

Vietnam Pocket Tax Book 2020



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A summary of Vietnam taxation

The information in this booklet is based on current taxation regulations and practice including certain legislative proposals as at 31 December 2019.

This booklet is intended as a general guide. Where specific transactions are being contemplated, definitive advice should be sought.

Taxation

General Overview

Most business activities and investments in Vietnam will be affected by the following taxes:

- Corporate income tax;
- Various withholding taxes;
- Capital assignment profits tax;
- Value added tax;
- Import duties;
- Personal income tax on Vietnamese and expatriate employees;
- Social insurance, unemployment insurance and health insurance contributions.

There are various other taxes that may affect certain specific activities, including:

- Special sales tax;
- Natural resources tax;
- Property taxes;
- Export duties;
- Environment protection tax;
- Land rental fee.

Corporate Income Tax (“CIT”)

Tax Rates

Enterprises (generally companies) are subject to the tax rates imposed under the CIT Law. The standard CIT rate is 20%. Companies operating in the oil and gas industry are subject to CIT rates ranging from 32% to 50% depending on the location and specific project conditions. Companies engaging in prospecting, exploration and exploitation of certain mineral resources are subject to CIT rates of 40% or 50%, depending on the project’s location.

Tax Incentives

Tax incentives are granted to new investment projects based on regulated encouraged sectors, encouraged locations and the size of the project. Business expansion projects (including expansion projects licensed or implemented during the period from 2009 to 2013 which were not entitled to any CIT incentives previously) which meet certain conditions are also entitled to CIT incentives from 2015. New investment projects and business expansion projects do not include projects established as a result of certain acquisitions or reorganisations.

- The sectors which are encouraged by the Vietnamese Government include education, health care, sport/culture, high technology, environmental protection, scientific research and technology development, infrastructural development, processing of agricultural and aquatic products, software production and renewable energy.
- New investment or expansion projects engaged in manufacturing industrial products prioritized for development are entitled to CIT incentives if they meet one of the following conditions:
 - i. the products support the high technology sector; or
 - ii. certain products which support the garment, textile, footwear, electronic spare parts, automobile assembly, or mechanical sectors.
- Locations which are encouraged include qualifying economic and high-tech zones, certain industrial zones and difficult socio-economic areas.

- Large manufacturing projects (excluding those related to the manufacture of products subject to special sales tax or those exploiting mineral resources) are entitled to CIT incentives as follows:
 - ✓ Projects with total capital of VND6,000 billion or more, disbursed within 3 years of being licensed, meeting either of the following criteria:
 - i. minimum revenue of VND10,000 billion/annum by the 4th year of operation; or
 - ii. head count of more than 3,000 by the 4th year of operation.
 - ✓ Projects with total capital of VND12,000 billion or more, disbursed within 5 years of being licensed and using technologies appraised in accordance with relevant laws.

From 1 January 2016 onwards, the two common preferential rates of 10% and 17% are available for 15 years and 10 years respectively, starting from the commencement of generating revenue from the incentivised activities. The duration of application of the preferential tax rate can be extended in certain cases. When the preferential rate expires, the CIT rate reverts to the standard rate. The preferential rate of 15% will apply for the entire project life in certain cases. Certain socialised sectors (e.g. education, health) enjoy the 10% rate for the entire life of the project.

Taxpayers may also be eligible for tax holidays and reductions. The holidays take the form of an exemption from CIT for a certain period beginning immediately after the enterprise first makes profits from the incentivised activities, followed by a period where tax is charged at 50% of the applicable rate. However, where an enterprise has not derived taxable profits within 3 years of the commencement of generating revenue from the incentivised activities, the tax holiday/tax reduction will start from the fourth year of operation. Criteria for eligibility for these holidays and reductions are set out in the CIT regulations.

Additional tax reductions may be available for companies engaging in manufacturing, construction and transportation activities which employ many female staff or ethnic minorities.

From 1 January 2018, certain incentives, including a lower CIT rate are granted to small and medium enterprise ("SMEs") (various criteria apply in order to be considered an SME).

A resolution on CIT policies to support and develop SMEs has been drafted for consideration which proposes to lower the CIT rate applicable to SMEs to 15%-17% and provide various tax holidays, e.g. exemption from CIT for the 2 years beginning immediately after establishment of SMEs.

Tax incentives which are available for investment in encouraged sectors do not apply to other income earned by a company (except for income which directly relates to the incentivised activities such as disposal of scrap), which is broadly defined.

Calculation of Taxable Profit

Taxable profit is the difference between total revenue, whether domestic or foreign sourced, and deductible expenses, plus other assessable income.

Taxpayers are required to prepare an annual CIT return which includes a section for making adjustments to accounting profit to arrive at taxable profit.

Non-deductible Expenses

Expenses are tax deductible if they relate to the generation of revenue, are properly supported by suitable documentation (including bank transfer vouchers where the invoice value is VND20 million or above) and are not specifically identified as being non-deductible. Examples of non-deductible expenses include:

- Depreciation of fixed assets which is not in accordance with the prevailing regulations;
- Employee remuneration expenses which are not actually paid, or are not stated in a labour contract, collective labour agreement or company policies;
- Staff welfare (including certain benefits provided to family members of staff) exceeding a cap of one month's average salary. Non- compulsory medical and accident insurance is considered a form of staff welfare;
- Contributions to voluntary pension funds and life insurance for employees exceeding VND3 million per month per person;
- Reserves for research and development not made in accordance with the prevailing regulations;
- Provisions for severance allowance and payments of severance allowance in excess of the prescribed amount per the Labour Code;

- Overhead expenses allocated to a permanent establishment (“PE”) in Vietnam by the foreign company’s head office exceeding the amount under a prescribed revenue-based allocation formula;
- Interest on loans corresponding to the portion of any charter capital not yet contributed;
- Interest on loans from non-economic and non-credit organisations exceeding 1.5 times the interest rate set by the State Bank of Vietnam;
- Certain interest exceeding the cap of 20% of EBITDA. Recently, it has been proposed to ease the deductibility cap from 20% to 30% of EBITDA;
- Provisions for stock devaluation, bad debts, financial investment losses, product warranties or construction work which are not made in accordance with the prevailing regulations;
- Unrealised foreign exchange losses due to the year-end revaluation of foreign currency items other than accounts payable;
- Donations except certain donations for education, health care, natural disaster or building charitable homes for the poor or for scientific research;
- Administrative penalties, fines, late payment interest;
- Service fees paid to related parties that do not meet certain conditions.

For certain businesses such as insurance companies, securities trading and lotteries, the Ministry of Finance provides specific guidance on deductible expenses for CIT purposes.

Business entities in Vietnam are allowed to set up a tax deductible research and development fund to which they can appropriate up to 10% of annual profits before tax. Various conditions apply.

Losses

Taxpayers may carry forward tax losses fully and consecutively for a maximum of five years.

Losses arising from incentivised activities can be offset against profits from non-incentivised activities, and vice versa. Losses from the transfer of real estate and the transfer of investment projects can be offset against profits from other business activities. Carry-back of losses is not permitted. There is no provision for any form of consolidated filing or group loss relief.

Administration

Provisional quarterly CIT returns are no longer required. Enterprises are instead required to make quarterly provisional CIT payments based on estimates. If the provisional quarterly CIT payments account for less than 80% of the final CIT liability, any shortfall in excess of 20% is subject to late payment interest (currently as high as 11% per annum), applying from the deadline for payment of the Quarter 4 CIT liability.

Final CIT returns are filed annually. The annual CIT return must be filed and submitted not later than the last day of the third month after the fiscal year end. The outstanding tax payable must be paid at the same time.

Where a taxpayer has a dependent accounting unit (e.g. branch) in a different province, a single CIT return is required. However, manufacturing companies are required to allocate tax payments to the respective provincial tax authorities in the locations where they have dependent manufacturing establishments. The basis for allocation is the proportion of expenditure incurred by each manufacturing establishment over the total expenditure of the company.

The standard tax year is the calendar year. Companies are required to notify the tax authorities in cases where they use a tax year (i.e. fiscal year) other than the calendar year.

Profit Remittance

Foreign investors are permitted to remit their profits annually at the end of the financial year or upon termination of the investment in Vietnam. Foreign investors are not permitted to remit profits if the investee company has accumulated losses.

The foreign investor or the investee company are required to notify the tax authorities of the plan to remit profits at least 7 working days prior to the scheduled remittance.

Transfer Pricing

Decree 20/2017/ND-CP was enacted on 24 February 2017 and came into effect on 1 May 2017. A guiding Circular 41/2017/TT-BTC was enacted on 28 April 2017 and also came into effect in May 2017.

Decree 20 and Circular 41 are based generally on concepts and principles from the Transfer Pricing Guidelines of the Organisation for Economic Cooperation and Development (“OECD”) and the Base erosion and Profit shifting (“BEPS”) Action Plan.

Vietnam’s transfer pricing (“TP”) rules also apply to domestic related party transactions.

Related Party Definition

The ownership threshold required to be a “related party” under Decree 20 is 25%. Decree 20 removed the previous related party definition of two entities having transactions between them accounting for more than 50% of their sales or purchases.

TP Methodologies

The acceptable methodologies for determining arm’s length pricing are analogous to those espoused by the OECD in the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, i.e. comparable uncontrolled price, resale price, cost plus, profit split and comparable profits methods.

TP Declaration Forms

Compliance requirements include an annual declaration of related party transactions and TP methodologies used, and a taxpayer confirmation of the arm’s length value of their transactions (or otherwise the making of voluntary adjustments). Decree 20 requires that the TP method applied must ensure that there is no decrease of tax liabilities to the state budget, which could imply that no downward adjustments are allowed. Decree 20 contains a TP declaration form which requires disclosure of detailed information, including segmentation of profit and loss by related party and third party transactions.

Furthermore, taxpayers are required to make declarations of information contained in the local file and master file. This implies that this information should be available before the TP declaration forms are submitted to the tax authority. The TP declaration forms must be submitted together with the annual CIT return within 90 days from the fiscal year end date.

Decree 20 gives the tax authorities the power to use internal databases for TP assessment purposes in cases where a taxpayer is deemed non-compliant with the requirements of Decree 20.

Taxpayers engaged in related party transactions solely with domestic related parties could be exempt from the requirements to disclose information on such transactions in the TP declaration forms, where both parties have the same tax rate and neither party enjoys tax incentives.

TP Documentation

Companies which have related party transactions must also prepare and maintain contemporaneous TP documentation. Decree 20 introduces a three-tiered TP documentation approach to collect more tax-related information on multinational companies' business operations, specifically, master file, a local file and country-by-country report ("CbCR"). The three-tiered TP documentation has to be prepared before the submission date of the annual tax return, which gives taxpayers just 90 days (from the fiscal year end date) to complete the year's TP documentation.

If the taxpayer's ultimate parent resides in Vietnam and has worldwide consolidated revenues in the fiscal year of over VND18,000 billion, the ultimate parent company in Vietnam is responsible for preparing and submitting the CbCR. However, if the ultimate parent is outside Vietnam, the Vietnamese entity is responsible for obtaining a copy of the ultimate parent company's CbCR and submitting this upon request by the tax authorities.

A taxpayer is exempt from preparing TP documentation (but not all other aspects of the Decree) if one of the following conditions is met:

- has revenue below VND50 billion and total value of related party transactions below VND30 billion in a tax period; or

- concludes an advance pricing agreement (“APA”) and submits annual APA report(s); or
- has revenue below VND200 billion, performs simple functions and achieves at least the following ratios of earnings before interest and tax to revenue from the following business: distribution (5%), manufacturing (10%), processing (15%).

TP audits

There has been a marked increase in the number of transfer pricing audits performed in recent years, with these adopting an increasingly sophisticated approach, often challenging the validity of comparables cited in TP documentation.

Substance over form principle

Decree 20 emphasises the need for closer scrutiny of all related party transactions to ensure that value creation is actually generated from intra-group transactions. The substance over form principle is especially relevant to CIT deductibility and TP documentation must support such related party transactions.

Intercompany service charges

Decree 20 provides various criteria for the tax deductibility of intercompany service charges, notably, a taxpayer needs to demonstrate that the services provide commercial, financial and economic value, and provide evidence of the reasonableness of the service charge calculation method. A tax deduction will not be allowed for intercompany service charges where the direct benefit or additional value to the taxpayer cannot be determined, such as duplicated services, shareholder costs.

20% of EBITDA cap on interest deductibility

Decree 20 introduces a 20% EBITDA cap on the tax deductibility of total interest costs. Whilst Decree 20 is the guiding tax regulation applicable to associated enterprises, it appears that the 20% EBITDA cap could be applied to interest on both related party and third party loans.

Advance Pricing Agreement (“APA”)

Taxpayers have the option to enter into unilateral, bilateral or multilateral APAs with the tax authorities. The GDT has been in negotiations with the competent authorities of various overseas jurisdictions to conclude the first bilateral APAs for several taxpayers.

Foreign Contractor Tax (“FCT”)

Scope of Application

Foreign contractor tax is applied to foreign organisations and individuals undertaking business or earning income sourced from Vietnam on the basis of agreements with Vietnamese parties (including foreign owned companies). FCT is not a separate tax, and normally comprises a combination of Value Added Tax (“VAT”) and CIT, or Personal income tax (“PIT”) for income of foreign individuals.

Payments subject to FCT include interest, royalties, service fees, leases rentals, insurance premiums, transportation fees, income from transfers of securities, and from goods supplied within Vietnam or associated with services rendered in Vietnam.

Certain distribution arrangements where foreign entities are directly or indirectly involved in the distribution of goods or provision of services in Vietnam are subject to FCT – e.g., where the foreign entity retains ownership of the goods, bears distribution, advertising or marketing costs, is responsible for the quality of goods or services, making pricing decisions, or authorises/hires Vietnamese entities to carry out part of the distribution of goods/provision of services in Vietnam.

Cases where FCT is exempt include pure supply of goods (i.e. where the responsibility, cost and risk relating to the goods passes at or before the border gate of Vietnam and there are no associated services performed in Vietnam), services performed and consumed outside Vietnam and various other services performed wholly outside Vietnam (e.g. certain repairs, training, advertising, promotion, etc.).

Dividends

No withholding or remittance tax is imposed on profits paid to foreign corporate shareholders.

Interest

A withholding tax of 5% CIT applies to interest paid on loans from foreign entities. Offshore loans provided by certain government or semi-government

institutions may obtain an exemption from interest withholding tax where a relevant double taxation agreement or inter-governmental agreement applies.

Interest paid on bonds (except for tax exempt bonds) and certificates of deposit issued to foreign entities is subject to 5% withholding tax.

Royalties

FCT applies to payments to a foreign entity for the right to use or for the transfer of intellectual property (including copyrights and industrial properties), transfer of technology or software.

FCT Payment Methods

Foreign contractors can choose among three methods for tax payment - the deduction method, the direct method and the hybrid method.

Method One - Deduction Method

This entails the foreign contractor registering for VAT purposes and filing CIT and VAT returns in the same way as a local entity. Foreign contractors can apply the deduction method if they meet all of the requirements below:

- They have a PE or are tax resident in Vietnam;
- The duration of the project in Vietnam is more than 182 days; and
- They adopt the full Vietnam Accounting System ("VAS"), complete a tax registration and are granted a tax code.

The Vietnamese customer is required to notify the tax office that the foreign contractor will pay tax under the deduction method within 20 working days from the date of signing the contract.

If the foreign contractor carries out multiple projects in Vietnam and qualifies for application of the deduction method for one project, the contractor is required to apply the deduction method for its other projects as well.

The foreign contractor will pay CIT at 20% on its net profits.

Method Two - Direct Method

Foreign contractors adopting the direct (or withholding) method do not register for VAT purposes or file CIT or VAT returns. Instead CIT and VAT are withheld by the Vietnamese customer at prescribed rates from the payments made to the foreign contractor. Various rates are specified according to the nature of the activities performed. The VAT withheld by the Vietnamese customer is generally an allowable input credit in its VAT return.

Separate requirements for FCT declarations under this method are provided for foreign contractors providing goods and services for exploration, development and production of oil and gas.

Method Three - Hybrid Method

The hybrid method allows foreign contractors to register for VAT and accordingly pay VAT based on the deduction method (i.e. output VAT less input VAT), but with CIT being paid under the direct method rates on gross turnover.

Foreign contractors wishing to adopt the hybrid method must:

- Have a PE in Vietnam or be tax resident in Vietnam;
- Operate in Vietnam under a contract with a term of more than 182 days; and
- Maintain accounting records in accordance with the accounting regulations and guidance of the Ministry of Finance.

Below are some FCT rates under the direct method given to certain cases:

Industry	Deemed VAT rate (2)	Deemed CIT rate
Supply of goods in Vietnam or associated with services rendered in Vietnam (including in-country export-import and import, distribution of goods in Vietnam or delivery of goods under Incoterms where the seller bears risks relating to the goods in Vietnam)	Exempt (1)	1%
Services	5%	5%
Restaurant, hotel and casino management services	5%	10%
Construction, installation without supply of materials, machinery or equipment.	5%	2%
Construction, installation with supply of materials, machinery or equipment.	3%	2%
Transportation	3% (3)	2%
Interest	Exempt	5%
Royalties	Exempt (4)	10%
Transfer of securities	Exempt	0.1%
Financial derivatives	Exempt	2%
Other activities	2%	2%

- (1) VAT will not be payable where goods are exempt from FCT-VAT or where import VAT is paid upon importation
- (2) The supply of goods and/or services to the oil and gas industry are subject to 10% VAT rate. Certain goods or services may be VAT exempt or subject to 5% VAT.
- (3) International transportation is subject to 0% VAT
- (4) Computer software licenses, transfers of technology and intellectual property rights (including copyrights and industrial properties) are VAT exempt. Other royalties may attract VAT.

Double Taxation Agreements (“DTAs”)

The CIT withholding taxes may be affected by a relevant DTA. For example, the 5% CIT withholding on services supplied by a foreign contractor may be eliminated under a DTA if the foreign contractor does not have profits attributable to a PE in Vietnam.

Vietnam has signed around 80 DTAs and there are a number of others at various stages of negotiation. Please see the summary at Appendix I – list of DTAs. The signed DTA with the United States of America is not yet in force.

There are various guidelines on the application of DTAs. These include regulations relating to beneficial ownership and general anti-avoidance provisions. DTA entitlements will be denied where the main purpose of an arrangement is to obtain beneficial treatment under the terms of a DTA (treaty shopping) or where the recipient of the income is not the beneficial owner. The guidance dictates that a substance over form analysis is required for the beneficial ownership and outlines the factors to be considered, which include:

- Where the recipient is obligated to distribute more than 50% of the income to an entity in a third country within 12 months;
- Where the recipient has little or no substantive business activities;
- Where the recipient has little or no control over or risk in relation to the income received;
- Back to back arrangements;
- Where the recipient is resident in a country with a low tax rate;
- Where the recipient is an intermediary or agent.

Capital Assignment Profits Tax ("CAPT")

Gains derived from the sale of a Vietnam company are in many cases subject to 20% CIT. This is generally referred to as capital assignment profits tax (CAPT) although it is not a separate tax as such. The taxable gain is determined as the excess of the sale proceeds less cost (or the initial value of contributed charter capital for the first transfer) less transfer expenses.

Where the vendor is a foreign entity, a Vietnamese purchaser is required to withhold the tax due from the payment to the vendor and account for this to the tax authorities. Where the purchaser is also a foreign entity, the Vietnamese enterprise which is transferred is responsible for the CAPT administration and payment. The CAPT declaration and payment is required within 10 days from the date of official approval of the sale by a competent body or, where approval is not required, 10 days from the date the parties reach agreement on the sale in the contract.

The tax authorities have the right to adjust the transfer price for CAPT purposes where the price is not at an arms' length market level.

Recently there has been a move to tax not only the transfer of a Vietnamese entity, but also the transfer of an overseas parent (direct or indirect) of a Vietnamese company.

Transfers of securities (bonds, shares of public joint stock companies, etc.) by a foreign entity are subject to CIT on a deemed basis at 0.1% of the total sales proceeds. Gains derived by a resident entity from the transfer of securities are however taxed at 20%.

Value Added Tax (“VAT”)

Scope of Application

VAT applies to goods and services used for production, trading and consumption in Vietnam (including goods and services purchased from non-residents). A domestic business must charge VAT on the value of goods or services supplied.

In addition, VAT applies on the dutiable value of imported goods. The importer must pay VAT to the customs authorities at the same time they pay import duties. For imported services, VAT is levied via the FCT mechanism.

VAT payable is calculated as the output VAT charged to customers less the input VAT suffered on purchases of goods and services. For input VAT to be creditable, the taxpayer must obtain a proper VAT invoice from the supplier. For VAT paid on imports, the supporting document is the tax payment voucher, and for VAT collected via the FCT mechanism, the supporting document is the FCT payment voucher.

Goods or Services where VAT declaration and payment are not required

For these supplies, no output VAT has to be charged but input VAT paid on related purchases may be credited. These supplies include:

- Compensation, bonuses and subsidies, except those provided in exchange for certain services;
- Transfers of emission rights and various financial revenues;
- Certain services rendered by a foreign organisation which does not have a PE in Vietnam where the services are rendered outside of Vietnam, including repairs to means of transport, machinery or equipment, advertising, marketing, promotion of investment and trade; overseas brokerage activities for the sale of goods and services overseas, training, certain international telecommunication services;
- Transfer of investment projects;
- Sale of agricultural products that have not been processed into other products or which have only been through preliminary processing;
- Capital contributions in kind;

- Collections of compensation/indemnities by insurance companies from third parties;
- Collections on behalf of other parties which are not involved in the provision of goods/services (e.g. if company A purchases goods/services from company B, but pays to company C and subsequently company C pays to company B, then the payment from company C to company B is not subject to VAT);
- Commissions earned by (i) agents selling services, including postal, telecommunications, lottery, airlines/bus/ship/train tickets, at prices determined by principals; and (ii) agents for international transportation, airlines and shipping services entitled to 0% VAT; and (iii) insurance agents;
- Commissions from the sale of exempt goods/services;
- Goods exported and then re-imported back to Vietnam due to sales returns by overseas customers.

Exempt Goods and Services

There are stipulated categories of VAT exemption, including:

- Certain agricultural products;
- Goods/services provided by individuals having annual revenue of VND 100 million or below;
- Imported drilling rigs, aeroplanes and ships of a type which cannot be produced in Vietnam;
- Transfer of land use rights ("LUR") (detailed guidance is provided to specific cases)
- Financial derivatives and credit services (including credit card issuance, finance leasing and factoring); sale of VATable mortgaged assets by the borrower under the lender's authorization in order to settle a guaranteed loan, and provision of credit information;
- Various securities activities including fund management;
- Capital assignment;
- Foreign currency trading;
- Debt factoring;
- Certain insurance services (including life insurance, health insurance, agricultural insurance and reinsurance);
- Medical services; elderly/disabled people care services;
- Teaching and training;
- Printing and publishing of newspapers, magazines and certain types of books;

- Passenger transport by public buses;
- Transfer of technology, software and software services except exported software which is entitled to 0% rate;
- Gold imported in pieces which have not been processed into jewellery;
- Exported natural resources which are unprocessed or processed but with at least 51% of their cost being natural resources and energy;
- Imports of machinery, equipment and materials which cannot be produced in Vietnam for direct use in scientific research and technology development activities;
- Equipment, machinery, spare parts, specialised means of transport and necessary materials which cannot be produced in Vietnam for prospecting, exploration and development of oil and gas fields;
- Goods imported in the following cases: international non-refundable aid, including from Official Development Aid, foreign donations to government bodies and to individuals (subject to limitations);
- Fertilizer, feed for livestock, poultry, seafood and other animals, machinery and equipment specifically used for agriculture.

Tax Rates

There are three VAT rates as follows:

- 0% This rate applies to exported goods including goods sold to non-tariff areas and export processing enterprises, goods processed for export or in-country export (subject to conditions), goods sold to duty free shops, certain exported services, construction and installation carried out for export processing enterprises, aviation, marine and international transportation services.
- 5% This rate applies generally to areas of the economy concerned with the provision of essential goods and services. These include: clean water; teaching aids; books; unprocessed foodstuffs; medicine and medical equipment; husbandry feed; various agricultural products and services; technical/scientific services; rubber latex; sugar and its by-products; certain cultural, artistic, sport services/products and social housing.
- 10% This “standard” rate applies to activities not specified as not-subject to VAT, exempt or subject to 0% or 5%.

When a supply cannot be readily classified based on the tax tariff, VAT must be calculated based on the highest rate applicable for the particular range of goods which the business supplies.

Exported Goods and Services

Services directly rendered and goods sold to foreign companies, including companies in non-tariff areas, are subject to 0% VAT if they are consumed outside Vietnam or in non-tariff areas.

Various supporting documents are required in order to apply 0% VAT to exported goods and services (except for international transportation services): e.g. contracts, evidence of non-cash payment and customs declarations (for exported goods).

There are a number of services specified in the VAT regulations which do not qualify for 0% VAT, in particular advertising, hotel services, training, entertainment, tourism provided in Vietnam to foreign customers; and various services provided to non-tariff areas (including leasing of houses, transport services for employees to and from their work place, certain catering services) and services in relation to trading or distribution of goods in Vietnam.

VAT Calculation Methods

There are two VAT calculation methods, the deduction method and the direct calculation method.

Method one - Deduction method

This method applies to business establishments maintaining full books of accounts, invoices and documents in accordance with the relevant regulations, including:

- Business establishments with annual revenue subject to VAT of VND1 billion or more;
- Certain cases voluntarily registering for VAT declaration under the deduction method.

- Determination of VAT payable

VAT payable = Output VAT – Input VAT

- Calculation of output VAT

The output VAT to be charged is calculated by multiplying the taxable price (net of tax) by the applicable VAT rate. With respect to imported goods, VAT is calculated on the import dutiable value plus import duty plus special sales tax (if applicable) plus environment protection fee (if applicable). For goods sold on an instalment basis (except for real estate), VAT is calculated on the total price without interest, rather than the instalments actually received.

- Input VAT

For domestic purchases, input VAT is based on VAT invoices. For imports, as there is no VAT invoice, input VAT credits are based on the tax payment voucher. VAT invoices can be declared and claimed any time before the company receives notice of a tax audit by the tax authorities. Input VAT credits on payments of VND20 million or more can only be claimed where evidence of payment by bank is available. Input VAT withheld from payments to overseas suppliers (i.e. under the foreign contractor tax system) can also be claimed where the taxpayer makes VATable supplies.

If a business sells exempt goods or services it cannot recover any input VAT paid on its purchases. This contrasts with supplies entitled to 0% VAT or with no VAT required, where the input VAT can be recovered. Where a business generates both VATable and VAT exempt sales, it can only claim an input VAT credit for the portion of inputs used in the VATable activity.

Method two - Direct method

This method applies to:

- Business establishments with annual revenue subject to VAT of less than VND1 billion;
- Individuals and business households;
- Business establishments which do not maintain proper books of account and foreign organisations or individuals carrying out business activities in forms not regulated in the Law on Investment;

- Business establishments engaging in trading in gold, silver and precious stones.
- Determination of VAT payable

VAT payable = value added of goods or services sold x VAT rate

Where there is a negative value added from the trading in gold, silver or precious stones in a period, it can be offset against any positive value added of those activities in the same period. Any remaining negative balance can be carried forward to a subsequent period in the same calendar year but cannot be carried over to the next year.

Once selected, the VAT declaration method must be maintained for 2 consecutive years.

Discounts and Promotions

Price discounts generally reduce the value on which VAT applies. However, certain types of discounts may not be permitted as a reduction before the calculation of VAT and various rules and conditions apply.

Goods and Services for internal consumption

Goods or services for internal use are no longer subject to output VAT, provided that they relate to the business of the company.

Administration

All organisations and individuals producing or trading VATable goods and services in Vietnam must register for VAT. In certain cases, branches of an enterprise must register separately and declare VAT on their own activities.

Taxpayers must file VAT returns on a monthly basis by the 20th day of the subsequent month, or on a quarterly basis by the 30th day of the subsequent quarter (for companies with prior year annual revenue of VND 50 billion or less).

VAT Refunds

VAT refunds are only granted in certain cases, including:

- Exporters having excess input VAT credits over VND300 million. The refunds are provided on a monthly or quarterly basis, in line with the VAT declaration period of the taxpayer. The amount of input VAT relating to export sales (meeting the criteria for VAT refunds) that can be refunded to a taxpayer must not exceed 10% of its export revenue. VAT refunds are available to companies which import goods and then export them without further processing subject to various conditions;
- New projects of companies adopting VAT deduction method which are in the pre-operation investment phase and have accumulated VAT credits over VND300 million. Exceptions include conditional investment projects which do not satisfy the regulated investment conditions, or investment projects of companies whose charter capital has not yet been contributed as regulated;
- Certain ODA projects, diplomatic exemption, foreigners buying goods in Vietnam for consumption overseas.

In other cases where a taxpayer's input VAT for a period exceeds its output VAT, it will have to carry the excess forward to offset future output VAT.

Invoicing

Tax Invoices

Currently, entities in Vietnam can use pre-printed invoices, self-printed invoices or electronic invoices. The tax invoice template must contain stipulated items and be registered with or notified to the local tax authorities. For exported goods commercial invoices are used instead of domestic tax invoices.

E-invoices

The Government released an official Decree on e-invoicing in September 2018, which became effective now 1 November 2018. Circular 68/2019/TT-BTC guiding the implementation of Decree 119 has released in October 2019 and took effect since 14 November 2019. Decree 119 and Circular 68 make e-invoices compulsory for all enterprises from 1 November 2020.

E-invoices with verification code

“High tax risk enterprises” are required to use e-invoices with verification code continuously for 12 months. High tax risk enterprises are defined as those which have owner’s equity of less than VND 15 billion and have certain features, for example:

- Sales of goods or provision of services to related parties (a definition thereof is included); or
- Non-compliance with certain tax declaration requirements; or
- Change of business location more than 2 times within 12 months without any notification or any tax declaration at the new location; or
- Enterprises which have been penalized for breaches of the invoice regulations in the last year.

The “high tax risk enterprise” status will then be re-assessed after 12 months for possible approval for using e-invoices without verification code.

E-invoices without verification code

Industries where enterprises are allowed to use e-invoices without

verification code of the tax authorities will be determined based on the economic sectors as regulated such as electricity, petrol, telecommunication, transportation, credit institution, insurance, e-commerce, supermarkets, etc. or other enterprises which satisfy certain conditions.

Enterprises using e-invoices without verification code must transfer e-invoice data to the tax authorities, either directly or via an authorized e-invoicing service provider. If the enterprises transfer data directly to the tax authorities' portal, certain technical conditions for connection with the tax authorities' portal must be satisfied.

Before using e-invoices (either with or without verification code), enterprises must register and obtain approval from the tax authorities via the web portal of the GDT.

Timing of introduction of e-invoicing

E-invoices are expected to be compulsory effective 1 November 2020. During the transition period up to 31 October 2020, the current invoicing regulations still apply and enterprises can continue invoicing thereunder until receipt of a notification from the tax authorities. However, there is a proposal to delay the compulsory application.

Special Sales Tax (“SST”)

SST is a form of excise tax that applies to the production or import of certain goods and the provision of certain services.

Imported goods (except for various types of petrol) are subject to SST at both the import and selling stages.

Taxable Price

The taxable price of domestically produced goods sold by a manufacturer/imported goods sold by an importer is the selling price exclusive of SST and environment protection fee. Where the selling price is not considered as in line with the ordinary market price, the tax authorities may seek to deem the taxable price. The taxable price of imported goods upon importation is the dutiable price plus import duties.

Where manufactured or imported goods are subsequently sold by a trading entity to entities which are not third parties, an anti-avoidance provision may impose minimum taxable price in certain cases.

Tax Credits

Taxpayers producing SST liable goods from SST liable raw materials are entitled to claim a credit for the SST paid on raw materials imported or purchased from domestic manufacturers.

Where taxpayers pay SST at both the import and selling stages, the SST paid at importation is creditable against SST paid at the selling stage.

Tax Rates

The Law on SST classifies items subject to SST into two groups:

1. Commodities - cigarettes, liquor, beer, automobiles having less than 24 seats, motorcycles, airplanes, boats, petrol, air-conditioners up to 90,000 BTU, playing cards, votive papers; and

2. Service activities - discotheques, massage, karaoke, casinos, gambling, lotteries, golf clubs and entertainment with betting.

The SST rates are as follows:

Products/services	Tax rates (%)
Cigar/Cigarettes	75
Spirit/Wine	
a) Spirit/Wine with ABV $\geq 20^\circ$	65
b) Spirit/Wine with ABV $< 20^\circ$	35
Beer	65
Automobiles having less than 24 seats	10 - 150
Motorcycles with cylinder capacity above 125cm ³	20
Airplanes	30
Boats	30
Petrol	7 - 10
Air-conditioner (not more than 90,000 BTU)	10
Playing cards	40
Votive papers	70
Discotheques	40
Massage, karaoke	30
Casinos, jackpot games	35
Entertainment with betting	30
Golf	20
Lotteries	15

A draft law has been proposed which would inter alia, bring new supplies/products within the scope of the SST, and amend applicable rates.

Natural Resources Tax (“NRT”)

Natural resources tax is payable by industries exploiting Vietnam’s natural resources including petroleum, minerals, natural gas, forestry products, and natural water. Natural water used for agriculture, forestry, fisheries, salt industries and sea water for cooling purposes may be exempt from NRT provided that certain conditions are satisfied.

The tax rates vary depending on the natural resource being exploited, range from 1% to 40%, and are applied to the production output at a specified taxable value per unit. Various methods are available for the calculation of the taxable value of the resources, including cases where the commercial value of the resources cannot be determined.

Crude oil, natural gas and coal gas are taxed at progressive rates depending on the daily average production output.

Property Taxes

Foreign investors generally pay rental fees for land use rights. The range of rates is wide depending upon the location, infrastructure and the industrial sector in which the business is operating.

In addition, owners of houses and apartments have to pay land tax under the law on non-agricultural land use tax. The tax is charged on the specific land area used based on the prescribed price per square meter and progressive tax rates ranging from 0.03% to 0.15%.

Environment Protection Tax

Environment protection tax (“EPT”) is applicable to the production and importation of certain goods deemed detrimental to the environment, the most significant of which are petroleum and coal. The rates are as follows:

No.	Goods	Unit	Tax rate (VND)
1.	Petrol, diesel, grease, etc.	litre/kg	1,000 - 4,000
2.	Coal	ton	15,000 - 30,000
3.	HCFCs	kg	5,000
4.	Plastic bags (*)	kg	50,000
5.	Restricted use chemicals	kg	500 - 1,000

* Excludes plastic bags used for packaging or which are “environmentally friendly”

Import and Export Duties

Rates

Import and export duty rates are subject to frequent changes (normally being updated at the end of a calendar year).

Import duty rates are classified into 3 categories: ordinary rates, preferential rates and special preferential rates. Preferential rates are applicable to imported goods from countries that have Most Favoured Nation (MFN, also known as Normal Trade Relations) status with Vietnam. The MFN rates are in accordance with Vietnam's WTO commitments and are applicable to goods imported from other member countries of the WTO.

Special preferential rates are applicable to imported goods from countries which have a special preferential trade agreement with Vietnam. Currently effective free trade agreements ("FTA") to which Vietnam is a party include:

- The FTA between ASEAN member states;
- The FTA between ASEAN member states and Japan;
- The FTA between ASEAN member states and China;
- The FTA between ASEAN member states and Hong Kong;
- The FTA between ASEAN member states and India;
- The FTA between ASEAN member states and Korea;
- The FTA between ASEAN member states and Australia and New Zealand;
- The FTA between Vietnam and Japan;
- The FTA between Vietnam and Korea;
- The FTA between Vietnam and Chile;
- The FTA between Vietnam and Cambodia;
- The FTA between Vietnam and Laos;
- The FTA between Vietnam and Eurasian Economic Union (Vietnam and the Customs Union of Russia, Armenia, Belarus, Kazakhstan, Kyrgyzstan);
- The CPTPP pact (i.e. the Comprehensive and Progressive Trans-Pacific Partnership agreement among Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore and Vietnam).

Vietnam has an FTA with the EU (i.e. the EVFTA) which is pending for ratification by both sides before coming into effect. In addition, Vietnam is negotiating other agreements including the Regional Comprehensive Economic Partnership (RCEP) and FTAs with the European Free Trade Association (Iceland, Liechtenstein, Norway, Switzerland), and with Israel.

To be eligible for preferential rates or special preferential rates, the imported goods must be accompanied by an appropriate Certificate of Origin or an origin certification (e.g. a self-declaration by the exporter). When goods are sourced from non-preferential treatment/non-favoured countries, the ordinary rate (being the MFN rate with a 50% surcharge) is imposed.

Calculation

In principle Vietnam follows the WTO Valuation Agreement with certain variations. The dutiable value of imported goods is typically based on the transaction value (i.e. the price paid or payable for the imported goods, and where appropriate, adjusted for certain dutiable or non-dutiable elements). Where the transaction value is not applied, alternative methodologies for the calculation of the dutiable value will be used.

SST and Environment Protection Tax apply to some products in addition to import duties. VAT may also be applied on imported goods.

Exemptions

Import duty exemptions are provided for projects which are classified as in encouraged sectors/locations and other goods imported in certain circumstances.

Categories of import duty exemption include:

- Machinery & equipment, specialised means of transportation and construction materials (which cannot be produced in Vietnam) comprising the fixed assets of encouraged investment projects;
- Machinery, equipment, specialised means of transportation, materials (which cannot be produced in Vietnam), office equipment imported for use in oil and gas activities;

- Materials, supplies and components imported for the production of exported goods;
- Materials, supplies, components imported for processing of exports;
- Goods manufactured, processed, recycled, assembled in a free trade zone without using imported raw materials or components when imported into the domestic market;
- Materials, supplies and components which cannot be domestically produced and which are imported for the production of certain encouraged projects;
- Goods temporarily imported or exported for the purpose of warranty, repair, and replacement.

Refunds

There are various cases where a refund of import duties is possible, including:

- Goods for which import duties have been paid but which are not actually physically imported;
- Imported goods that are not used and which must be re-exported;
- Imported materials that were imported for the production of goods for the domestic market but are later used for the processing of goods for export under processing contracts with foreign parties.

Export Duties

Export duties are charged only on a few items, basically natural resources including sand, chalk, marble, granite, ore, crude oil, forest products, and scrap metal. Rates range from 0% to 40%. The tax base for the computation of export duties is the FOB/Delivered At Frontier price, i.e. the selling price at the port of departure as stated in the contract, excluding freight and insurance costs. In case the customs values of the exported goods cannot be determined using the transaction value method, they will be determined by the customs authority using, sequentially, the following customs valuation bases: the transaction prices of similar exported goods in the customs authorities' pricing database, the selling prices of similar goods in the local market with certain adjustments, or the selling prices of exported goods collected, classified & adjusted by the customs authorities.

Other taxes potentially imposed on imports

In addition to import duty, SST, EPT and import VAT, there are other taxes that may be applied to imported goods. These taxes include anti-dumping tax, safeguard tax and anti-subsidy tax.

Customs audits

The customs authorities perform post customs audits either at their offices or at the taxpayers' premises. These inspections normally focus on issues including HS code classification, valuation, compliance with export/toll manufacturing exemption schemes, and goods' origin.

Personal Income Tax (“PIT”)

Tax Residency

Residents are those individuals meeting one of the following criteria:

- Residing in Vietnam for 183 days or more in a tax year; or
- Having a permanent residence in Vietnam (including a registered residence which is recorded on the permanent/temporary residence card, or a rented house in Vietnam with a lease term of 183 days or more in a tax year) and unable to prove tax residence in another country.

Tax residents are subject to Vietnamese PIT on their worldwide taxable income, wherever it is paid or received. Employment income is taxed on a progressive tax rates basis. Other income is taxed at a variety of different rates.

Individuals not meeting the conditions for being tax resident are considered tax non-residents. Tax non-residents are subject to PIT at a flat tax rate of 20% on their Vietnam related employment income, and at various other rates on their non-employment income. However, this will need to be considered in light of the provisions of any DTA that might apply.

Tax Year

The Vietnamese tax year is the calendar year. However, where in the calendar year of first arrival an individual is present in Vietnam for less than 183 days, his/her first tax year is the 12-month period from the date of arrival. Subsequently, the tax year is the calendar year.

Employment Income

The definition of taxable employment income is broad and includes all cash remuneration and various benefits-in-kind. However, the following items are not subject to tax:

- Payments for business trips;
- Payments for telephone charges/stationery costs;

- Office clothes (subject to a cap if the office clothes are provided in cash);
- Overtime premium (i.e. the additional payment above the normal wage, not the full amount of the overtime/nightshift payment);
- One-off allowance for relocation
 - from Vietnam for Vietnamese working overseas
 - to Vietnam for expatriates working in Vietnam
 - to Vietnam for Vietnamese residing overseas on a long-term basis and returning to Vietnam to work;
- Transportation to and from work;
- Once per year home leave round trip airfare for expatriate employees and Vietnamese working overseas;
- School fees up to high school in Vietnam/overseas for children of expatriates/Vietnamese working overseas;
- Training;
- Mid-shift meals (subject to a cap if the meals are provided in cash);
- Certain benefits in kind provided on a collective basis (e.g. membership fee, entertainment, healthcare);
- Airfares for employees working on a rotation basis in a number of industries (e.g. petroleum, mining);
- Employer's contributions to certain local and overseas non-mandatory insurance schemes without payout of accumulated premiums to the employees (e.g. medical insurance, accident insurance); and
- Allowances/benefits for wedding, funeral (subject to a cap).

There are a range of conditions and restrictions applicable to the above exemptions.

Non-employment Income

Taxable non-employment income includes:

- Business income (including rental income in excess of VND100 million/year);
- Investment income (e.g. interest, dividends);
- Gains on sale of shares;
- Gains on sale of real estate;
- Inheritances in excess of VND10 million;
- Winning prizes/gifts in excess of VND10 million (excluding income from winnings at casinos);
- Income from copyright/franchising/royalties/receiving gifts in excess of VND10 million.

Non Taxable Income

Non taxable income includes:

- Interest earned on deposits with credit institutions/banks and on life insurance policies;
- Compensation paid under life/non-life insurance policies;
- Retirement pensions paid under the Social Insurance law (or the foreign equivalent);
- Income from transfer of properties between various direct family members;
- Inheritances/gifts between various direct family members;
- Monthly retirement pensions paid under voluntary insurance schemes;
- Income of Vietnamese vessel crew members working for foreign shipping companies or Vietnam international transportation companies;
- Income from winnings at casinos.

Foreign Tax Credits

In respect of tax residents who have overseas income, PIT paid in a foreign country on the foreign income is creditable.

Tax Deductions

Tax deductions include:

1. Employee contributions to mandatory social, health and unemployment insurance schemes;
2. Contributions to local voluntary pension schemes (subject to a cap);
3. Employee contributions to certain approved charities;
4. Tax allowances:
 - Personal allowance: VND9 million/month;
 - Dependent allowance: VND3.6 million/month/dependent. The dependent allowance is not automatically granted, and the taxpayer needs to register qualifying dependents and provide supporting documents to the tax authority.

PIT Rates

Residents - employment income

Annual Taxable Income (million VND)	Monthly Taxable Income (million VND)	Tax rate
0 – 60	0 – 5	5%
60 – 120	5 – 10	10%
120 – 216	10 – 18	15%
216 – 384	18 – 32	20%
384 – 624	32 – 52	25%
624 – 960	52 – 80	30%
More than 960	More than 80	35%

Residents - other income

Type of taxable income	Tax rate
Business income	0.5% - 5% (based on the type of business income)
Interest (but not bank interest)/dividends	5%
Sale of shares	0.1% of the sales proceeds
Capital assignment	20% of the net gain
Sale of real estate	2% of the sales proceeds
Income from copyright	5%
Income from franchising/royalties	5%
Income from winning prizes	10%
Income from inheritances/gifts	10%

Non-residents

Type of taxable income	Tax rate
Employment income	20%
Business income	1% - 5% (based on the type of business income)
Interest (but not bank interest)/dividends	5%
Sale of shares/Capital assignment	0.1% of the sales proceeds
Sale of real estate	2% of the sales proceeds
Income from royalties/franchising	5%
Income from winning prizes	10%
Income from inheritance/gifts	10%

Administration

Tax codes

Individuals who have taxable income are required to obtain a tax code. Those who have taxable employment income must submit the tax registration file to their employer who will subsequently submit this to the local tax office. Those who have other items of taxable income are required to submit their tax registration file to the district tax office of the locality where they reside.

Tax declarations and payment

For employment income, tax has to be declared and paid provisionally on a monthly or quarterly basis by the 20th day of the following month or by the 30th day of the month following the reporting quarter, respectively. The amounts paid are reconciled to the total tax liability at the year-end. An annual final tax return must be submitted and any additional tax must be paid within 90 days of the tax year end (effective 1 July 2020, this is extended to 4 months from the tax year end). Expatriate employees are also required to carry out PIT finalisation on termination of their Vietnam assignment. Expatriate employees should review and reconcile their payment history to ensure taxes are duly paid/updated. Tax refunds are only available to those who have a tax code.

Vietnamese companies are required to submit a notification to the local tax authorities providing information on any of them foreign contractor's employees (including their name, income information, passport number, etc.) that are sent to provide services in Vietnam at least 7 days before the individuals start working in Vietnam.

For non-employment income, an individual is required to declare and pay PIT in relation to each type of taxable non-employment income. The PIT regulations require income to be declared and tax paid on a receipt basis (except rental income which can be declared and tax can be paid on an annual basis).

Social, Health and Unemployment Insurance Contributions

Unemployment insurance (“UI”) contributions are applicable to Vietnamese individuals only.

Health insurance (“HI”) contributions are required for Vietnamese and foreign individuals that are employed under Vietnam labour contracts for at least three months.

Prior to 1 December 2018, Social Insurance (“SI”) contributions were applicable to Vietnamese individuals only. Effective from 1 December 2018, SI contributions are payable by foreign individuals working in Vietnam, holding a work permit, and employed under a Vietnam labour contract with an indefinite term or a definite term of 1 year or more.

Certain foreign employees internally transferred within a group and employees who have reached the statutory retirement age (60 years for males, 55 years for females) are not subject to compulsory SI contributions.

SI/HI/UI contribution rates are as follows:

	SI (**)	HI	UI	Total
Employee	8%	1.5%	1%	10.5%
Employer	17.5%	3%	1%	21.5%

** Please refer to the table below.

SI	Employer	Employee	Effective date of contribution requirement for foreigners
Sickness, maternity funds	3%	-	1 December 2018
Occupational diseases and accident funds	0.5%	-	1 December 2018
Retirement and death funds	14%	8%	1 January 2022

The income subject to SI/HI/UI contributions includes salary, certain allowances and other regular payments, but this is capped at 20 times the minimum salary for SI/HI contributions and 20 times the minimum regional salary for UI contribution. Effective from 1 July 2019, the minimum salary is VND1,490,000/month. Effective from 1 January 2020, the minimum regional salary varies from VND3,070,000 to VND4,420,000/month - these minimum salaries are subject to change each year.

Statutory employer contributions do not constitute a taxable benefit to the employee. The employee contributions are deductible for PIT purposes.

Employees and employers are also encouraged to participate in voluntary pension schemes. Tax deductions for contributions thereto are allowed for both employees (for PIT purposes) and employers (for CIT purposes), subject to a cap.

Other Taxes

Numerous other fees and taxes can apply in Vietnam, including business licence tax and registration fees (akin to stamp duty) on the transfer of certain registerable assets.

Tax Audits and Penalties

Tax audits are carried out regularly and often cover a number of tax years. Prior to an audit, the tax authorities send the taxpayer a written notice specifying the timing and scope of the audit inspection.

There are detailed regulations setting out penalties for various tax offences. These range from relatively minor administrative penalties through to tax penalties amounting to various multiples of the additional tax assessed. For discrepancies identified by the tax authorities (e.g. upon audit), a 20% penalty will be imposed on the amount of tax under-declared. Interest of 0.03%/day applies for late payment of tax.

The general statute of limitations for imposing tax and late payment interest is 10 years (effective 1 July 2013) and for penalties is up to 5 years. Where the taxpayer did not register for tax, there is no statute of limitation for imposing tax and late payment interest.

Accounting and Auditing

Accounting framework

Vietnamese Accounting Standards

There are currently 26 Vietnamese Accounting Standards (“VAS”). All of these standards were issued from 2001 to 2005 and were primarily based on the old versions of the respective International Accounting Standards with certain adaptations to fit Vietnam’s circumstances. It should be noted that Vietnam has yet to issue accounting standards for key areas such as financial instruments, impairment of assets, fair value, etc..

Accounting Law and applicable implementation guidance

In Vietnam, the Accounting Law is the highest accounting regulation issued by the National Assembly. Accounting issues are further governed by various decisions, decrees, circulars, official letters and the Vietnamese Accounting Standards.

The accounting framework in Vietnam is mainly rules-based accounting rather than principles-based. The Vietnamese Accounting System is effectively a book-keeping and financial reporting manual that provides a standard chart of accounts, financial statements template, accounting books and voucher templates, as well as detailed guidance on accounting double entries for specific transactions.

There are industry-specific accounting guidelines for credit institutions, insurance companies, securities companies, fund management, investment funds, and oil and gas operators. The accounting guidelines for credit institutions are issued by the State Bank of Vietnam.

Accounting records

- Framework: Vietnamese Accounting System.
- Language: Accounting records are required to be maintained in the Vietnamese language, but this can be combined with a commonly used foreign language.
- Accounting period: An entity’s accounting period is generally 12 months in length. The first accounting period must not exceed 15 months from

the license date for a newly setup company. Similarly, the last accounting period must not be longer than 15 months.

- **Currency:** Accounting records are generally required to be maintained in Vietnamese Dong (“VND”). Entities that receive and make payments mainly in other currencies can select a foreign currency to be used for their accounting records and financial statements provided that they meet all the stipulated requirements. However, for statutory reporting, entities using another currency as their accounting currency must convert their financial statements prepared in that currency into VND pursuant to certain prescribed regulations.
- **Accounting documents:** Records can be stored either in hard copy documents or electronic files. Entities that use electronic documents are not required to print them out for storage purposes. If the relevant authorities request copies for testing, inspection, monitoring and auditing, these entities have to print out electronic accounting documents and have them signed by their legal representatives and/or chief accountants.
- **Seal:** Enterprises are permitted to decide the form, quantity and contents of their official seal. The management, use and retention of the seal must comply with the entity’s charter.
- **Retention:** Five years for documents used for management or operation of the enterprise, ten years for accounting data, accounting books, and permanently retained for historical documents.

Lack of accounting records is a basis for assessing non-compliance with VAS. The tax authorities can treat non-compliance with VAS as a basis for tax reassessment and imposition of penalties, including withdrawal of CIT incentives, disallowance of expenses and denial of input VAT credits/refunds.

Financial reporting

The basic set of financial statements prepared under VAS comprises the following:

- Balance sheet;
- Income statement;
- Cash flow statement; and
- Notes to the financial statements, including a disclosure on changes in equity.

An enterprise is required to appoint a chief accountant who must satisfy the criteria and conditions stipulated by the Accounting Law and guiding regulations. The annual financial statements must be approved by the chief accountant and legal representative and a copy of the financial statements must be submitted to local authorities within 90 days of the end of the financial year. Additionally, listed enterprises and public interest enterprises must prepare interim financial statements.

Audit requirements

Vietnam has issued 47 auditing standards which are primarily based on international auditing standards with certain adaptations to fit Vietnam's circumstances.

The annual financial statements of the following enterprises must be audited by an independent auditing company operating in Vietnam:

- Foreign-invested entities;
- Credit institutions; financial organizations, insurance companies, reinsurance companies, insurance brokerage companies, branches of foreign non-life insurance companies;
- Public interest enterprises, issuers and securities trading organizations; enterprises which are 20% or more owned by listed entities; and
- State-owned enterprises; enterprises implementing important national projects, group-A projects using state funds.

Audited annual financial statements must be completed within 90 days of the end of the financial year and reviewed interim financial statements must be completed within 45 days of the end date of the first six months of the financial year. These financial statements should be filed with the applicable licensing body, the MoF, local tax authorities, Department of Statistics, and other relevant authorities.

Audit contracts should be signed with independent auditing companies no later than 30 days before the end of the enterprise's fiscal year.

In accordance with the general auditor rotation requirements, signing auditors are required to be rotated off after three consecutive years. Apart from this requirement for the signing auditors, practising auditors for public interest entities are required to be rotated after four consecutive years. Audit firms for credit institutions are required to be rotated after five consecutive years.

Appendix I - Double Taxation Agreements

A summary of withholding tax rates is presented below:

No	Recipient	Interest (%)	Royalties (%)	Notes
1	Algeria	15	15	1, 2
2	Australia	10	10	-
3	Austria	10	7.5/10	2
4	Azerbaijan	10	10	2
5	Bangladesh	15	15	2
6	Belarus	10	15	2
7	Belgium	10	5/10/15	2
8	Brunei Darussalam	10	10	2
9	Bulgaria	10	15	2
10	Cambodia	10	10	2
11	Canada	10	7.5/10	2
12	China	10	10	2
13	Croatia	10	10	-
14	Cuba	10	10	-
15	Czech Republic	10	10	2
16	Denmark	10	5/15	2
17	Egypt	15	15	1
18	Estonia	10	7.5/10	-
19	Finland	10	10	2
20	France	Nil	10	-
21	Germany	10	7.5/10	2
22	Hong Kong	10	7/10	2
23	Hungary	10	10	-
24	Iceland	10	10	2
25	India	10	10	2
26	Indonesia	15	15	2

No	Recipient	Interest (%)	Royalties (%)	Notes
27	Iran	10	10	2
28	Ireland	10	5/10/15	2
29	Israel	10	5/7.5/15	2
30	Italy	10	7.5/10	2
31	Japan	10	10	2
32	Kazakhstan	10	10	2
33	Korea (South)	10	5/15	2
34	Korea (North)	10	10	2
35	Kuwait	15	20	1, 2
36	Laos	10	10	-
37	Latvia	10	7.5/10	2
38	Luxembourg	10	10	-
39	Macau	10	10	2
40	Macedonia	10	10	1
41	Malaysia	10	10	2
42	Manta	10	5/10/15	2
43	Mongolia	10	10	2
44	Morocco	10	10	2
45	Mozambique	10	10	-
46	Myanmar	10	10	2
47	Netherlands	10	5/10/15	2
48	New Zealand	10	10	-
49	Norway	10	10	2
50	Oman	10	10	2
51	Pakistan	15	15	2
52	Palestine	10	10	-
53	Panama	10	10	-
54	Portugal	10	7.5/10	2
55	Philippines	15	15	2
56	Poland	10	10/15	-
57	Qatar	10	5/10	2

No	Recipient	Interest (%)	Royalties (%)	Notes
58	Romania	10	15	2
59	Russia	10	15	-
60	San Marino	10/15	10/15	-
61	Saudi Arabia	10	7.5/10	2
62	Serbia	10	10	2
63	Seychelles	10	10	-
64	Singapore	10	5/10	2
65	Slovakia	10	5/10/15	2
66	Spain	10	10	2
67	Sri Lanka	10	15	2
68	Sweden	10	5/15	2
69	Switzerland	10	10	-
70	Taiwan	10	15	-
71	Thailand	10/15	15	2
72	Tunisia	10	10	2
73	Turkey	10	10	2
74	UAE	10	10	2
75	Ukraine	10	10	2
76	United Kingdom	10	10	2
77	United States	10	5/10	1,2
78	Uruguay	10	10	-
79	Uzbekistan	10	15	2
80	Venezuela	10	10	2

Sources: *General Department of Taxation*

Notes:

1. Not in force yet
2. Interest derived by certain government bodies is exempt from withholding tax.

In most cases, the limits set by the DTA are higher than the present withholding rates under domestic law; therefore, the domestic rates will apply.

3. The content of these new DTAs is not available at the time this booklet was published.

PwC Services in Vietnam

PwC Vietnam established offices in Hanoi and Ho Chi Minh City in 1994. Our team of more than 1000 Vietnamese and expatriate staff have a thorough understanding of the economy in which they work and a broad knowledge of policies and procedures covering investment, legal, tax, accounting and consulting matters throughout Vietnam. PwC Vietnam has built strong relationships with key ministries, financial institutions, state owned companies, private companies, commercial organizations and the ODA community.

We also have an affiliated law company in Vietnam, licensed by the Ministry of Justice in 2000, with its head office in Ho Chi Minh City and a branch office in Hanoi.

Our services include:

Tax Services:

- Consulting and compliance
- Tax health check services
- Tax dispute resolution
- Transfer pricing
- Tax due diligence and structuring
- Personal income tax/International assignment services
- Payroll outsourcing
- Immigration services
- Tax audit assistance
- Tax technology solutions

Customs and International Trade Advisory Services

- Consulting and compliance
- Customs health check services
- Customs dispute resolution
- Customs technology solutions

Legal Services (through our affiliate law company, PwC Legal (Vietnam) Co., Ltd):

- Mergers and acquisitions (M&A)
- Banking and financial services
- Employment and human resources
- General corporate and commercial services
- Inward investor services
- Legal compliance/Company secretarial services

- Legal health check services
- Real estate

Deals Services:

- Transactions
- Corporate finance
- Valuation
- Business restructuring
- Real estate & Capital projects
- Infrastructure, Government & Utilities
- Strategy
- Working Capital Management

Consulting services:

- Financial Risk Management
- Forensics
- Finance
- Performance Management
- Operations
- Technology
- People and organisation
- Digital and Customer Strategy

Assurance Services:

- Audit of financial statements
- Review of financial information
- Custom Business Procedures
- IFRS and accounting consulting services
- Cyber Security Assurance
- Risk assurance services (Internal Audit, IT Assurance and Performance, Business Resilience, Business Control Advisory, Performance Assurance, etc.)
- Capital Markets Services
- Technical accounting advice/training

Support for local IPO and Overseas listing

Private Business Services

Country Desk Services:

- European Business Services
- Japanese Business Services
- Korean Business Services
- Chinese and Taiwanese Business Services

Contacts

(Please contact any of the professionals listed below for further details of our services in Vietnam and for world-wide contacts)

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We regularly share insights about the Vietnamese market via newsletters and our website. To sign up for our email alerts on regulatory & tax changes, please contact Ms. Nguyen Thi Cat Tien at nguyen.t.cat.tien@pwc.com.

We have an affiliated law company in Vietnam, PwC Legal (Vietnam) Co., Ltd, and are therefore able to provide both tax and legal services to our clients.

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