Doing Business in Viet Nam

A reference guide for entering the Viet Nam market

July 2017

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Doing Business in Viet Nam 2017

6th Edition, July 2017

Contents

Nguyen Xuan Phuc
Prime Minister of Viet Nam

“Viet Nam is an open economy with trading flow of US$340 billion, 1.6 times its GDP, and has attracted total registered foreign direct investment (FDI) of US$300 billion in 2016. The FDI sector accounts for approximately 70% of the country’s export turnover, equivalent to 22% of GDP. The FDI sector has generated millions of jobs and contributed greatly to innovation and modernisation, boosting the economy’s growth.

According to the World Bank’s Doing Business 2017 Report, Viet Nam has improved nine ranks in terms of ease of doing business compared to 2016 (from 91st to 82nd). At the same time, Viet Nam ranks 60th out of 138 countries in the World Economic Forum’s 2017 Global Competitiveness Report.

With a population of nearly 100 million people, over 60% are under the age of 35, Viet Nam is well-positioned to supply a young, abundant and quality workforce at competitive cost. Characterised by political, social and macro-economic stability, Viet Nam has continuously improved its institutional framework and transparency to gradually align with international commitments and standards. The Government of Viet Nam has committed to creating favourable conditions for all investors and businesses, as they execute their long-term investment plan and actively participate in the global supply and value chain.

Viet Nam continues to drive the global economic integration agenda and expects to maintain annual average GDP growth rate of 6.5% to 7% over the period of 2016 – 2020. Its priority is on green growth and sustainable development, with three main engines: Promotion of exports, domestic market growth and investment expansion. Viet Nam is currently focusing on improving the business environment and increasing the competitiveness, supported by the Government’s commitments to integrity, innovation and action to serve businesses and citizens. Viet Nam expects to become a dynamic country and an attractive investment destination in ASEAN, and strives to integrate into the regional and global value chains.

The Viet Namese Government commits to support and create the most favourable conditions for foreign businesses investing and operating in Viet Nam. ”

Nguyen Xuan Phuc
Prime Minister of Viet Nam

Foreword

Vu Tien Loc
Chair of APEC CEO Summit 2017

Dinh Thi Quynh Van
General Director
PwC Viet Nam

It gives us great pleasure to introduce the "Doing Business in Viet Nam" guide for 2017 co-published by the Viet Nam Chamber of Commerce and Industry (VCCI) and PwC Viet Nam.

Viet Nam hosts APEC 2017 with a theme of 'Creating New Dynamism, Fostering a Shared Future' and welcomes business leaders from 21 economies in the APEC region.

The "Doing Business in Viet Nam" guide marks an important milestone of great collaboration between VCCI as the host of the APEC CEO Summit 2017, and PwC as its Knowledge Partner. The guide provides insights into the key aspects of undertaking business and investing in Viet Nam. It addresses the initial establishment of an entity, implementation of appropriate legal and tax structures through to ongoing compliance and operations issues.

Viet Nam remains a proven and strong growth story. In 2016, despite the global trade and business uncertainty, Viet Nam saw economic stability with strong growth in both exports and imports.

Viet Nam continued to surprise the region and the world by the depth and pace of economic integration and regulatory reforms, which led to a significant improvement in the investment environment. Viet Nam's Greenfield FDI Performance Index topped among the emerging economies in the region, surpassing Malaysia and Thailand on attracting foreign capital.

This makes now an ideal time for companies to establish and expand their foothold in the region, given the fact that GDP growth rates average 6.4% p.a. and Viet Nam is recently forecast to be among the Top 20 biggest economies in terms of gross domestic products based on purchasing power parity by 2050.

By giving a panorama of doing business in Viet Nam, the guide is an informative and useful tool for foreign investors.

Introduction

Welcome to our guide to doing business in Viet Nam. In this publication, we hope to provide you with information on accounting, tax and regulatory laws when doing business in Viet Nam.

Viet Nam's dynamic environment, reflected in a young population, growing wealth, changing consumer attitudes, greater mobility and urbanisation– are pushing Viet Nam through a period of great change.

We have been seeing a shift in investments in Asia, with Southeast Asia attracting more foreign direct investments (FDIs) than China for the third consecutive year in 2016. Viet Nam leads the region, surpassing Malaysia and Thailand in Greenfield FDI Performance Index (with US$24.4 billion foreign capital investment in 2016).

Viet Nam's low-cost environment and a strong economic outlook continue to make it an attractive place for investment in South East Asia.

Viet Nam is recognised as having high mobile commerce penetration which is attractive to entrants wanting to establish digital businesses in Viet Nam. A rising middle class and a deregulated economy bring access to exciting new opportunities including manufacturing.

Viet Nam's increasing network of free trade agreements (FTAs) are enhancing investment opportunities.

Regardless of the reasons for entry, identifying the right path into the local market can be challenging without local knowledge and experience.

This guide contains references to some common issues that investors should be aware of when operating in Viet Nam, but each case is different and specific advice should always be sought.

PwC remains available to share our considerable local knowledge with you.

Why Viet Nam and why now?

Viet Nam is at a tipping point in its economic development led by free trade agreements (FTAs) such as the EU-Viet Nam FTA and an increasingly deregulated business environment

Fastest growth projected in Asia

With average growth of 5% p.a. from 2014-2050

PwC, The World in 2050

100%

Permitted foreign ownership for most sectors

Decree 60/2015

92 million

Population and 60% of them are of working age

Over 2,500

New FDI projects in 2016, valued at US$15 billion

Top FDI attraction in emerging markets

Viet Nam's Greenfield FDI Performance Index has topped among the emerging economies, surpassing Malaysia and Thailand on attracting foreign capital

FDI Intelligence 2016

Equitisation

240 SOEs will be liquidated from 2016 to 2020, with an estimated value of dozens of US$ billion

US$176bn

Exports in 2016, grew by 9%, powered by the electronics sector

Six major growth drivers will enhance opportunities for investors in Viet Nam

New free trade agreements

Enhance Viet Nam's economic integration into the global economy, including major developed markets in North America, Europe and Asia.

Fast growing economy

Viet Nam is one of the most dynamic economies in the world. GDP growth is expected to be between 6% to 7% from 2016 to 2018.

Cost competitive production base

Labour costs in Viet Nam are among the lowest in Asia. An ideal production base for companies thinking of shifting or diversifying out of China.

A stable government committed to growth

Viet Nam has a stable social-political environment with the government committed to creating a fair and attractive business environment for foreign investors.

A young digitally-savvy and growing workforce

Viet Nam has an educated workforce and is now in a period of golden population structure - where 40% is under 25 years of age. The smart phone penetration is 26% of the population.

Infrastructure development

Large scale infrastructure needs create investment opportunities. Viet Nam's construction output value grew 10% in 2016.

Next steps for investing in Viet Nam

1. Beware of your changing business environment
2. Understand Viet Nam opportunities
3. See how Viet Nam fits into your strategy
4. Build Viet Nam's strategy execution plans
5. Invest in Viet Nam competencies and people
6. Invest in relationships
7. Apply international standards
8. Expand the business to support regional growth
9. Share the rewards

An Overview of Viet Nam

1

This guide, Doing Business in Viet Nam, provides a high level overview of the practical aspects of doing business in Viet Nam, including the common types of business entities used by local and foreign investors, and the taxation and regulatory environment in Viet Nam.

The guide also covers some practical issues faced by investors when entering Viet Nam.

Geography

Viet Nam is conveniently located in the centre of South East Asia and is bordered by China to the north, Laos and Cambodia to the west.

The total area of Viet Nam is over 330,900 kilometres and its geography includes mountains and plains. Viet Nam's population is spread throughout the country.

Ranked as the 14th most populous country in the world, with a population of over 92 million people and a median age of 30, Viet Nam represents a huge pool of both potential customers and employees for many investors.

Hanoi in the north is the capital of Viet Nam and Ho Chi Minh City in the south is the largest commercial city. Da Nang, in central Viet Nam, is the third largest city and an important seaport.

Economic Environment

GDP growth was 6.2% in 2016, down from 6.7% in 2015 and is forecast to hit 6.3% in 2017.

Over the last 20 years, GDP growth has averaged approximately 7%. As well as enjoying strong export growth, which grew at more than 8.6% year-on-year in 2016, Viet Nam is becoming an increasingly large importer of capital goods which is necessary to meet its large infrastructure needs.

Key Sectors and Trading Partners

Viet Nam continues to diversify away from agriculture. Among the industrial sectors, services account for approximately 51% of GDP followed by manufacturing at 33%. The agricultural sector made up 16% of GDP in 2016.

The growth in exports has been driven by the fast growing manufacturing, telecommunications, clothing and apparel sectors with major exports to US (21%), EU (19%), China (12%), ASEAN (10%) and Japan (8%).

In 2016, much of the foreign direct investment into Viet Nam came from Korea (29%), Japan (11%) and Singapore (10%).

Foreign Direct Investment

With a stable exchange rate and reductions in inflation (which fell from a peak of 18% in 2011 to 2.6% in 2016), the macroeconomic environment has dramatically improved in recent years.

Viet Nam therefore remains one of the most attractive destinations for foreign investors in South East Asia. It received $24 billion in foreign direct investment in 2016, a 7% increase on the previous year.

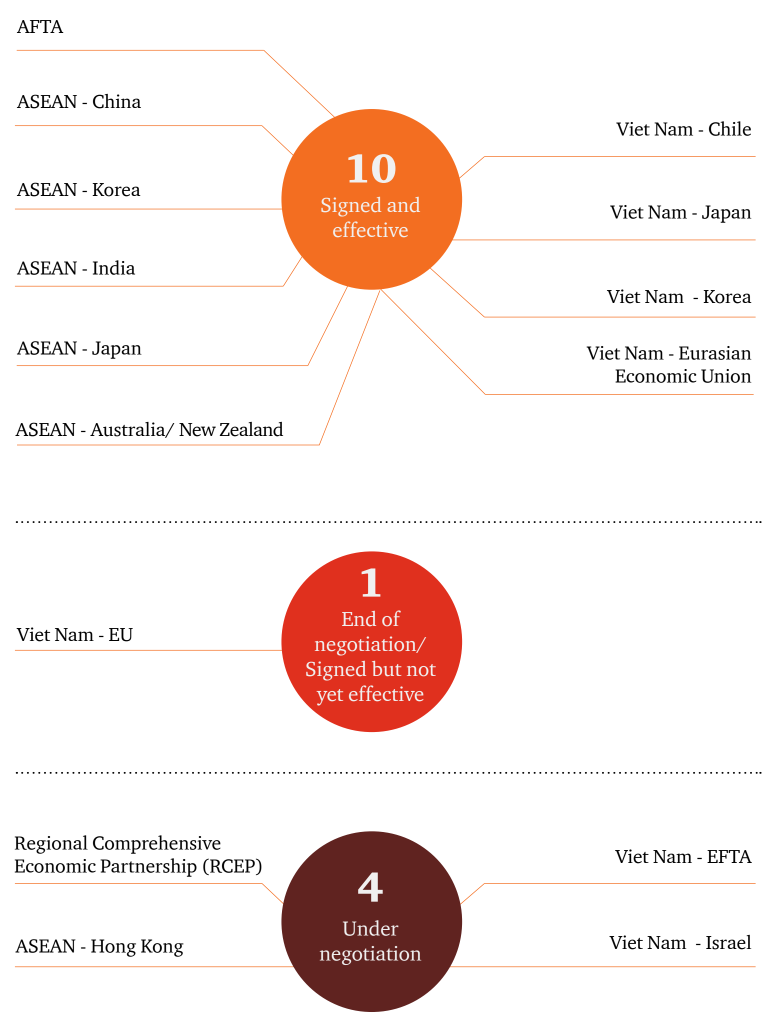
Free Trade Agreements

Viet Nam has entered into or completed the negotiation of a number of Free Trade Agreements (FTAs) including both collective FTAs as a member of ASEAN, and bilateral FTAs (such as FTAs with the EU, Japan, Chile and Eurasian Economic Union).

Despite the uncertain fate of the Trans Pacific Partnership (TPP), Viet Nam is still getting increasingly integrated to the global economy.

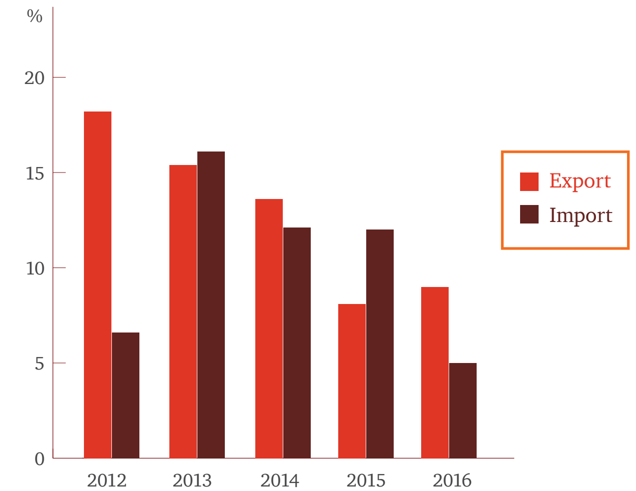
The EU - Viet Nam FTA is expected to be the next major milestone for Viet Nam from a trade perspective. It should be effective for Viet Nam by 2018; and this FTA is expected to liberalise 90% of imports from both sides in a 10 to 15 year time

FTAs

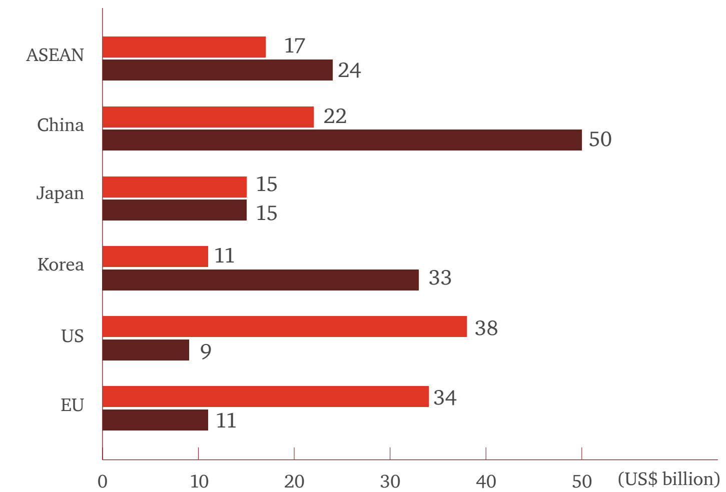


Trade Statistics

Export & Import Growth (2011-2016)



Key traders (2016)



Top manufacturing industries

Key export commodities:

- Telephones and their parts **$34 billion**
- Textiles **$24 billion**
- Computers, electrical products **$19 billion**
- Footwear **$13 billion**
- Machinery, instruments, accessories **$10 billion**
- Seafood **$7 billion**
- Wood and wooden products **$7 billion**
- Transportation and parts **$6 billion**
- Coffee **$3 billion**

Key import commodities:

- Machinery, instruments, accessories **$28 billion**
- Computers, electrical products **$28 billion**
- Textiles, fabrics **$10 billion**
- Telephones and their parts **$10 billion**
- Iron, steel **$8 billion**
- Plastic materials **$6 billion**
- Petroleum oil, refined **$5 billion**

Legal and Regulatory Regime

The Socialist Republic of Viet Nam is a single-party state. As the only party in the political arena, the role and influence of the Communist Party is unique.

Viet Nam's legal powers are centralised in one supreme body, and then delegated to lower bodies located in Viet Nam 's 63 municipalities and provinces. The National Assembly is the only body with the power to amend the Constitution and pass laws but the implementation and administration of such laws is decentralised.

The Vietnamese government has developed various policies to encourage enterprise and foreign investment in recent years. However, certain industries such as financial services, logistics, telecommunications, mining and utilities continue to be subject to restrictions on foreign ownership.

Viet Nam joined the World Trade Organisation ('WTO') in 2007. Under its accession commitments, Viet Nam opened up various business sectors to foreign investment, in some cases under a phased approach. These commitments are generally referred to when assessing whether foreign investment in a particular sector is allowed.

There is a hierarchy of regulations in Viet Nam, with laws being passed by the National Assembly, and their implementing decrees and circulars issued by the government and its ministries, respectively. A plethora of other legal instruments/guidelines are also issued by various other authorities.

Law on Investment and Enterprises

In late 2014, the National Assembly passed a new Law on Investment (LOI) and a new Law on Enterprises (LOE), both of which come into effect on 1 July 2015. A series of implementing regulations were issued in late 2015 (including Decree 78/2015/ND-CP guiding enterprise registration, Decree 96/ND-CP guiding the implementation of the LOE, and Decree 118/2015/ND-CP guiding the implementation of the LOI). These two new laws contain major changes to the former laws (passed in 2005), and are expected to create more favorable conditions for investors into the future.

Workforce and Cost of Living

The number of people of working age in employment in Viet Nam totaled over 54 million in 2016 with an official unemployment rate of 2%.

Wages and salaries in Viet Nam vary widely across occupations and geographic locations. In 2016, the average annual income per person was over $2,200.

In comparison with other countries in Asia, the cost of living in Viet Nam remains relatively low.

Business Etiquette and Culture

Many Vietnamese are more comfortable using their native language rather than English. However, many English speakers can be found in Viet Nam, especially in the larger cities.

Presenting business cards is an important ritual in the Vietnamese business world. Cards are exchanged at the beginning of a meeting using both hands. Translating written materials into Vietnamese shows respect for Vietnamese colleagues and business partners.

Face to face business meetings are important in Viet Nam and an appropriate level of respect must be shown according to rank and seniority.

The Future

As a member of the WTO, Viet Nam must continue to improve its business and investment environment and bolster its legal system to meet WTO requirements. Viet Nam has made significant efforts to ensure that foreign investors are not disadvantaged compared with their local counterparts, including an overhaul of the legal framework governing investments and protection of intellectual property. Furthermore, the government has taken measures to simplify administrative procedures in areas such as import and export, company establishment and making tax payments.

Despite these measures, there remain various regulatory issues and obstacles that must be considered by foreign investors coming into Viet Nam. In a recent report by the World Bank, Viet Nam was ranked 82nd in the world for the ease of doing business.

However, foreign investment in Viet Nam continues to grow, and the Government shows its commitment to market-oriented reforms through its ongoing efforts to attract foreign direct investment.

General Information

63 municipalities & provinces

Capital city: **Hanoi**

3rd largest city, important seaport:
Da Nang

Largest city:
Ho Chi Minh City

Area and population:
over 330,900
square kilometres,
over 92 million
(median age: 30)

People of working age in employment:
54 million

Average annual income:
$2,200

Language

a ă â

Vietnamese

International dialling code

+84

Currency

đ

Vietnamese
dong

Business and banking hours

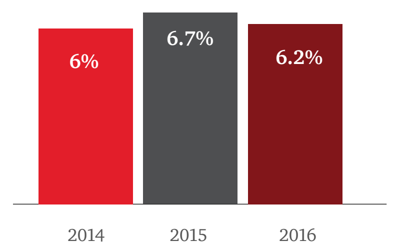
8am to 5pm
Monday to Friday

Stock exchange

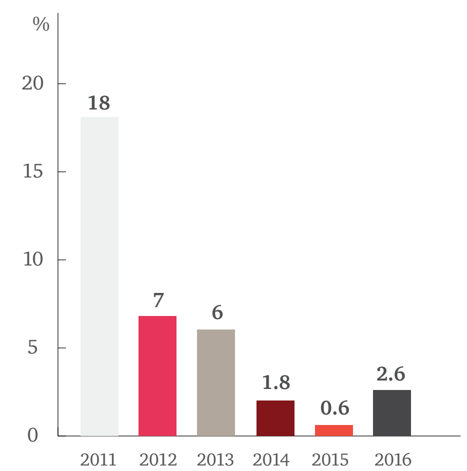
Ho Chi Minh City
Hanoi

Economic environment:

- **GDP growth rate**

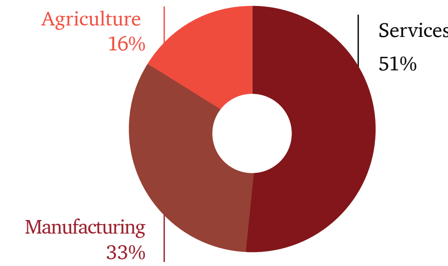


- **Inflation**

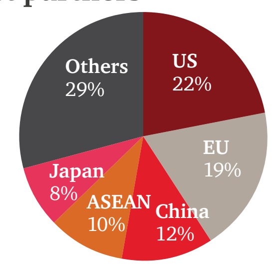


Key sectors & trading partners:

- **GDP by sector**



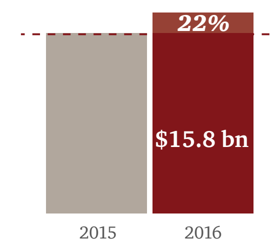
- **Major export partners**



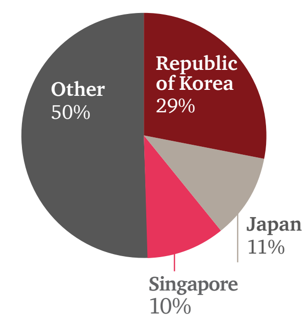
Foreign investment

- **FDI capital inflow**

- **Disbursed FDI**



- **Key FDI investors**



Legal and regulatory regime:

- **Political structure**

Vietnam is a socialist country operating under the single-party leadership of the Communist Party.

A nationwide congress ('National Congress') of Vietnam's Communist Party is held every five years, with the most recent being in early 2016, determining the country's orientation and strategies and adopting its key policies on solutions for socio-economic development. The National Congress elects the central committee, which in turn elects the politburo.

- **Hierarchy of regulations:**

The National Assembly	The government	Ministries	Various other authorities
Laws	Decrees	Circulars	A plethora of other legal instruments/ guidelines

New regulations on investment and enterprises:

- **Investment:**

A series of regulations were issued or came into effect in 2016 in relation to the Law on Investment, including Decree 135/2015/ND-CP on overseas indirect investment, Circular 16/2015/TT-BKHDT on templates for investment registration, Decree 50/2016/ND-CP on administrative fine for violation to planning and investment regulations, and Circular 83/2016/TT-BTC on investment incentives.

- **Enterprises:**

Decree 50/2016/ND-CP above is also applied for enterprises.

In recent years, the government has issued various policies to encourage enterprises and attract foreign investment

Doing Business in Viet Nam

A foreign entity may establish its presence in Viet Nam as a limited-liability company with one or more members, a joint-stock company, a partnership, a branch, a business cooperation contract or a representative office.

Foreign investors may also buy an interest in an existing domestic enterprise, subject in some cases to ownership limitations which vary depending on the industry sector.

The choice of investment vehicle will depend on factors such as the number of investors, industry, size of the project and whether there is any intention to list.

Forms of business

1. Limited-liability Company

A limited-liability company is a legal entity established by its "members" (i.e. owners) through capital contributions to the company. The capital contribution of each member is treated as equity (charter capital). The members of a limited-liability company are liable for the financial obligations of the limited-liability company to the extent of their capital contributions.

The management structure of a limited-liability company would normally consist of the "members' council", the chairman of the members' council, the general director and a controller (or board of supervisors where the limited-liability company has more than 11 members).

A limited-liability company established by foreign investors may take the form of either:

- A 100% foreign-owned enterprise (where all members are foreign investors); or
- A foreign-invested joint-venture enterprise between foreign investors and at least one domestic investor.

2. Joint-stock Company

A joint-stock company is a limited liability legal entity established through a subscription for shares in the company.

Under Vietnamese law, this is the only type of company that can issue shares. The charter capital of a joint-stock company is divided into shares and each founding shareholder holds shares corresponding to the amount of capital the shareholder has contributed to the company.

A joint-stock company is required to have at least three shareholders. There is no limit on the maximum number of shareholders in such companies.

The governance of a joint-stock company includes the general meeting of shareholders, the board of management, the chairman of the board of management, the general director and a board of supervisors (where the joint stock company has at least 11 shareholders, or if a corporate shareholders holds more than 50% of the shares of the joint-stock company).

A joint-stock company may either be 100% foreign-owned or may take the form of a joint venture between both foreign and domestic investors.

3. Partnership

A partnership is a very rare form of investment. It may be established between two individual general partners. The general partner has unlimited liability for the operations of the partnership.

4. Branch

This is not a common form of foreign direct investment and is only permitted in a few sectors. A branch is not an independent legal entity. Branches of foreign companies are different from representative offices in that a branch is permitted to conduct commercial activities in Viet Nam.

5. Representative Office

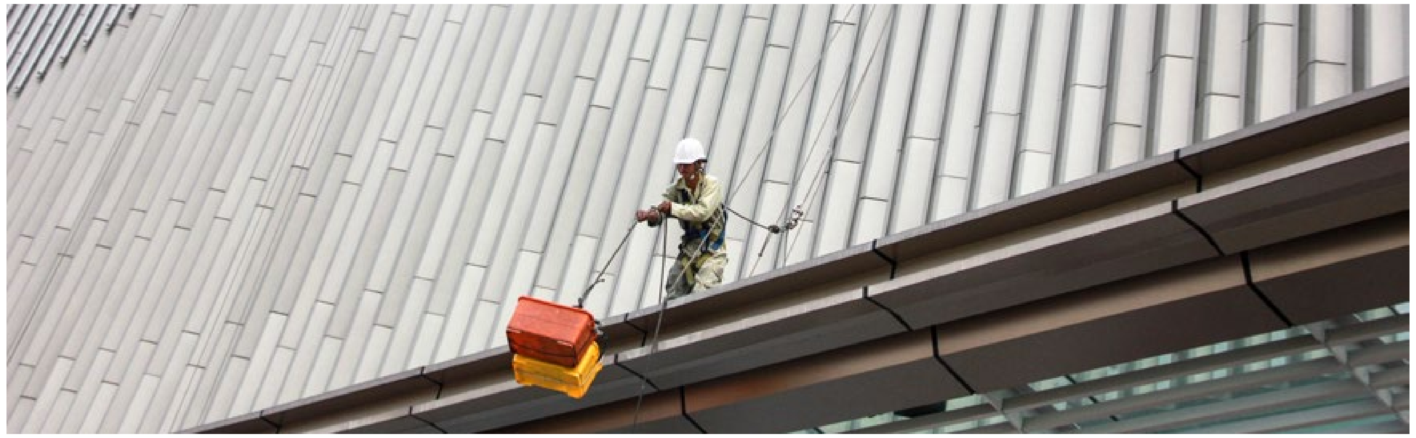
Foreign companies with business relations or investment projects in Viet Nam may apply to open representative offices in Viet Nam.

A representative office may not conduct commercial or revenue-generating activities (i.e. the execution of contracts, receipt of funds, sale or purchase of goods, or provision of services).

A representative office is only permitted to:

- Act as a liaison office;
- Conduct market research; and
- Promote its parent company's business and investment opportunities.

Thus representative offices can provide a wide range of ancillary support to their foreign-based parent companies. This is a very common form of registered legal presence in Viet Nam, particularly those in the first stage of a market entry strategy.



6. Business Cooperation Contract ('BCC')

A BCC is a cooperation agreement between foreign investors and at least one Vietnamese partner in order to carry out specific business activities. This form of investment does not constitute the creation of a new legal entity. The investors in a BCC generally share the revenues and/or products arising from a BCC and have unlimited liability for the debts of the BCC.

7. Public and Private Partnership Contract

A Public and Private Partnership ('PPP') contract is an investment form carried out based on a contract between the government authorities and project companies for infrastructure projects and public services.

PPP contracts include Build-Operate-Transfer ('BOT'), Build-Transfer ('BT'), Build-Transfer-Operate ('BTO'), Build-Own-Operate ('BOO'), Build-Transfer-Lease ('BTL'), Build -Lease-Transfer ('BLT') and Operate-Manage (O&M) contracts.

Both public and private investors are encouraged to participate in PPP contracts. The rights and obligations of the foreign investor will be regulated by the signed PPP contracts and the applicable regulations governing such contracts. Investment sectors include:

- Transportation infrastructure and relevant services;
- Lighting systems, clean water supply systems, water drainage systems, water/waste collection and treatment systems, social/resettlement houses, cemeteries;
- Power plants and power transmission lines;
- Infrastructure for healthcare, educational and training, cultural, sport and relevant services, offices for government authorities;
- Infrastructure for commerce, science and technology, hydrometeorology, economic zone, industrial zone, high- tech zone, centralised information technology zone, information technology application;
- Infrastructure for agriculture and rural development, services for enhancing the correlation of agricultural production with processing and consumption of agricultural products; and
- Other sectors according to the Prime Minister's decisions.

Liquidation and Bankruptcy

A company can only be voluntarily liquidated if it is solvent and all creditors can be paid. The process generally takes 12 months or more and requires a final tax audit.

For insolvent companies, a new Bankruptcy Law came into effect on 1 January 2015. The new law sets out, inter alia, which parties can instigate bankruptcy proceeding, procedures for the appointment of a liquidator, organisation of creditors meetings and priority of creditor payments.

Setting Up a Business

Limited-liability company/ Joint stock company/ Partnership

Step 1

The provincial department of planning and investment
(For projects located outside of industrial zones, export processing zones, high-tech zones and economic zones)

OR

The provincial industrial zone management authority or economic zone management authority
(For projects located inside industrial zones, export processing zones, high-tech zones and economic zones)

15 days → **Investment Registration Certificate**
In practice, it usually takes longer.

Step 2

The provincial department of planning and investment

3 days → **Enterprise Registration Certificate**
In practice, it usually takes longer.

***Note:** Investment in "conditional" sector activities is subject to more cumbersome licensing procedures. These may require an approval in principle, or the licence application to be reviewed also at the central government ministry level in Hanoi.*

Representative office

The provincial department of industry and trade
(For representative office located outside of industrial zones, export processing zones, high-tech zones and economic zones)

OR

The provincial industrial zone management authority or economic zone management authority
(For representative office located inside industrial zones, export processing zones, high-tech zones and economic zones)

7 working days → **Representative Office Licence**
In practice, it usually takes longer.

Public-Private Partnership (PPP) project (such as BOT/BTO/BT project)

***Investment agreement** is signed with an "Authorised State Authority" ("ASA")*

The Ministry of Planning and Investment → **Investment Registration Certificate**

***Project contract** is signed with the relevant state body and the project company is set up in the form of a limited liability company or a joint stock company.*

Trade

3

Following Viet Nam's accession to the WTO in 2007, the market was liberalised in certain areas, including the trading of goods.

Under Viet Namese law, the trading of goods by foreign invested enterprises covers the following areas:

- 'Right to import' refers to the right to import goods into Viet Nam for sale to business entities that themselves have the right to distribute the goods in Viet Nam. The import right does not include the right to organise or participate in the distribution of goods in Viet Nam.
- 'Right to export' refers to the right to purchase goods in Viet Nam for export. The export right does not include the right to organise a network of collecting and purchasing goods in Viet Nam for export.
- 'Distribution right' means the right to directly undertake activities of distribution, consisting of:
  - **(i)** being an agent for the purchase and sale of goods;
  - **(ii)** wholesale distribution;
  - **(iii)** retail distribution; or
  - **(iv)** franchising.

Viet Namese enterprises are free to carry out trading activities in Viet Nam and are permitted to directly export and import all goods, except for certain restricted goods where a special business licence must be obtained from the relevant State authorities.

Foreign invested enterprises in Viet Nam may directly distribute or set up distribution networks to sell the products they manufacture in Viet Nam and may export their products directly. The establishment of pure trading or distribution businesses not associated with manufacturing activities by foreign investors was restricted before Viet Nam joined the WTO. However, in accordance with Viet Nam's WTO commitments, the law now permits 100% foreign-owned enterprises to undertake distribution activities in most sectors. However, various sectors are still subject to restrictions.

In practice, as the Viet Namese government wishes to protect domestic distribution enterprises, retail distribution by foreign investors in Viet Nam is still restricted and subject to an approval process. For more than one retail outlet, the approval must be considered by the licensing authorities based on an Economic Needs Test ('ENT'), which considers the following criteria:

- **(i)** existing service suppliers in a particular geographic area;
- **(ii)** stability of market; and
- **(iii)** geographic scale.

In April 2013 the Ministry of Industry and Trade issued a new regulation which provides an exemption from the ENT procedures for retail outlets that are less than 500m2 in size and located in facilities constructed for the purpose of selling goods (although the establishment of such an outlet is still subject to approval of the licensing authority).

Taxation

4

General Overview

Most business activities and investments in Viet Nam 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 of Viet Namese and expatriate employees;*
- *Social insurance, unemployment insurance and health insurance decontributions.*

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*

All these taxes are imposed at the national level. There are no local, state or provincial taxes.

Tax rates

Tax	Rate
Corporate Income Tax ("CIT")	20%
Capital Assignment Profit Tax ("CAPT")	20%

Value added tax ("VAT")

10% Standard	5% for essential goods and services	0% for exported goods/ services

Withholding taxes (Excluding VAT)

Levied on certain payments to foreign parties, rates depend on the nature of activities, e.g.

5% General services	1% Goods	5% Interest	10-15% Royalties

Personal Income Tax ("PIT")

- PIT rates depend on residency status and nature of income
- Tax residents are taxed on their world-wide taxable income, tax non-residents on their Viet Nam sourced income only
- Employment income: for residents, progressive tax rates from 5-35% apply, for non-residents, 20% applies on the Viet Nam sourced income.
- Other income: tax rates vary from 0.1% to 10%

Social insurance ("SI"), health insurance ("HI") and unemployment insurance ("UI")

	SI	HI	UI
Employer	17.5%	3%	1%
Employee	8%	1.5%	1%

Tax incentives

Preferential CIT rates of 10% and 20% for 15 years and 10 years, respectively. From 1 January 2016, enterprises previously entitled to the preferential CIT rate of 20% will enjoy a rate of 17% instead. When the preferential rate expires, the CIT rate reverts to the standard rate. Certain socialised sectors (e.g. education, health) enjoy a 10% rate for the life of the project.

Tax holidays with a complete exemption from CIT for a certain period generally beginning after the enterprise first makes profits, followed by a period where tax is charged at 50% of the applicable rate:

- 4 years of tax exemption and 9 subsequent years of 50% reduction,
- 4 years of tax exemption and 5 subsequent years of 50% reduction,
- 2 years of tax exemption and 4 subsequent years of 50% reduction.

based on	applicable for
Sector	Inter alia education, health care, sport/ culture, high technology (including in agricultural sector), environmental protection, scientific research, infrastructural development, clean energy and computer software manufacturing.
Location	Inter alia qualifying economic and high-tech zones, certain industrial zones, and difficult socio-economic areas.
Scale	Large manufacturing projects meeting requirements regarding investment capital, minimum revenue, minimum headcount.
Industrial products manufacturing	Manufacturing of industrial products prioritised for development if they meet one of the following conditions: • The products support the high technology sector; or • The products support the garment, textile and footwear, IT, automobiles assembly or mechanics sector and are not produced domestically as at 1 January 2015, or if produced domestically, they do not meet the quality standards of the EU or equivalent.

Types of Tax — *Page*

Tax year end

The tax year end in Viet Nam is 31 December.

Corporate Income Tax ('CIT')

Tax Rates

Enterprises (generally companies) are subject to a standard CIT rate of 20% (it was 22% from 2014 to 2015, and 25% prior to 2014). 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 mineral resources (e.g. silver, gold, gemstones) 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. New investment projects and business expansion projects do not include projects established as a result of certain acquisitions or reorganisations.

Sectors which are encouraged 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 prioritised 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)** the products support the garment, textile, footwear, electronic spare parts, automobile assembly, or mechanical sectors and were not produced domestically as at 1 January 2015, or if produced domestically, they meet the quality standards of the EU or equivalent.

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):

Projects with total capital of VND6,000 billion or more, disbursed within 3 years of being licensed, if they meet either of the following criteria:

- **(i)** minimum revenue of VND10,000 billion/annum by the 4th year of operation at the latest; or
- **(ii)** head count of more than 3,000 by the 4th year of operation at the latest.

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.

The two common preferential rates of 10% and 20% 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. From 1 January 2016, enterprises having projects previously entitled to the preferential CIT rate of 20% now enjoy a rate of 17% instead. 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 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 the 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 employ ethnic minorities.

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

Calculation of Taxable Profits

Taxable profit is calculated as 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 VND 20 million or above) and are not specifically identified as being non-deductible. Examples of non-deductible expenses include:

- Interest deductions are capped at 20% of EBITA;
- 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 the 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 exceeding VND 1 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 Viet Nam by the foreign company's head office exceeding the amount Interest on loans corresponding to the portion of 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 Viet Nam;
- 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 account payables;
- Donations except certain donations for education, health care, natural disaster or building charitable homes for the poor;
- Administrative penalties, fines, late payment interest;
- Certain expenses directly related to the issuance, purchase or sale of shares;
- Creditable input value added tax, corporate income tax and personal income tax.

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 Viet Nam 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

CIT taxpayers are 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.

CIT returns are filed annually. The annual CIT return must be filed and submitted not later than 90 days from the fiscal year end (typically 31 December). The outstanding tax payable must be paid at the same time.

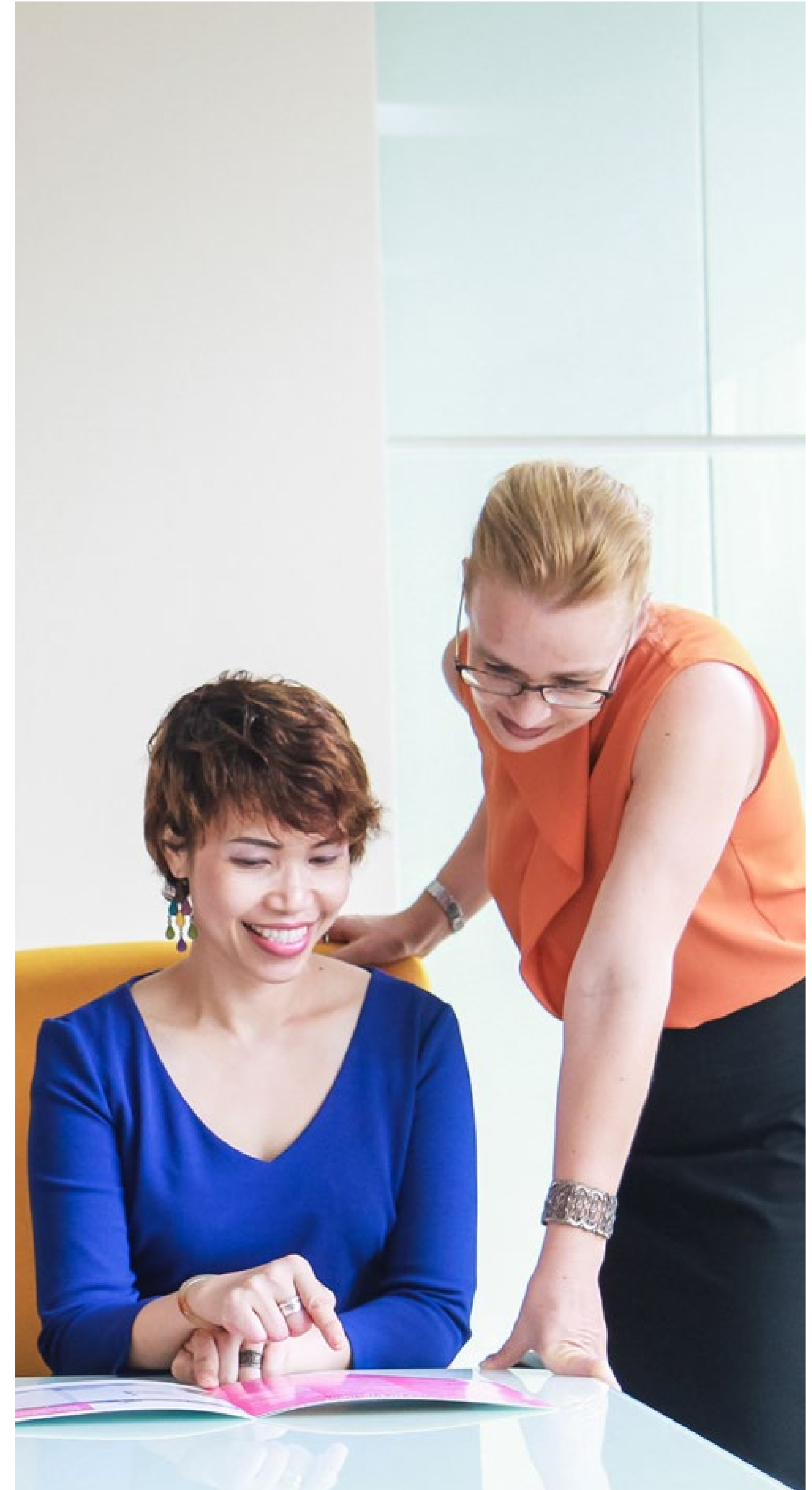
Where a taxpayer has a dependent accounting unit (e.g. branch) in a different province, a single CIT return is required. However, manufacturing companies are required to allocate tax payments to the various provincial tax authorities in the locations where they have dependent manufacturing establishments. 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 Viet Nam. 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

Viet Nam's transfer pricing ("TP") regulations are governed by Decree 20/2017/ND-CP which came into force on 1 May 2017, replacing the previous Circular 66/2010/TT-BTC.

While it is based loosely on Circular 66, Decree 20 extends the interpretation of existing provisions and introduces additional concepts and principles from the Transfer Pricing Guidelines of the Organisation for Economic Cooperation and Development (OECD) and BEPS Action Plan.

Related Party Definition

The ownership threshold required to be a "related party" under Decree 20 is 25%, higher than the 20% under Circular 66. In addition, Decree 20 removes from the related party definition of Circular 66 two entities having transactions between them accounting for more than 50% of their sales or purchases. Viet Nam's transfer pricing rules also apply to domestic related party transactions.

TP Methodologies

Acceptable methodologies for determining arm's length pricing are analogous to those espoused by 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 method.

TP Documentation

Compliance requirements include an annual declaration of related party transactions and transfer pricing methodologies used, and a taxpayer confirmation of the arm's length value of their transactions (or otherwise the making of voluntary adjustments), which is required to be filed together with the annual CIT return.

Decree 20 requires that the TP method applied must ensure that there is no loss of tax revenue to the state budget, which could imply that no downward adjustments are allowed. Decree 20 also introduces a new TP declaration form which requires disclosure of more detailed information, including segmentation of profit and loss by related party and third party transactions.

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

Taxpayers engaged in related party transactions with domestic related parties may be subject to different rules.

Companies which have related party transactions must also prepare and maintain contemporaneous transfer pricing 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 reporting. 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.

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 VND 50 billion and total value of related party transactions below VND 30 billion in a tax period; or
- concludes APA and submits annual APA report(s); or
- has revenue below VND 200 billion, performs simple functions and achieves at least the following ratios of earnings before interest and tax to revenue on the following business: distribution (5%), manufacturing (10%), processing (15%).

The General Department of Taxation ("GDT") is currently in negotiation with several taxpayers over APAs.

2015 to 2017 saw significant developments in transfer pricing initiated by the tax authorities. In July 2015, a Transfer Pricing Audit Department was established within the GDT. Soon afterwards, in November 2015, local Transfer Pricing Audit departments were also established in the Hanoi, Binh Duong, Dong Nai, and Ho Chi Minh City tax authorities. In July 2016, the GDT announced the establishment of a BEPS Working Group which is responsible for preparing action plans to implement the OECD BEPS Initiatives and overseeing the implementation process.

Foreign Contractor Tax ("FCT")

Scope of Application

Foreign contractor tax is levied on payments to foreign organisations and individuals undertaking businesses or earning income sourced from Viet Nam. FCT is not a separate tax and is merely a collection mechanism for VAT and CIT, or PIT for income of foreign individuals. Payments subject to FCT include interest, royalties, service fees, leases, insurance, transportation, transfers of securities, and goods supplied within Viet Nam or associated with services rendered in Viet Nam.

The application of FCT is subject to the application of a relevant Double Tax Agreement.

Certain distribution arrangements where foreign entities are directly or indirectly involved in the distribution of goods or provision of services in Viet Nam 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 Viet Nam.

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 Viet Nam and there are no associated services performed in Viet Nam), services performed and consumed outside Viet Nam and various other services performed wholly outside Viet Nam (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.

Interest deductibility is subject to a 20% cap based on EBITA.

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

The Viet Namese 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 Viet Nam 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 Viet Namese 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 Viet Namese 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 Viet Nam or be tax resident in Viet Nam;
- Operate in Viet Nam 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.

The FCT rates under the direct method are summarised as follows:

FCT Rates

Industry	Deemed VAT rate [3]	Deemed CIT rate
Supply of goods in Viet Nam or associated with services rendered in Viet Nam (including in-country export-import and imports, distribution of goods in Viet Nam or delivery of goods under Incoterms where the seller bears risk relating to the goods in Viet Nam)	Exempt [1]	1%
Services	5%	5%
Services together with supply of machinery and equipment [2]	3%	2%
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%
Leasing of machinery and equipment	5%	5%
Leasing of aircraft and vessels	Exempt [4]	2%
Transportation	3% [5]	2%
Interest	Exempt	5%
Royalties	Exempt [6]	10%
Insurance	Exempt/5% [7]	5%
Re-insurance, commission for re-insurance	Exempt	0.1%
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 VAT or where import VAT is paid upon importation
(2)Where the contract does not separate the value of goods and services
(3)The supply of goods and/or services to the oil and gas industry are subject to the standard 10% VAT rate. Certain goods or services may be VAT exempt or subject to 5% VAT.
(4)Where aircraft and vessels cannot be manufactured in Viet Nam
(5)International transportation is subject to 0% VAT
(6)Software licenses, transfers of technology and intellectual property rights (including copyrights and industrial properties) are VAT exempt. Other royalties may attract VAT.
(7)Certain types of insurance are exempt from VAT (see "Exempt Goods and Services" in VAT section).

Double Taxation Agreements (“DTAs”)

The application of CIT (including via FCT rules) 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 Viet Nam.

Viet Nam has signed more than 70 DTAs and there are a number of others at various stages of negotiation. Please see the summary at Appendix I – list of DTAs. Notable is the signed DTA with the United States of America, although this is not yet in force as at June 2017.

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 shares in a Viet Nam 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 Viet Namese 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 Viet Namese target (in which the interest is transferred) is responsible for the CAPT administration including the payment of any CAPT. 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 consistent with the market price or where the price is not stipulated in the agreement.

Recently there has been a move to tax not only transfer of a Viet Namese entity, but also transfer of an overseas parent of a Viet Namese 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 Viet Nam (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 Viet Nam where the services are rendered outside of Viet Nam, including repairs to means of transport, machinery or equipment, advertising, marketing, promotion of investment and trade to overseas brokerage activities for the sale of goods and services overseas, training, certain international telecommunication services;
- Sales of assets by non-business organisations or individuals not registered for VAT;
- 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;
- Certain asset transfers between a parent company and its subsidiaries or between subsidiaries of the same parent company;
- 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/ ser- vices 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 transporta- tion, airlines and shipping services entitled to 0% VAT; and (iii) insurance agents;
- Commissions from the sale of exempt goods/services;
- Lending or return of machinery, equipment, goods;
- Goods exported and then re-imported back to Viet Nam 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 or leased drilling rigs, aeroplanes and ships of a type which cannot be produced in Viet Nam;
- Transfer of land use rights (subject to limitations);
- Financial derivatives and credit services (including credit card issuance, finance leasing and factoring); sale of VAT able mortgaged assets by the borrower under the lender's authorisation 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 with at least 51% of their costs being natural resources and energy.
- Imports of machinery, equipment and materials which cannot be produced in Viet Nam for direct use in science research and technology development activities;
- Equipment, machinery, spare parts, specialised means of transport and necessary materials which cannot be produced in Viet Nam 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);
- Fertiliser, 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/services including goods/ services sold to overseas/ non-tariff areas and consumed outside Viet Nam/in the non-tariff areas, 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 Viet Nam 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 Viet Nam 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 Viet Nam.

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 Viet Nam 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).

Refunds

From 1 July 2016, VAT refunds are only granted in the following cases:

- 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 taxpayers. 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 not available to companies which import goods and then export them without further processing;
- 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;
- Liquidation, bankruptcy, changes in the ownership of the companies, changes in the company form, merger, consolidation, demerger, division;
- Certain ODA projects, diplomatic exemption, foreigners buying goods in Viet Nam 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.

Tax Invoices

Entities in Viet Nam 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.

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 tax. 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 which has the following relationship with the manufacturer or importer: i) parent – subsidiary; ii) same parent; or iii) related party (one owns directly or indirectly at least 20% of the other), the SST taxable price must not be less than 93% of the average selling price charged by the dependent/related trading entity selling to independent/non-related trading entities or customers. This is applicable to both single level and multi-level dependent/related trading entities.

Tax Credits

Taxpayers producing SST liable goods from SST liable raw materials are entitled to claim a credit for the SST amount 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 will be creditable against SST paid at the selling stage.

Tax Rates

The Law on SST classifies objects 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:

SST Rates

Products / services	Tax rate (%)
Cigar/Cigarettes - From 1 January 2016 to 31 December 2018 - From 1 January 2019	 70 75
Spirit/Wine a) Spirit/Wine with ABV ≥ 20° - From 1 January 2016 to 31 December 2016 - From 1 January 2017 to 31 December 2017 - From 1 January 2018 b) Spirit/Wine with ABV < 20° - From 1 January 2016 to 31 December 2017 - From 1 January 2018	 55 60 65 30 35
Beer - From 1 January 2016 to 31 December 2016 - From 1 January 2017 to 31 December 2017 - From 1 January 2018	 55 60 65
Automobiles having less than 24 seats - Prior to 1 January 2018 - From 1 January 2018	 10 - 70 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

Natural Resources Tax ("NRT")

Natural resources tax is payable by industries exploiting Viet Nam's natural resources including petroleum, minerals, natural gas, forest products, natural seafood, natural bird's nests, 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, ranging 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 tax rates depending on the daily average production output.

Property Tax

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 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	300 - 3,000
2	Coal	ton	10,000 - 20,000
3	HCFCs	kg	4,000
4	Plastic bags (*)	kg	40,000
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 and it is always prudent to check the latest position.

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 Viet Nam. The MFN rates are in accordance with Viet Nam'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 that have a special preferential trade agreement with Viet Nam. Currently effective free trade agreements ("FTA") to which Viet Nam is a party include FTAs between ASEAN member states, between ASEAN members and Japan, ASEAN and China, ASEAN and India, ASEAN and Korea, ASEAN and Australia - New Zealand, Viet Nam and Japan, Viet Nam and Chile, Viet Nam and Korea, Viet Nam and Eurasian Economic Union.

Viet Nam has concluded 2 important agreements, the EU-Viet Nam FTA and Trans-Pacific Partnership (TPP) although its future is uncertain given the US withdrawal). Viet Nam is negotiating other agreements including the Regional Comprehensive Economic Partnership (RCEP), and FTAs between ASEAN and Hong Kong, and Viet Nam-Israel.To be eligible for preferential rates or special

preferential rates, the imported goods must be accompanied by an appropriate Certificate of Origin. When goods are sourced from non-preferential treatment/non-favoured countries, the ordinary rate (being the MFN rate with a 50% surcharge) is imposed.

Calculations

In principle Viet Nam 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 applies to some products in addition to import duties. VAT will also be applied on imported goods (unless exempt under the VAT regulations).

Exemptions

Import duty exemptions are provided for projects which are classified as encouraged sectors 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 Viet Nam) comprising the fixed assets of encouraged investment projects;
- Machinery, equipment, specialised means of transportation, materials (which cannot be produced in Viet Nam), office equipment imported for use in oil and gas activities;
- Materials, supplies and components imported for the production of exported goods;
- Raw 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 they are 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 for:

- Goods for which import duties have been paid but which are not actually physically imported;
- Imported raw materials that are not used and which must be re-exported;
- Imported raw materials that were imported for the production of products 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 such as sand, chalk, marble, granite, ore, crude oil, forest products, and scrap metal. Rates range from 0% to 40%. The tax base for 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

Customs audit

The customs office may 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 duty deferral/ exemption schemes and certificate of origin.

Personal Income Tax ("PIT")

Tax Residency

Residents are those individuals meeting one of the following criteria:

- Residing in Viet Nam for 183 days or more in either the calendar year or the period of 12 consecutive months from the date of first arrival;
- Having a permanent residence in Viet Nam (including a registered residence which is recorded on the permanent / temporary residence card or a rented house in Viet Nam with a lease term of 183 days or more in a tax year in case of foreigners) and unable to prove tax residence in another country.

Tax residents are subject to Viet Namese PIT on their worldwide taxable income. 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 Viet Nam 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 Viet Nam 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 Viet Nam for Vietnamese working overseas
  - to Viet Nam for expatriates working in Viet Nam
  - to Viet Nam for Vietnamese residing overseas on a long term basis and returning to Viet Nam 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 Viet Nam / 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. member-ship 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 (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;
- 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 non-employment 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 Viet Nam 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 unemploy- ment insurance schemes;

2. Employee 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.

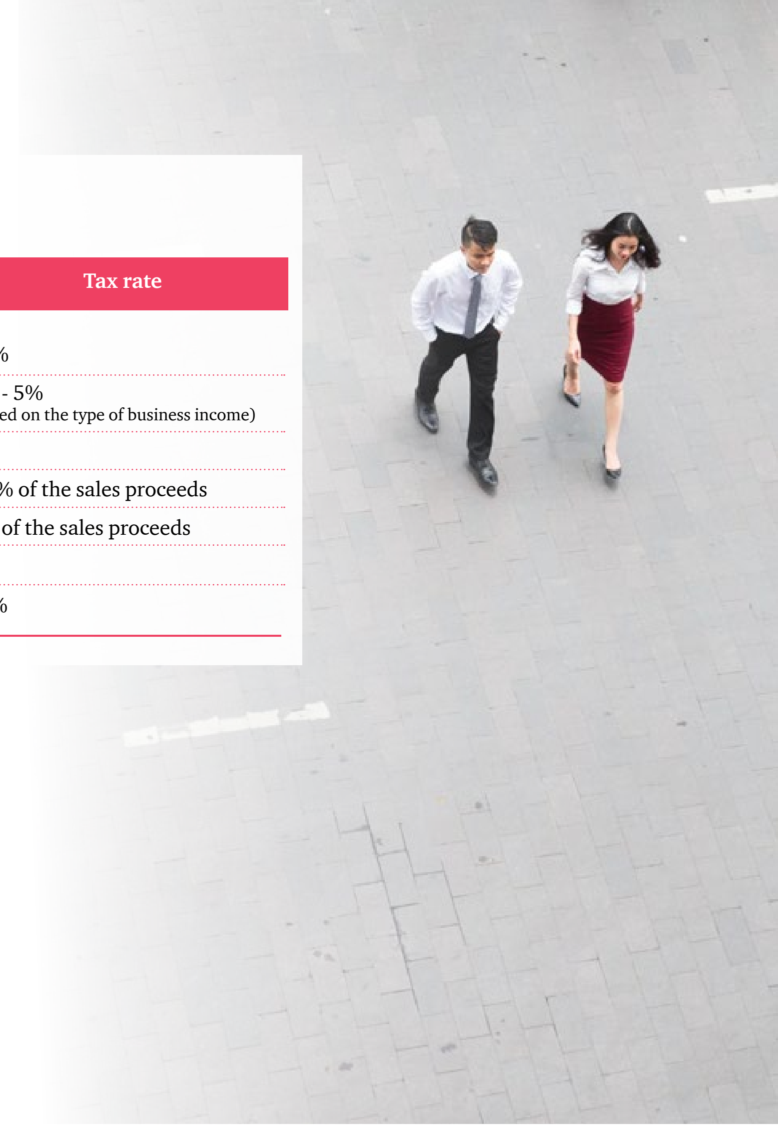
PIT Rates

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 / 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 inheritance / gifts / winning prizes	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 year end. Expatriate employees are also required to carry out a PIT finalisation on termina- tion of their Viet Nam assignment. Tax refunds are only available to those who have a tax code.

For non-employment income, the 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 receipts basis.

Social, Health and Unemployment Insurance Contributions

Social insurance (“SI”) and Unemployment insurance (“UI”) contributions are applicable to Viet Namese individuals only. Health insurance (“HI”) contributions are required for Viet Namese and foreign individuals that are employed under Viet Nam labour contracts.

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%

From 1 January 2016 to 31 December 2017, the salary subject to SI / HI/ UI contributions is the salary and certain allowances stated in the labour contract, but this is capped at 20 times the minimum salary for SI/HI contributions and 20 times the minimum regional salary for UI contributions (The minimum salary is VND1,300,000/month and the minimum regional salary varies from VND2,580,000 to VND3,750,000/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 the contributions 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 Viet Nam, including business licence tax and registration fees (akin to stamp duty) on the transfer of certain registerable assets.

Tax Audits and Penalties

Tax returns are filed on a self-assessment basis and are subject to tax audit at a later point in time.

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. Late payment of tax is subject to interest of 0.03% (it was 0.05% prior to 1 July 2016) of the tax liability for each day late.

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.

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	Canada	10	7.5/10	2
11	China	10	10	2
12	Cuba	10	10	-
13	Czech Republic	10	10	2
14	Denmark	10	5/15	2
15	Eastern Uruguay	(*)	(*)	1
16	Egypt	15	15	1
17	Estonia			1,3
18	Finland	10	10	2
19	France	Nil	10	-
20	Germany	10	7.5/10	2
21	Hong Kong	10	7/10	2
22	Hungary	10	10	-
23	Iceland	10	10	2
24	India	10	10	2
25	Indonesia	15	15	2
26	Iran	10	10	2
27	Ireland	10	5/10/15	2
28	Israel	10	5/7.5/15	2
29	Italy	10	7.5/10	2
30	Japan	10	10	2
31	Kazakhstan	10	10	2
32	Korea (South)	10	5/15	2
33	Korea (North)	10	10	2
34	Kuwait	15	20	1, 2
35	Laos	10	10	-
36	Luxembourg	10	10	-
37	Macedonia	10	10	1
38	Malaysia	10	10	2
39	Manta	10	5/10/15	2
40	Mongolia	10	10	2
41	Morocco	10	10	2

No.	Recipient	Interest (%)	Royalties (%)	Notes
42	Mozambique	10	10	-
43	Myanmar	10	10	2
44	Netherlands	10	5/10/15	2
45	New Zealand	10	10	-
46	Norway	10	10	2
47	Oman	10	10	2
48	Pakistan	15	15	2
49	Panama			3
50	Palestine	10	10	1
51	Philippines	15	15	2
52	Poland	10	10/15	-
53	Portugal	10	7.5/10	2
54	Qatar	10	5/10	2
55	Romania	10	15	2
56	Russia	10	15	-
57	San Marino	10/15	10/15	-
58	Saudi Arabia	10	7.5/10	2
59	Serbia	10	10	2
60	Seychelles	10	10	-
61	Singapore	10	5/10	2
62	Slovakia	10	5/10/15	2
63	Spain	10	10	2
64	Sri Lanka	10	15	2
65	Sweden	10	5/15	2
66	Switzerland	10	10	-
67	Taiwan	10	15	-
68	Thailand	10/15	15	2
69	Tunisia	10	10	2
70	Turkey	10	10	2
71	UAE	10	10	1, 2
72	Ukraine	10	10	2
73	United Kingdom	10	10	2
74	United States	10	5/10	1, 2
75	Uruguay			3
76	Uzbekistan	10	15	2
77	Venezuela	10	10	2

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

Accounting and Auditing

5

Accounting framework

Viet Namese Accounting Standards

There are currently 26 Viet Namese 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 at that time with certain customisations to fit Viet Nam's circumstances. It should be noted that some key accounting standards, such as for financial instruments and impairment of assets have not been issued yet in Viet Nam.

Accounting Law and applicable implementation guidance

In Viet Nam, Accounting Law is the highest accounting regulation issued by the National Assembly. Various applicable implementation guidance is then issued by the Government and the Ministry of Finance ("MoF") in respect of implementing a Decree or Circular, respectively.
The accounting framework in Viet Nam is mainly rules-based accounting rather than a principles-based one.
The Viet Namese Accounting System is seen as the 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 in each individual account.

There are industry-specific accounting guidelines for credit institutions, insurance companies, securities companies, fund managers and funds. Out of these sectors, the accounting guidelines for credit institutions are issued by the State Bank of Viet Nam.

Accounting records

- *Framework:* Viet Namese Accounting System
- *Language:* Accounting records are required to be maintained in Viet Namese language, but this can be combined with a commonly used foreign language.
- *Accounting period:* The accounting period is generally 12 months in duration. The first accounting period must not be longer than 15 months from the license date. The last accounting period must also not be longer than 15 months.
- *Currency:* Accounting records are generally required to be maintained in Viet Namese Dong ("VND"). Entities that receive and pay mainly in foreign currency 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 under that accounting currency into VND under certain prescribed

regulations.

- *Accounting documents:* Accounting vouchers and accounting books can be stored either in the form of hard documents or electronic media. Those entities that use electronic media are not required to print out the accounting vouchers and accounting books for storage purposes. Upon request of the competent authorities to cater for testing, inspection, monitoring and auditing, these entities have responsibilities to print out the accounting documents stored on electronic media and have them signed by the legal representative and the chief accountant (or accountant in charge) and stamped (if there is an applicable seal).
- *Seal:* Enterprises are permitted to actively decide the form, quantity and contents of their seal. The management, use and retention of the seal shall comply with the entities' charter. The seal shall be used in the cases prescribed by law or agreed by the parties.
- *Retention:* Five years for those documents used for management or operation of the enterprise; ten years for accounting data, accounting books; and permanently for documents that are important in terms of the economy, national security and defense.

Accounting records are seen as a basis for assessing VAS non-compliance. The tax authorities treat VAS non-compliance as a basis for tax reassessment and imposition of penalties, including withdrawal of CIT incentives, disallowance of expenses for CIT purposes 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
- 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 Law on Accounting and guiding regulations. The annual financial statements must be approved by the Chief Accountant and the Legal Representative and a copy of the financial statements must be submitted to the local authorities within 90 days of the end of the financial year.

Audit requirements

Viet Nam has issued 47 auditing standards which are primarily based on international standards of auditing with certain customisations to fit Viet Nam's circumstances.

The annual financial statements of all foreign-invested entities must be audited by an independent auditing company operating in Viet Nam. Audited annual financial statements must be completed within 90 days of the end of the financial year. These financial statements should be filed with the applicable licensing body, Ministry of Finance, local tax authorities, Department of Statistics and other relevant authorities.

Audit contracts should be signed with the independent auditing companies no later than 30 days before the end of the enterprise's fiscal year. The enterprise is legally responsible for providing timely and sufficient information, as well as explanations to the auditor.

There is a requirement to rotate audit firms after five consecutive years for credit institutions operating in Viet Nam. For entities other than credit institutions, the signing auditors are required to be rotated off after three consecutive years.

Heading to International Financial Reporting Standards ("IFRS")

There are certain key differences between IFRS and VAS, mainly including terminology, accounting treatment and presentation and disclosure requirements. It should be noted that IFRS has been changing continuously with a number of revisions and amendments made to date. However, there are still a number of key accounting standards such as regarding financial instruments and impairment of assets that have not been issued yet in Viet Nam.

It should be noted that Accounting Law 2015 introduces the concept of Fair Value for the first time, with further specific guidance expected to be issued by the MoF in the near future.

Viet Nam is expected to align with IFRS in its efforts to enhance comparability and improve transparency. However, the adaption time has not been determined yet by the regulators.

Human Resources and Employment Law

Employment Law

Viet Nam's population is over 92 million and is expected to grow at an annual rate of 1.3%. Around 40% of the population is under 25 years of age. Approximately 22% of the population is considered to be trained or skilled (with elementary qualifications or higher).

The new Labour Code, which became effective 1 May 2013, creates a legal framework that sets out, inter alia, the rights and obligations of employers and employees with respect to working hours, labour agreements, payment of social insurance, overtime, strikes, and termination of employment contracts. In addition, there are some new implementing decrees guiding the provisions of the new Labour Code, for example the decrees on labour contracts and disputes.

The law provides an 8-hour working day and a 48-hour working week. An employer and an employee may agree that an employee works overtime, provided that the total overtime worked does not exceed 200 hours per year. In special circumstances and with notification to the relevant authorities, the maximum overtime can be increased to 300 hours per year.

In a labour contract with Viet Namese workers, wages and salaries must be set in Viet Namese dong. The wages of employees are subject to minimum rates determined by the Government from time to time.

Foreigners working in Viet Nam must generally have a work permit issued by the labour management authority. In order to obtain a work permit, foreigners assigned to work in Viet Nam are required to show a degree of proprietary knowledge, a special skill or a manager/ executive-level skill not readily available in the domestic labour market.

Under the new Labour Code, the maximum duration of a work permit is 24 months (which can however be extended subject to certain conditions).

Immigration

Foreigners coming to Viet Nam must obtain a visa (with certain exceptions under treaties or other reciprocial agreements) from the Viet Namese Immigration Department or Viet Namese embassies/consulate offices in foreign countries.

A business visa is issued to foreign individuals who conduct business in Viet Nam.

Banking and Capital Markets

Capital management

Minimum legal capital requirement

A minimum legal capital requirement applies for credit institutions operating in Viet Nam. Accordingly, minimum legal capital levels for commercial banks, foreign banks' branches, finance companies and financial leasing companies are VND3,000 billion, US$15 million, VND500 billion and VND150 billion, respectively.

Foreign ownership

Total foreign ownership in a local bank is capped at 30%. Subject to approval by the Prime Minister on a case by case basis, foreign investors can own more than 30% of the total shares in a local bank.

Capital adequacy ratio ("CAR")

CAR under the SBV's guidance is required to be maintained at the minimum regulatory requirement of 9%. The existing CAR calculation methodology is based loosely on Basel I with respect to credit risk and does not take into account other risks, such as operational risk and market risk charges.

In late 2016, the SBV issued a new regulation on CAR which will be effective from 2020. In accordance with this new regulation, CAR is required to be maintained at a minimum requirement of 8% and its calculation methodology was changed to be aligned with Basel II, which not only takes into account credit risk but also operational risk and market risk. This new regulation is considered a step forward to safety and effectiveness in Viet Nam's operation of the banking industry.

Basel II

In 2015, the SBV selected ten domestic commercial banks to pilot the application of Basel II standards from February 2016 to the end of 2018, with an aim to apply Basel II standards for all banks by 2020. Commercial banks are required to maintain a CAR of at least 8% from January 2020.

Internal controls and internal audit

Credit institutions and foreign banks' branches operating in Viet Nam are required to set up an internal control system and internal audit function to comply with the SBV's applicable regulations.

Every year, credit institutions and foreign banks' branches must review and assess the adequacy, validity, effectiveness and efficiency of internal controls. Accordingly, a report on the self-assessment of internal controls containing risk updates, a summary of the main operations, relevant risks and checks and controls at an organisation-wide level, unit level and department level of the credit institutions and foreign banks' branches must be prepared. That report shall be submitted to the key stakeholders of the credit institutions and foreign banks' branches as required and the State Bank of Viet Nam within 30 days from the end of the fiscal year.

Similarly, an independent assessment by internal auditors of credit institutions and foreign banks' branches is required on an annual basis. The contents of that assessment include review, assessment and reporting on the adequacy, validity and effectiveness and efficiency of the internal controls in connection with the operations and fields audited through identification and assessment of risks, identification of existing problems of the internal controls and indication of the necessary changes to the internal controls for handling and rectification. Internal audit results must be reported in a timely manner to the key stakeholders of the credit institutions and foreign banks' branches as required and to the State Bank of Viet Nam within one month from the date of completion of each audit.

Independent auditor requirements

The annual statutory financial statements and operating effectiveness of the internal control system of credit institutions and foreign banks' branches are required to be audited by an independent auditor. Credit institutions are also required to rotate auditing companies every five years.

Before the end of each fiscal year, credit institutions and foreign banks' branches must select an independent auditing company from the List of Authorised Auditing Companies published by the SBV to audit their financial statements and operation of the internal controls for the subsequent fiscal year.

PwC Viet Nam

At PwC Viet Nam, our purpose is to build trust in society and solve important problems.

We're a member of the PwC network of firms, which operates in 157 countries around the world and employs more than 223,000 staff. Our people throughout the network are committed to delivering the highest standards of quality in relation to the assurance, legal, taxation and advisory services we deliver.

PwC Viet Nam established offices in Hanoi and Ho Chi Minh City in 1994. Our team of more than 800 local and expatriate staff have a thorough understanding of the economy in which they work and have a wide knowledge of Viet Nam's policies and procedures covering areas such as investment, legal, taxation and regulatory matters, accounting and mergers/ acquisitions.

We also operate a law company, licensed in Viet Nam by the Ministry of Justice in 2000, with a head office in Ho Chi Minh City and a branch office in Hanoi.

We have built strong relationships with key ministries, financial institutions, state-owned enterprises, private companies, commercial organisations and the ODA (Official Development Assistance) community in Viet Nam.

Industry Insights

Our teams are organised by business area to provide focused support on issues specific to any given industry. We have expertise in the following industries, amongst others:

- Banking and capital markets
- Engineering and construction
- Financial services
- Industrial products
- Oil and gas
- Pharmaceuticals and healthcare
- Real estate
- Retail and consumer
- Technology
- Telecommunications

Our Services

PwC Viet Nam provides clients with high- quality and industry-focused services, by developing and cultivating strong interpersonal relationships in order to truly understand your business and your needs. We can draw upon rich specialist resources from our regional and global network, combined with deep experience of the Viet Namese market. Our multi-disciplinary practice allows us to provide an unrivalled level of support to our clients.

Discover the benefits we can bring to you – whatever the size of your organisation – in the following areas: Audit and Assurance, Consulting, Deals, Tax and Legal.

We also provide tailored support to special groups of clients with service packages such as:
- Private Business Services
- European Business Services
- Japanese Business Services
- Korean Business Services
- Chinese and Taiwanese Business Services

Audit and Assurance

- Audit of Financial Statements
- Review of Financial Information
- Custom Business Procedures
- IFRS and Accounting Consulting Services
- Cyber Security Assurance
- Risk Assurance
- Capital Markets Services

Consulting

- Financial Risk Management
- Forensics
- Finance
- Performance Management
- Cyber Security Consulting
- Operations
- Technology
- People and Organisation

Deals

- Transaction
- Corporate Finance
- Valuation
- Business Restructuring

Tax

- Tax Consulting and Compliance
- Tax Health Checks
- Government Liaison, Tax Risk Management and Dispute Resolution
- Transfer Pricing
- Tax Due Diligence and Structuring
- Personal Income Tax / International Assignment Services
- Payroll Outsourcing
- Immigration Services
- Tax Audits

Legal

- Mergers and Acquisitions
- Banking and Financial Services
- Employment and Human Resources
- General Corporate and Commercial Services
- Inward Investor Services
- Legal Compliance/Company Secretarial Services
- Legal Health Checks
- Real Estate

Corporate Responsibility

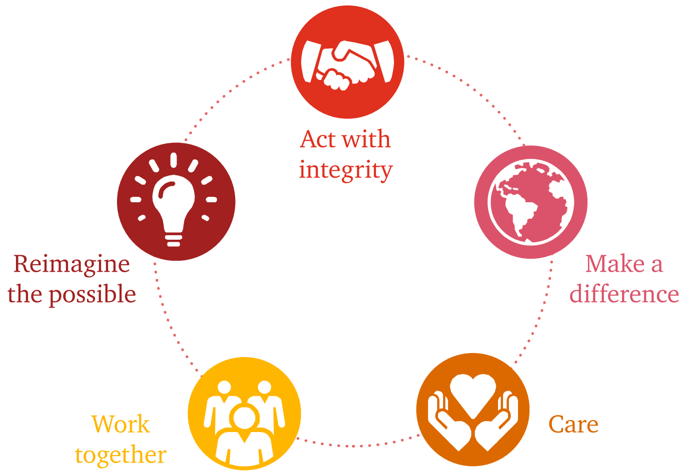
At PwC Viet Nam, Corporate Responsibility is about integrating social, environmental and economic integrity into our values, culture and decision-making. We understand that we all have an obligation as business leaders, not only to do the right thing by embedding good social, environmental and economic practices into our everyday business, but also to be a catalyst for change by promoting these ethical and transparent business practices to the marketplace as well.

Our Corporate Responsibility strategy focuses our time, efforts and commitments into four areas: diversity & inclusion, community engagement, environmental stewardship, and responsible business, community engagement, environmental stewardship, and responsible business.

Our Values

At PwC our purpose is to build trust in society and solve important problems. We take pride in creating differentiated value through a network of technology-enabled innovators, who are committed to delivering client services from strategy through execution and improve the transparency, trust, and integrity of business practices.

Our five core values below help us achieve our purpose and deliver high-impact support to our clients.



Our Awards

- **Audit Firm of the Year - Viet Nam and Best Viet Namese Business Tax Advisors, 2016**
Acquisition International
- **Tax Controversy Leaders, 2016**
International Tax Review
- **Tier 1 Leading Tax Advisory Firm, 2016**
International Tax Review
- **Viet Nam Transfer Pricing Firm of the Year, 2016**
International Tax Review
- **IFLR1000 Recommended Law Firm, 2016**
International Financial Law Review
- **Certificate of Merit for contributions to securities market, 2016**
Minister of Finance
- **Tax Controversy Leaders, 2015**
International Tax Review
- **Deal Makers of the Year-Viet Nam, 2015**
Acquisition International
- **Notable M&A Law Firm, 2014**
IFLR1000

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