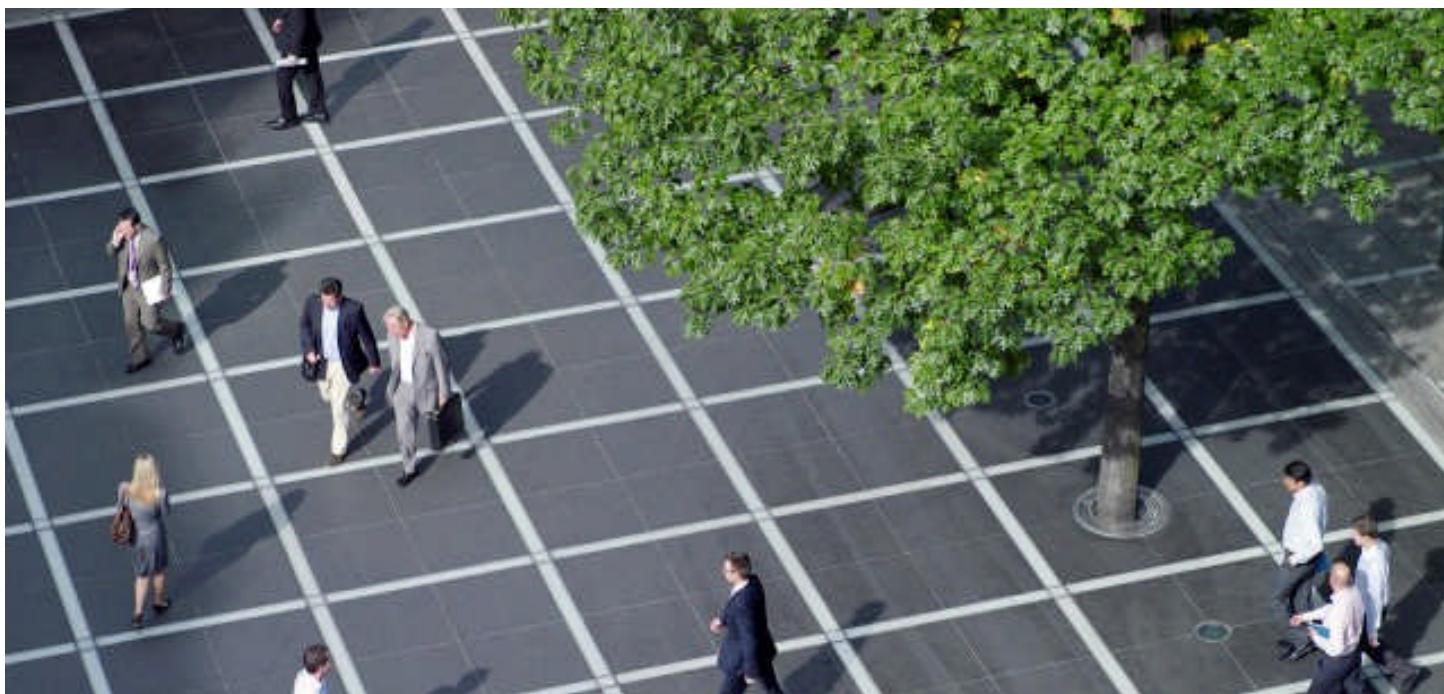
## 1. CIT incentives (cont'd)

- A large manufacturing project with total capital of at least VND 12,000 billion (approximately USD 560 million), disbursed within 5 years of being licensed and using certified technology, is entitled to a 10% CIT rate for 15 years, 4 years of CIT exemption and 9 years of CIT reduction. The 10% CIT rate can be extended for a maximum additional 15 years if the project manufactures goods having “international competitiveness” (not defined!) whose revenue exceeds VND 20,000 billion per annum (approximately USD 950 million) within 5 years from the first year of revenue generation, or whose average head count is over 6,000.
- The guidance on CIT incentives previously outlined in Circular 151/2014 is reiterated with respect to (i) multi- stage investment projects and (ii) additional taxable profits derived from regular increases in machinery and equipment during the period 2009- 2013 that did not constitute an expansion project. Consistent with the guidance under Circular 151/2014, the applicable CIT incentives are only applied from 2014 (i.e. retrospective application is not allowed).
- Enterprises engaged in the processing of agricultural and aquatic products are eligible for a preferential CIT rate of 15% for the project life, or 10% for the project life if carried out in a location designated as having difficult social economic conditions, or can be CIT exempt if certain conditions are met.
- Clarification is provided regarding the determination of incentivised taxable profits with respect to investment projects entitled to CIT incentives based on encouraged locations. This includes examples for those companies involved in transportation, manufacturing, construction, and service sectors where a portion of the taxable profits are earned outside the encouraged location.



## **2. Tax deductible expenses**

- The supporting documents required in order for damaged goods to be deductible are simplified, whereby the requirement to notify the tax authorities regarding the damaged goods, and to obtain certifications from the relevant authorities in case of natural calamity, epidemics and fire etc. are removed.
- Internal “reasonable” consumption levels are no longer required to be maintained for CIT deductibility.
- Life insurance premia are excluded from the list of expenses subject to the cap of VND 1m/ person/month, and thus are now fully deductible if sufficient supporting documents are available.
- The caps on the deductibility of advertising and promotion expenses, uniforms and per-diems for business trips are abolished.
- More guidance is provided on the calculation of non- deductible interest on debt corresponding to the portion of charter capital not yet contributed to a company.
- Medical, accident and other non- compulsory insurance purchased by an employer for its employees is considered as a staff welfare benefit and deductible subject to the cap of one month's average salary.
- Certain expenses in relation to vocational training are now fully tax deductible.



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### **3. Other changes**

- Taxable revenue from the provision of services is recognised as and when the services are fully or partially completed, i.e. recognition based on invoice issuance is no longer applicable.
- Interest incurred by an investor on loan funding used to invest in other companies will be tax deductible provided that the charter capital of the investor company has been fully contributed. Consequently, such interest shall not be included in the deductible base cost of the investee company in the case of a future sale.

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Please contact us if you need further information on these important changes.