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Vietnam
Pocket Tax Book 2015

PwC Vietnam

Contents

A summary of Vietnam taxation

The information in this booklet is based on current taxation regulations and practice including certain legislative proposals as at 1 April 2015.

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

Taxation

General Overview

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

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

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

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

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

Corporate Income Tax ("CIT")

Tax Rates

Enterprises (generally companies) are subject to the tax rates imposed under the CIT Law. The standard CIT rate was reduced from 25% to 22% from 2014 and will be further reduced to 20% from 2016. A 20% rate applies for enterprises with revenue of no more than VND20 billion in the preceding year. 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 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.

- The sectors which are encouraged by the Vietnamese Government include education, health care, sport/culture, high technology, environmental protection, scientific research, infrastructural development, software production and renewable energy.
- Locations which are encouraged include qualifying economic and high-tech zones, certain industrial zones and difficult socio-economic areas.
- Large manufacturing projects with investment capital of VND6,000 billion or more, disbursed within 3 years of being licensed (excluding those related to the manufacture of products subject to special sales tax or those exploiting mineral resources) can also qualify for CIT incentives if the projects meet either of the following criteria:

  i. minimum revenue of VND10,000 billion/annum at least 3 years after the first year of operations; or
  ii. headcount of more than 3,000 at least 3 years after the first year of operations.

  From 2015, large manufacturing projects are defined to include projects with investment capital of VND12,000 billion or more, disbursed within 5 years of being licensed (excluding those related to the manufacture of products subject to special sales tax or those exploiting mineral resources) and using technologies appraised in accordance with relevant laws.

  Further, new investment projects engaging in manufacturing industrial products prioritized for development will be entitled to CIT incentives 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, mechanics sector and are not produced domestically as at 1 January 2015, or if produced domestically, they meet the quality standards of the EU or equivalent.

The two common preferential rates of 10% and 20% are available for 15 years and 10 years respectively, starting from the commencement of operating activities. From 1 January 2015, the preferential rate of 15% will apply in certain cases. The duration of application of the preferential tax rate can be extended in certain cases. From 1 January 2016, enterprises having projects entitled to the preferential CIT rate of 20% will enjoy the 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 the 10% rate for the life of the project.

Taxpayers may be eligible for tax holidays and reductions. The holidays take the form of a complete exemption from CIT for a certain period beginning immediately after the enterprise first makes profits, followed by a period where tax is charged at 50% of the applicable rate. However, where the enterprise has not derived profits within 3 years of the commencement of operations, 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, which is broadly defined.

Calculation of Taxable Profits

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

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

Non-deductible Expenses

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

- Depreciation of fixed assets which is not in accordance with the prevailing regulations;
- Employee remuneration expenses which are not actually paid, or are not stated in a labour contract or collective labour agreement;
- Staff welfare (including certain benefits provided to family member of staff) exceeding a cap of one month's average salary;
- Reserves for research and development not in accordance with the prevailing regulations;
- Provisions for severance allowance (except for companies not subject to mandatory unemployment insurance contributions) and payments of severance allowance in excess of the prescribed amount per the Labour Code;
- Overhead expenses allocated to a permanent establishment ("PE") in Vietnam by the foreign company's head office exceeding the amount under a prescribed revenue-based allocation formula;
- Interest on loans corresponding to the portion of charter capital not yet contributed;
- Interest on loans from non-economic and non-credit organisations exceeding 1.5 times the interest rate set by the State Bank of Vietnam;
- Provisions for stock devaluation, bad debts, financial investment losses, product warranties or construction work which are not 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;
- Contributions to voluntary pension funds and the purchase of voluntary pension and life insurance for employees exceeding VND 1 million per month per person;
- Certain expenses directly related to the issuance, purchase or sale of shares;
- Creditable input value added tax, corporate income tax and personal income tax.

From 2015, the cap on the tax deductibility of advertising and promotion expenses has been abolished.

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

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

Losses

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

Losses arising from incentivised activities can be offset against profits from non-incentivised activities, and vice versa. Losses from the transfer of real estate and the transfer of investment projects can be offset against profits from other business activities.

Carry-back of losses is not permitted. There is no provision for any form of consolidated filing or group loss relief.

Administration

Provisional quarterly CIT returns are no longer required. Enterprises will instead be 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, the shortfall in excess of 20% is subject to late payment interest (currently as high as 18% per annum), counting from the deadline for payment of the Quarter 4 CIT liability.

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

Where a taxpayer has a dependent accounting unit (e.g. branch) in a different province, a single CIT return is required. However, manufacturing companies are required to allocate tax payments to the 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 Vietnam. Foreign investors are not permitted to remit profits if the investee company has accumulated losses.

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

Transfer Pricing

Vietnam's transfer pricing regulations outline various situations where transactions will be considered as being between related parties and the mechanisms for determining the market "arm's length" transaction value.

Under the wide ranging definition of related parties, the control threshold is lower than in many other countries (20%) and the definition also extends to certain significant supplier, customer and funding relationships between otherwise unrelated parties. Vietnam's transfer pricing rules also extend to domestic related party transactions.

The acceptable methodologies for determining arm's length pricing are analogous to the principles espoused by the Organisation for Economic Cooperation and Development (OECD), i.e. comparable uncontrolled price, resale price, cost plus, profit split and comparable profits methods.

Compliance requirements include an annual declaration of related party transactions and transfer pricing methodologies used, which is required to be filed together with the annual CIT return. For tax years commencing on or after 1 January 2014, a revised declaration form is required to be completed, which contains enhanced declaration requirements, specifically requiring companies to declare and self-assess the arm's length value of their transactions (or, in the alternative, make a voluntary adjustment).

Companies which have related party transactions must also prepare and maintain contemporaneous transfer pricing documentation, which is required to be submitted to the tax authorities within 30 working days of a request, in Vietnamese. There are no de-mininus rules for documentation.

An advance pricing agreement ("APA") mechanism was introduced in 2014. The GDT is working through the initial 'pilot' APA applications which will allow the taxpayers and the tax authorities to agree in advance the pricing method and outcomes.

Foreign Contractor Tax ("FCT")

FCT applies to certain payments to foreign parties including interest, royalties, service fees, leases, insurance, transportation, transfers of securities and goods supplied within Vietnam or associated with services rendered in Vietnam, and certain distribution arrangements. It normally comprises a combination of CIT and VAT at varying rates but can also include PIT for payments to foreign individuals.

Dividends

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

Interest

Withholding tax of 5% 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 are subject to 5% withholding tax. Sales of bonds and certificates of deposits are subject to deemed tax of 0.1% of the gross sales proceeds.

Royalties and Licence Fees

FCT at 10% applies to payments to a foreign entity for the right to use, transfer intellectual property or for transfers of technology or software license.

Payments to Foreign Contractors

A withholding tax on payments to foreign contractors applies where a Vietnamese party (including foreign owned companies) contracts with a foreign entity that does not have a licensed presence in Vietnam.

This FCT generally applies to payments derived from Vietnam, except for the pure supply of goods (i.e. where the responsibility, cost and risk relating to the goods passes at or before the border gate of Vietnam and there are no associated services performed in Vietnam), services performed and consumed outside Vietnam and various other services performed wholly outside Vietnam (e.g. certain repairs, training, advertising, promotion, etc.).

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

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

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

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

The foreign contractor will pay CIT at 22% on its net profits.

Method Two – Direct Method

Foreign contractors adopting the direct (or withholding) method do not register for VAT purposes nor file CIT or VAT returns. Instead CIT and VAT will be withheld by the Vietnamese customer at prescribed rates from the payments made to the foreign contractor. Various rates are specified according to the nature of the activities performed. The VAT withheld by the Vietnamese customer is generally an allowable input credit in its VAT return.

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

Method Three – Hybrid Method

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

Foreign contractors wishing to adopt the hybrid method must:

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

The FCT rates are summarised below:

Rates

Industry	Deemed VAT rate	Deemed CIT rate
Supply of goods in Vietnam or associated with services rendered in Vietnam (including in-country import-export and imports, distribution of goods in Vietnam or delivery of goods under Incoterms where the seller bears risk relating to goods in Vietnam)	1% (1)	1%
Services	5%	5%
Services together with supply of machinery and equipment (2)	3%	2%
Restaurant, hotel and casino management services	5%	10%
Supply of goods and/or services for oil and gas exploration and development	10% (3)	5%
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%

(1) VAT will not be payable where goods are exempt from VAT or where import VAT is paid
(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 Vietnam
(5) International transportation is subject to 0% VAT
(6) Software licenses, transfer of technology, transfer of intellectual property rights are VAT exempt
(7) Certain types of insurance are exempt from VAT (see "Exempt Goods and Services" in VAT section).

Double Taxation Agreements ("DTAs")

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

Vietnam has signed up to more than 65 DTAs and there are a number of others at various stages of negotiation. Please see the summary at Appendix I. Notably absent is a DTA with the United States of America.

Additional guidance has been introduced on the application of DTAs and became effective in 2014. The most notable and interesting changes relate to beneficial ownership and general anti-avoidance provisions. DTA entitlements will be denied where the main purpose of the arrangements is to obtain beneficial treatment under the terms of the 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:

- 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;
- The recipient is an intermediary or agent.

Capital Assignment Profits Tax ("CAPT")

Gains derived by an entity on transfers of interests (as opposed to shares) in a Vietnam limited liability company or other enterprises are subject to 22% CIT. This is generally referred to as capital assignment profits tax (CAPT) although it is not a separate tax as such. The taxable gain is determined as the excess of the sale proceeds less cost (or the initial value of contributed charter capital for the first transfer) less transfer expenses.

Where the vendor is a foreign entity, a Vietnamese purchaser is required to withhold the tax due from the payment to the vendor and account for this to the tax authorities. Where the purchaser is also a foreign entity, the Vietnamese enterprise in which the interest is transferred is responsible for the CAPT administration. The return and payment is required within 10 days from the date of official approval of the sale.

Capital assignment with a value of VND 20m or more must be supported by documents evidencing non-cash payment. If not, the tax authorities have the right to deem the transfer price for CAPT purposes.

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 disposal proceeds. Gains derived by a resident entity from the transfer of securities are however taxed at 22%.

Value Added Tax ("VAT")

Scope of Application

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

In addition, VAT applies on the duty paid value of imported goods. The importer must pay VAT to 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 marketing/promotional services;
- Transfers of emission rights and other financial revenues;
- Certain services rendered by a foreign organisation which does not have a PE in Vietnam where the services are rendered outside of Vietnam, including repairs to means of transport, machinery or equipment, advertising, marketing, promotion of investment and trade 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 who are not registered for VAT;
- Transfer of investment projects;
- Sale of agricultural products that have not been processed into other products or which have just 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/services from company B, but pays to company C and subsequently company C pays to company B, then the payment from company C to company B is not subject to VAT);
- Commissions earned by (i) agents selling services, including postal, telecommunications, lottery, airlines/bus/ship/train tickets, at prices determined by principals; and (ii) agents for international transportation, airlines and shipping services entitled to 0% VAT; and (iii) insurance agents;
- Commissions from the sale of exempt goods/services.

Exempt Goods and Services

There are stipulated categories of VAT exemption, including inter alia:

- 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 Vietnam;
- 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 authorization in order to settle a guaranteed loan and provision of credit information.
- Various securities activities including fund management;
- Capital assignment;
- Foreign currency trading;
- Debt factoring;

- Certain insurance services (including life insurance, health insurance, agricultural insurance and reinsurance);
- Medical services;
- 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 unprocessed mineral products such as crude oil, rock, sand, rare soil, rare stones, etc.;
- Imports of machinery, equipment and materials which cannot be produced in Vietnam 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 Vietnam for prospecting, exploration and development of oil and gas fields;
- Goods imported in the following cases: international non-refundable aid, including from Official Development Aid, foreign donations to government bodies and to individuals (subject to limitations).

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 Vietnam/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; fertiliser production; teaching aids; books; unprocessed foodstuffs; medicine and medical equipment; husbandry feed; various agricultural products and services; technical/scientific services; rubber latex; sugar and its by-products; certain cultural, artistic, sport services/products and social housing.

10% This "standard" rate applies to activities not specified as not-subject to VAT, exempt or subject to 0% or 5%.

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

Exported Goods and Services

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

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

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

VAT Calculation Methods

There are two VAT calculation methods, the tax 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 price plus import duty plus special sales tax (if applicable) plus environment protection tax (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 non-cash payment 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 not subject to VAT, where the input VAT can be recovered. Where a business generates both VATable and VAT exempt sales, it can only claim an input VAT credit for the portion of inputs used in the VATable activity.

Method two - Direct method

This method applies to:

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

• Determination of VAT payable

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

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

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

Discounts and Promotions

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

Goods and Services for internal consumption

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

Administration

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

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

Refunds

Where the taxpayer's input VAT for a period exceeds its output VAT, it will have to carry the excess forward for a period of twelve months. It can then claim a refund from the tax authorities. In certain cases (e.g. exporters where excess input VAT credits exceed VND300 million), a refund may be granted on a monthly/ quarterly basis. Newly established entities in the pre-operation investment phase may claim VAT refunds on a yearly basis or where the accumulated VAT credits exceed VND300 million.

Newly established entities and certain investment projects which are in the pre-operation stage may be entitled to refunds for VAT paid on imported fixed assets based on shorter timelines than normal, subject to certain conditions.

Tax Invoices

Entities in Vietnam can use pre-printed invoices, self-printed invoices or electronic invoices. The tax invoice template must contain stipulated items and be registered with the local tax authorities. For exported goods, commercial invoice can be 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.

Taxable Price

There are various anti-avoidance rules which specify minimum prices for SST purposes. For example where a manufacturer produces goods subject to SST and sells such goods through an agent, the minimum price for calculation of SST is 90% of the average selling price of the agent.

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.

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:

Products / services	Tax rates (%)
Cigar/Cigarettes - Up to 31 December 2015 - From 1 January 2016 to 31 December 2018 - From 1 January 2019	 65 70 75
Spirit/Wine - Up to 31 December 2015 - From 1 January 2016 to 31 December 2016 - From 1 January 2017 to 31 December 2017 - From 1 January 2018	 25 - 50 30-55 30-60 35-65
Beer - Up to 31 December 2015 From 1 January 2016 to 31 December 2016 - From 1 January 2017 to 31 December 2017 - From 1 January 2018	 50 55 60 65
Automobiles having less than 24 seats	10 - 60
Motorcycles of 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 - Up to 31 December 2015 - From 1 January 2016	 30 35
Entertainment with betting	30
Golf	20
Lotteries	15

Natural Resources Tax

Natural resources tax is payable by industries exploiting Vietnam's natural resources such as petroleum, minerals, forest products, seafood and natural water.

The tax rates vary depending on the natural resource being exploited 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.

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

Property Taxes

The rental of land use rights by foreign investors (if not contributed as capital) is in effect a form of property tax. It is usually known as land rental and 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 an indirect tax which 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 tax rates are as follows:

No.	Goods	Unit	Tax rate (VND)
1.	Petrol, diesel, grease, etc.	litre/kg	300 - 1,000
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 Vietnam. The MFN rates are in accordance with Vietnam's WTO commitments and are applicable to goods imported from other member countries of the WTO.

Special preferential rates are applicable to imported goods from countries that have a special preferential trade agreement with Vietnam. Vietnam has such free trade agreements with various countries including the ASEAN member states, Japan, China, India, Korea, Chile, Australia, New Zealand and has finished conclusion of negotiations with the Customs Union of Russia, Belarus, Kazakhstan.

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

SST applies to some products in addition to import duties. VAT will also be applied on all imported goods and services (unless exempt under the VAT regulations).

Exemptions

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

There are 20 categories of import duty exemption, including:

- Machinery & equipment, specialised means of transportation and construction materials (which cannot be produced in Vietnam) comprising the fixed assets of certain projects;
- Raw materials, spare parts, accessories, other supplies, samples, machinery and equipment imported for the processing of goods for export and finished products imported for use in the processed goods;
- Currently, companies manufacturing goods for export do not pay import duties on raw materials where the products are destined for export. However, where the enterprise does not, or is not expected to, export the finished product within 275 days the Customs Department will charge temporary import duty on the raw materials. Penalties for late payment can apply. Where the enterprise then exports the finished product, a refund will be provided in proportion to the raw materials contained in the exports.
- Machinery, equipment, specialised means of transportation, materials (which cannot be produced in Vietnam), health and office equipment imported for use in oil and gas activities.

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 in production 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.

Personal Income Tax ("PIT")

Tax Residency

Residents are those individuals meeting one of the following criteria:

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

Tax residents are subject to Vietnamese PIT on their worldwide taxable income, wherever it is paid or received. Employment 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. Non-residents are subject to PIT at a flat tax rate of 20% on the Vietnam related employment income, and at various other rates on their non-employment income. However, this will need to be considered in light of the provisions of any DTA that might apply.

Tax Year

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

Employment Income

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

- Payments for business trips (subject to a cap);
- Payments for telephone charges (subject to a cap);
- Payments for uniform/stationery costs (subject to a cap);
- 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 to Vietnam for expatriates and from Vietnam for Vietnamese working overseas;
- Once per year home leave round trip airfare for expatriates and Vietnamese working overseas;
- School fees up to high school in Vietnam/overseas for children of expatriates/Vietnamese working overseas;
- Training;
- Mid-shift meals (subject to a cap if the meals are paid in cash);
- Certain benefits in kind provided on a collective basis (e.g. membership fee, entertainment, healthcare, transportation to and from work) and;
- Airfares for employees working on a rotation basis in a number of industries such as petroleum or mining.

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.

Non Taxable Income

Non taxable income includes:

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

Tax Deductions

Tax deductions include:

1. Contributions to mandatory social, health and unemployment insurance schemes;
2. Contributions to local voluntary pension schemes (subject to a cap);
3. 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/ 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%

* With effect from 1 January 2015, income from sale of shares and real estate are subject to PIT at deemed rates of 0.1% and 2% respectively, on sales proceeds. The former option to declare PIT based on the net profit has been abolished.

Non-residents

Type of taxable income	Tax rate
Employment income	20%
Business income	0.5% - 5% (based on type of business income)
Interest/ dividends	5%
Sale of shares	0.1% (on sales proceeds)
Sale of real estate	2% (on 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 basis by the 20th day of the following month or on a quarterly basis by the 30th day following the reporting quarter. 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 termination of their Vietnamese assignments before exiting Vietnam. Tax refunds due to excess tax payments 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 regular basis, often each time income is received.

Social, Health and Unemployment Insurance Contributions

Social insurance ("SI") and Unemployment insurance ("UI") contributions are applicable to Vietnamese individuals only. Health insurance ("HI") contributions are required for Vietnamese and foreign individuals that are employed under Vietnam labour contracts.

SI/HI/UI contribution rates are as follows:

	SI	HI	UI	Total
Employee	8%	1.5%	1%	10.5%
Employer	18%	3%	1%	22%

The salary subject to SI/HI/UI contributions is the salary stated in the labour contract, but this is capped at 20 times the minimum salary (the minimum salary is currently VND1,150,000 and subject to change during the year).

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

Other Taxes

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

Tax Audits and Penalties

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

There are detailed regulations setting out penalties for various tax offences. These range from relatively minor administrative penalties through to tax penalties amounting to various multiples of the additional tax assessed. For discrepancies identified by the tax authorities (e.g. upon audit), a 20% penalty will be imposed on the amount of tax under-declared. Late payment of tax is subject to interest of 0.05% 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.

Accounting and Auditing

Accounting records are generally required to be maintained in VND. Foreign-invested business entities can select a foreign currency to be used for their accounting records and financial statements provided that they meet all stipulated requirements. Accounting records are required to be maintained in Vietnamese language, but this can be combined with a commonly-used foreign language. At the end of a financial year, the entity must perform a physical count of its fixed assets, cash and inventory.

Companies operating in Vietnam are required to comply with the Vietnam Accounting System ("VAS"). It is possible to diverge from the standard VAS, but this is subject to specific approval from the Ministry of Finance. The tax authorities treat VAS non-compliance as a basis for tax reassessment and imposition of penalties, including withdrawal of CIT incentives, disallowance of expense deductions for CIT purposes and disallowance of input VAT credits/refunds.

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

Vietnam has issued 26 accounting standards and 37 auditing standards which are primarily based on international standards with some local modifications.

Appendix I - Double Taxation Agreements

A summary of withholding tax rates is presented as follows:

Recipient	Interest %	Royalties %	Notes
1. Algeria	15	15	1, 2
2. Australia	10	10	-
3. Austria	10	7.5/10	2
4. Azerbaijan	(*)	(*)	1
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. Finland	Nil	10	-
18. France	10	10	2
19. Germany	10	7.5/10	2
20. Hong Kong	10	7/10	2
21. Hungary	10	10	-
22. Iceland	10	10	2
23. India	10	10	2
24. Indonesia	15	15	2
25. Iran	(*)	(*)	1
26. Ireland	10	5/7.5/15	2
27. Israel	10	7.5/10	2
28. Italy	10	5/10/15	2
29. Japan	10	10	2
30. Kazakhstan	10	10	1, 2
31. Korea (South)	10	5/15	2
32. Korea (North)	10	10	2
33. Kuwait	15	20	2
34. Laos	10	10	-
35. Luxembourg	10	10	-
36. Macedonia	(*)	(*)	1
37. Malaysia	10	10	2
38. Mongolia	10	10	2
39. Morocco	10	10	2
40. Mozambique	10	10	1
41. Myanmar	10	10	2
42. Netherlands	10	5/10/15	2
43. New Zealand	10	10	1
44. Norway	10	10	2
45. Oman	10	10	2
46. Pakistan	15	15	2
47. Palestine	10	10	1
48. Philippines	15	15	2
49. Poland	10	10/15	-
50. Qatar	10	5/10	2
51. Romania	10	15	2
52. Russia	10	15	-
53. San Marino	10/15	10/15	1
54. Saudi Arabia	10	7.5/10	2
55. Serbia	10	10	1
56. Seychelles	10	10	
57. Singapore	10	5/10	2

Recipient	Interest %	Royalties %	Notes
58. Slovakia	10	5/10/15	2
59. Spain	10	10	2
60. Sri Lanka	10	15	2
61. Sweden	10	5/15	2
62. Switzerland	10	10	-
63. Taiwan	10	15	-
64. Thailand	10/15	15	2
65. Tunisia	10	10	2
66. Turkey	(*)	(*)10	1
67. UAE	10	10	2
68. Ukraine	10	10	2
69. United Kingdom	10	15	2
70. Uzbekistan	10	10	2
71. Venezuela	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 rate under domestic law; therefore the domestic rates will apply

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

PwC Services in Vietnam

PwC Vietnam established offices in Hanoi and Ho Chi Minh City in 1994. Our team of approximately 800 Vietnamese and expatriate staff have a thorough understanding of the transitional local economy in which they work and a wide knowledge of policies and procedures covering investment, legal, tax, accounting and consulting matters throughout Vietnam. PwC Vietnam has built strong relationships with key ministries, financial institutions, state owned companies, private companies, commercial organizations and the ODA community.

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

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- Tax compliance and structuring
- Government liaison, tax risk management and dispute resolution
- Transfer pricing
- Tax due diligence

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- M&A / Legal due diligence / Transactional services
- General corporate and commercial services
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- Corporate finance services
- Business restructuring services
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- Operations
- Procurement
- People and change
- Advisory strategy
- Technology
- Finance services
- Banking services
- Risk consulting
- Fraud consulting

Assurance Services:

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- Review of financial information
- Agreed-upon procedures
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- Technical accounting advice / training

Support for Local IPOs and Overseas Listing

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