Doing Business in Vietnam

A reference guide for investors entering Vietnam market for the first time or growing their existing business

2016
Doing Business in Vietnam
2016

Contents

Foreword 04
Executive Summary 07
1. An Overview of Vietnam 08
2. Doing Business in Vietnam 18
3. Taxation 22
4. Audit and Accountancy 50
5. Human Resources and Employment Law 52
6. Trade 54
7. Banking 58
Introduction to PwC Vietnam 60
Contacts 63

Disclaimer
This Guide includes information obtained or derived from a variety of publicly available sources. PwC has not sought to establish the reliability of these sources or verified such information.

The information contained in this document is of a general nature only. It is not meant to be comprehensive and does not constitute financial, legal, tax or other professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. Whilst every care has been taken in preparing this document, PwC makes no guarantee, representation or warranty (expressed or implied) as to its accuracy or completeness, and under no circumstances will PwC be liable for any loss caused by reliance on any opinion or statement made in this document. Except as specifically indicated, the expressions or opinion are those of PwC only and are subject to change without notice. This document shall not be copied, reproduced, transmitted or further distributed by any recipient.

The materials contained in this document were assembled in July 2016 and were based on the law enforceable and information available at the time.
This publication has been written for investors planning to enter or expand their presence in Vietnam.

In 2014, we celebrated our first 20 years in country. We established offices in Hanoi & Ho Chi Minh City in 1994, offering a full range of services including Assurance, Consulting, Deals, Legal and Tax consulting. PwC Vietnam has long been advising companies and individuals on how to establish businesses in Vietnam. We have more than 750 people with expert knowledge and practical experience ready to advise across all industries.

In recent times, Vietnam has faced its fair share of challenges, not helped by global and rapidly changing economic conditions. However, Vietnam remains a strong growth story. When other markets were foundering during the economic downturn, Vietnam posted strong growth. I am confident that Vietnam will continue to offer tremendous opportunities to investors.

This guide has been developed by our industry professionals, lawyers and specialists shaped by their real on-the-ground experience in Vietnam. It is meant to provide some insights into the key aspects of undertaking business and investing, from the initial establishment of an entity, implementation of appropriate legal and tax structures to ongoing compliance issues. It is a good starting point for anyone looking to conduct business in Vietnam.

I hope that you find this publication useful in your endeavours to establish a profitable venture in Vietnam. Should you have more specific questions, please do not hesitate to contact the professional advisors at our offices.
Welcome to our guide to doing business in Vietnam. In this publication, we hope to provide you with an insight into the key aspects of undertaking business and investing in Vietnam and answer many of the questions foreign businesses and entrepreneurs have when making their first venture into the Vietnamese market.

Starting from a low economic base in the early 1990s, Vietnam’s move to a more market oriented economy from a centrally planned one brought rapid growth which, like elsewhere, slowed during the global financial crisis. Vietnam’s broad based growth, low wages and a strong economic outlook continue to make it an attractive place for investment and a favourite solution to rising manufacturing costs elsewhere.

Vietnam’s dynamic environment, reflected in a young population, growing wealth, changing consumer attitudes, greater mobility and urbanisation – are pushing the country through a period of great change.

For many, the benefits of locating key parts of the supply chain in Vietnam are compelling but market forces such as a rising middle class and the further opening up the economy also bring access to exciting new sectors and opportunities outside of manufacturing.

Vietnam’s increasing network of free trade agreements (FTAs) including its recent FTA with the EU and signing of the Trans Pacific Partnership are creating a palpable sense of opportunism and excitement about the future.

Regardless of the reasons for entry, identifying the right path into the market can be challenging. Success in other markets cannot necessarily be easily replicated in Vietnam. The message for those entering the market or expanding their presence in Vietnam is clear: make sure that you are fully prepared and committed before investing. The key to success is to have fully assessed your markets and risks and ensure that you take time to invest in knowing your customers and partners, your government touch points and stakeholders.

This guide contains references to some common issues that investors should be aware of when operating in Vietnam, but each case is different and specific advice should always be sought.
This guide, Doing Business in Vietnam, provides a high level overview of the practical aspects of doing business in Vietnam, including the common types of business entities used by foreign investors to enter the Vietnam market, and the taxation and regulatory environment.

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

Whilst the guide focuses on corporate entities, an overview of the taxation obligations of individuals and its administration is also presented.

Geography

Vietnam is 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 Vietnam is over 331,600 square kilometres and consists of mountains and tropical forests as well as more densely populated plains in both the north and south of the country.

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

Economic Environment

GDP growth was 6.7% in 2015 up from 6% in 2014 and 5.4% in 2013 and is forecast to hit a similar level in 2016. Over the last 20 years, GDP growth has averaged over 7%. As well as enjoying strong export growth, which grew at more than 14% year-on-year in 2014, Vietnam is becoming an increasingly large importer of capital goods necessary to meet its large infrastructure needs, and consumer goods to satisfy its rapidly expanding consumer market.

Ranked as the 13th most populous country in the world, with a population of over 90 million people with a median age of 29, Vietnam represents a huge pool of both potential customers and employees for many investors.

Key Sectors and Trading Partners

Vietnam continues to diversify away from agriculture. Among the industrial sectors, services accounts for approximately 50% of GDP followed by manufacturing at 33%. The agricultural sector made up 17% of GDP in 2015.

The growth in exports has been driven by the fast growing manufacturing, telecommunications, clothing and apparel sectors with major exports to EU (19%), US (21%), ASEAN (11%), Japan (9%) and China (11%).

Foreign Investment

With improvements in the stability of the exchange rate and reductions in the level of inflation (which fell from a peak of 18% in 2011 to 0.6% in 2015), the macroeconomic environment has stabilised in recent years.

Vietnam remains one of the most attractive locations for foreign investors in South East Asia on account of its low wages, favourable demographics, a growing middle class, political stability and its location. It received $24 bn in foreign direct investment in 2015, a 17% increase on the previous year. In 2015, much of the foreign direct investment into Vietnam came from Korea (29%), Malaysia (10%), Japan (7%) and Taiwan (6%).

Vietnam 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).

On 4 February 2016, the Trans Pacific Partnership (‘TPP’) Agreement was signed by the foreign ministers of the participating countries and is now under the process of ratification by each country. It is widely considered that Vietnam has much to gain from this agreement, due to its potential for a greater share of the global apparel and footwear market, particularly in the US and Japan. The TPP will allow Vietnam to export apparel to the US at a 0% tariff, making Vietnam’s exports even more competitive.

Legal and Regulatory Regime

Vietnam’s legal powers are centralised in one supreme body, and then delegated to lower bodies. The National Assembly is the only body with the power to amend the Constitution and pass laws.

The Vietnamese government has issued 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.

Vietnam joined the World Trade Organisation (‘WTO’) in 2007. Under its accession commitments, Vietnam 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 Vietnam, 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.

New 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 came 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.

Workforce and Cost of Living

The number of people of working age in Vietnam totaled 48 million in 2015 with an official unemployment rate of 2%. Wages and salaries in Vietnam vary widely across occupations and geographic locations. In 2015, the average annual income per person was approximately $2,200.

In comparison with other countries in Asia, the cost of living in Vietnam 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 Vietnam, 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 Vietnam and an appropriate level of respect must be shown according to rank and seniority.

The Future

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

As a member of the WTO, Vietnam must continue to improve its business and investment environment and bolster its legal system to meet WTO requirements. Vietnam 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 Vietnam. In a recent report by the World Bank, Vietnam was ranked 90th in the world for the ease of doing business. However, foreign investment in Vietnam continues to grow, and the Government shows its commitment to market-oriented reforms through its ongoing efforts to attract foreign direct investment.

The recent signing of the EU FTA and TPP will also lead to fundamental and positive changes to the business environment as both contain wide ranging commitments in myriad areas including IP rights, etc. as well as tariff reductions.
Country Overview

General Information

63 municipalities & provinces

Capital city: Hanoi

3rd largest, important seaport: Da Nang

Largest city: Ho Chi Minh City

Area and population: over 331,600 square kilometres, over 90 million (median age: 29)

People of working age in employment: 48 million

Unemployment rate: 2%

Average annual income: $2,200

Country Overview

Economic Environment:

- **GDP growth rate**
  - 5.4% (2013)
  - 6% (2014)
  - 6.7% (2015)

- **Total exports and imports**
  - Export: $150bn, $148bn, $162bn
  - Import: $136bn, $136bn, $136bn

- **Inflation**
  - 2011: 6.6%
  - 2012: 7.9%
  - 2013: 6%
  - 2014: 6%
  - 2015: 0.6%

Key sectors & trading partners:

- **GDP by sector**
  - Services 50%
  - Manufacturing 33%
  - Agriculture 17%

- **Major export partners**
  - US 21%
  - EU 19%
  - China 11%
  - ASEAN 11%
  - Japan 9%
  - Korea 7%
  - Others 29%

Foreign Investment

- **Disbursed FDI**
  - 2014: $14.5 bn
  - 2015: $14 bn

- **Key FDI investors**
  - Vietnam 48%
  - Malaysia 10%
  - Taiwan 6%
  - Japan 7%
  - Korea 25%
  - Other 48%
In recent years, the government has issued various policies to encourage enterprises and attract foreign investment.

**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**

**New laws on investment and enterprise:**

- **July 2015:** new Law on Investment (LOI) & a new Law on Enterprise (LOE)
- **Late 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).

**Business etiquette and culture**

- Presenting business cards at the beginning of a meeting using both hands.
- Translating written materials into Vietnamese.
**Why Vietnam and why now?**

Vietnam is at a tipping point in its economic development led by free trade agreements (FTAs) such as Trans Pacific Partnership (TPP) and EU-Vietnam FTA.

**Fastest in Asia**
With average growth of 5% p.a. from 2014-2050
PwC, The World in 2050

**90 million**
Population and 60% of them are of working age

**US$162b**
Exports in 2015, grew by 7.9%, powered by the electronics sector

**2,000**
FDI projects in 2015, valued at US$15.6 billion

**100%**
Permitted foreign ownership can increase to 100% for most sectors (Decree 60/2015)

**Equitisation**
About 340 SOEs will be liquidated, with an estimated value of US$25 billion

**Six major growth drivers will enhance opportunities for investors in Vietnam**

1. New FTAs: TPP and EU-Vietnam FTA
Enhances Vietnam’s economic integration into the global economy and supply chain, including major developed markets in North America, Europe and Asia.

2. Cost competitive production base
Labour costs in Vietnam are lower than the rest of Asia.

3. A young and growing workforce
Vietnam has an educated workforce and is now in a period of golden population structure (45% is under 30 years age).

4. Fast growing economy
Vietnam is known to be one of the most dynamic economies in the world. GDP growth is expected to be between 6.6% from 2016 to 2018.

5. A stable government committed to growth
Vietnam has a stable social-political environment. The government is also committed to creating a fair and attractive business environment for foreign investors.

6. Infrastructure development
Large scale infrastructure needs create investment opportunities. Vietnam’s construction output value grew 11.4% in 2015.

Next steps for investing in Vietnam

1. Be prepared for major changes and be alert to the potential
2. See how Vietnam fits into your supply chain
3. Understand Vietnam
4. Align business strategies with regional development agenda
5. Invest in Vietnam competencies
6. Invest in relationships
7. Invest in people
8. Share the rewards
9. Apply international standards
A foreign entity may establish its presence in Vietnam 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.

1. Limited-liability Company

A limited-liability company is a legal entity established by its members 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 a general meeting of shareholders and comprises 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 may be established between two individual general partners. The general partner has unlimited liability for the operations of the partnership.

4. Branches

This is not a common form of foreign direct investment and is only permitted in a few sectors. Branches of foreign companies are different from representative offices in that a branch is permitted to conduct commercial activities in Vietnam.

5. Representative Offices

Foreign companies with business relations or investment projects in Vietnam may apply to open representative offices in Vietnam. A representative office is not an independent legal entity and may not conduct direct 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 permitted to:
- Act as a liaison office; Conduct market research;
- Promote its head office’s business and investment opportunities.

Thus representative offices can provide a wide range of ancillary support to their head offices overseas. This is a very common form of presence in Vietnam for foreign companies, particularly those in the first stage of a market entry strategy.


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 Contracts

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 includes 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/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 6 - 12 months and requires a final tax audit.

For insolvent companies, a new Bankruptcy Law came into effect 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

15 days

Investment Registration Certificate

**OR**

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

**Step 2**

15 days

Enterprise Registration Certificate

In practice, it usually takes longer.

**Representative office**

The provincial department of industry and trade

7 working days

Representative Office Licence

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

Investment agreement is signed with an authorised State body

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.

Note: Investment in “conditional” sector activities is subject to more cumbersome licensing procedures. These may require, inter alia, the licence application to be reviewed also at the central government ministry level in Hanoi.
## Taxation

### Types of Tax

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Income Tax (‘CIT’)</td>
<td>27</td>
</tr>
<tr>
<td>Transfer Pricing</td>
<td>30</td>
</tr>
<tr>
<td>Foreign Contractor Withholding Tax (‘FCT’)</td>
<td>30</td>
</tr>
<tr>
<td>Capital Assignment Profits Tax (‘CAPT’)</td>
<td>33</td>
</tr>
<tr>
<td>Value Added Tax (‘VAT’)</td>
<td>33</td>
</tr>
<tr>
<td>Special Sales Tax (‘SST’)</td>
<td>38</td>
</tr>
<tr>
<td>Natural Resources Tax (‘NRT’)</td>
<td>41</td>
</tr>
<tr>
<td>Property Taxes</td>
<td>41</td>
</tr>
<tr>
<td>Environment Protection Tax</td>
<td>41</td>
</tr>
<tr>
<td>Import and Export Duties</td>
<td>41</td>
</tr>
<tr>
<td>Personal Income Tax (‘PIT’)</td>
<td>42</td>
</tr>
<tr>
<td>Social, Health and Unemployment Insurance Contributions</td>
<td>46</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>46</td>
</tr>
</tbody>
</table>
**Tax rates**

- **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)**
  - 5% General services
  - 1% Goods
  - 5% Interest
  - 10% Royalties

- **Personal Income Tax ("PIT")**
  - PIT rates depend on residency status and nature of income.
  - Tax residents are taxed on their worldwide taxable income; tax non-residents on their Vietnam sourced income only.
  - Employment income: progressive tax rates from 5-35% apply for non-residents, 20% applies on the Vietnam sourced income.
  - Other income: tax rates vary from 0.1% to 10%

- **Social insurance ("SI"), health insurance ("HI") and unemployment insurance ("UI")**
  - Employer:
    - SI: 18%
    - HI: 3%
    - UI: 1%
  - Employee:
    - SI: 8%
    - HI: 1.5%
    - UI: 1%

**Tax incentives**

- **Based on**
  - Sector
  - Location
  - Scale
  - Industrial products manufacturing

- **Applicable for**
  - 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.
  - Inter alia qualifying economic and high-tech zones, certain industrial zones, and difficult socio-economic areas.
  - Manufacturing of industrial products prioritized for development if they meet one of the following conditions:
    - The products support the high technology sector;
    - 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.

- **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 socialized 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.
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 20% from 2016. Projects previously entitled to a 20% CIT rate will enjoy a 17% CIT rate for their remaining period. 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 reorganizations.

Tax Incentives

• The sectors which are encouraged by the Vietnamese Government include education, health care, sports/culture, high technology, environmental protection, scientific research, infrastructural development, processing of agricultural and aquatic products, 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 (excluding those related to the manufacture of products subject to special sales tax or those exploiting mineral resources) with total capital of VND6,000 billion or more, disbursed within 3 years of being licensed can also qualify for CIT incentives if the projects 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.

From 2015, large manufacturing projects are defined to also include projects with total 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 engaged in manufacturing industrial products prioritized for development will be 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, IT, automobile assembly, mechanical sectors 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

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.
of 10% and 20% are available for 15 years and 10 years respectively, starting from the commencement of operating activities. From 1 January 2015, a 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 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 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 taxable 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 (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 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 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;);
- Reserves for research and development not made in accordance with the prevailing regulations;
- Provisions for severance allowance and payments of severance allowance in excess of the prescribed amount per the Labour Code;
- Overhead expenses allocated to a permanent establishment ("PE") in Vietnam by the foreign company’s head office exceeding the amount under a prescribed revenue-based allocation formula;
- Interest on loans corresponding to the portion of 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 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;
- Contributions to voluntary pension funds 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 was 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 are instead required to make quarterly provisional CIT payments based on estimates. If the provisional quarterly CIT payments account for less than 80% of the final CIT liability, any shortfall in excess of 20% is subject to late payment interest (currently as high as 18% per annum), applying from the deadline for payment of the Quarter 4 CIT liability.

Final CIT returns are filed annually. The annual CIT return must be filed and submitted not later than 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
Transfer Pricing

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 are mostly contained in Circular 66/2010/TT-BTC dated 22 April 2010. Circular 66 provides a definition of related party transactions as well as methods to establish market prices.

The control threshold required to be a “related party” in Circular 66 is lower than that in many other countries. Furthermore, certain significant supplier, customer and funding relationships between otherwise unrelated parties may also be considered related parties according to this definition. Vietnam’s transfer pricing rules also extend to domestic related party transactions.

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

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 documentation requirements, specifically requiring companies to declare and self-assess the arm’s length value of their transactions (or otherwise make voluntary adjustments).

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

Regulations on advance pricing agreements (“APA”) were introduced in 2014. As of 2016, the General Department of Taxation (“GDT”) is in negotiation with several taxpayers for the first APAs.

The latter half of 2015 saw significant development of transfer pricing audit initiatives by the tax authorities. Specifically, in July, a Transfer Pricing Audit Department was established within the GDT. Soon afterwards, in November, local Transfer Pricing Audit departments were also established in the Hanoi, Binh Duong, Dong Nai, and Ho Chi Minh City tax authorities.

Foreign Contractor Withholding Tax (‘FCT’)

FCT applies to certain payments to foreign parties including interest, royalties, service fees, lease, 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 dividends to foreign corporate shareholders.

Interest

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

Royalties and Licence Fees

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

Payments to Foreign Contractors

1/ 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 Vietnamese Accounting System (“VAS”), complete a tax registration and are granted a tax code.

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

If the foreign contractor carries out multiple projects in Vietnam and qualifies for application of the deduction method for one project, the contractor is required to apply the deduction method for its other projects as well. The foreign contractor will pay CIT at 20% on its net profits.

2/ Method Two – Direct Method

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

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

3/ 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 12 months;
• Maintain accounting records in accordance with the accounting standards.

The FCT rates are summarised below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royalties</td>
<td>5%</td>
</tr>
<tr>
<td>Interest</td>
<td>5%</td>
</tr>
<tr>
<td>Dividends</td>
<td>0%</td>
</tr>
<tr>
<td>CIT</td>
<td>20%</td>
</tr>
<tr>
<td>VAT (excl.)</td>
<td>10%</td>
</tr>
<tr>
<td>VAT (incl.)</td>
<td>20%</td>
</tr>
</tbody>
</table>
### 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 more than 70 DTAs and there are a number of others at various stages of negotiation. Please see the summary at Appendix I. Notable is a newly signed DTA with the United States of America, although this is not yet in force.

There are various guidelines on the application of DTAs. These include regulations relating to beneficial ownership and general anti-avoidance provisions. DTAs 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 is required to distribute more than 50% of income to related parties within 12 months;
- Where the recipient has no or little control over or risk in relation to the income received;
- Back to back arrangements;
- Where the recipient is resident in a country with a low tax rate;
- Where the recipient is an intermediary or agent.

### Capital Assignment Profits Tax (‘CAPT’)

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

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 produced for use, consumed, or consumed 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 the customs authorities at the same time they pay import duties. For imported services, VAT is levied via the FCT mechanism.

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

#### Goods or Services where VAT declaration and payment are not required

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

- Compensation, bonuses and subsidies, except those provided in exchange for certain services;
- Transfers of emission rights and various financial revenues;
- Certain services rendered by a foreign organisation which does not have a PE in Vietnam where the services are rendered outside of Vietnam, including repairs to means of transport, machinery or equipment, advertising, marketing, promotion of investment and trade 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/incentives 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;
- Lending or return of machinery, equipment, goods;
- Goods exported and then re-imported back to Vietnam due to sales returns by overseas customers.

Exempt Goods and Services

There are stipulated categories of VAT exemption, including:

- Certain agricultural products;
- Goods/services provided by individuals having annual revenue of VND100 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 prospecting, exploration and development of oil and gas fields;
- Imports of machinery, equipment, spare parts, specialised means of transport and necessary materials which cannot be produced in Vietnam for construction, 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 governmental bodies and to individuals (subject to limitations);
- Fertilizer, feed for livestock, poultry, seafood and other animals, machinery and equipment specifically used for agriculture.

Tax Rates

There are three VAT rates as follows:

- 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 in duty free shops, services imported in accordance with the relevant transportation services, luxurious services (e.g. contracts, evidence of non-cash transactions for international services);
- 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 foodstuff; 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 rate, VAT must be calculated based on the highest rate applicable for the particular range of goods which the business supplies.

Exported Goods and Services

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

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

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

VAT Calculation Methods

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

Method one - Deduction method

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

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

10%

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 in duty free shops, services imported in accordance with the relevant transportation services, luxurious services (e.g. contracts, evidence of non-cash transactions for international services).

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 not subject to VAT, where the input 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 installment basis (except real estate), VAT is calculated on the total price without interest, rather than the instalments actually received.

• Input VAT

PwC Vietnam | 35 | Doing Business in Vietnam
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**

\[ \text{VAT payable} = \text{value added of goods or services sold} \times \text{VAT rate} \]

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
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 or notified to the local tax authorities. For exported goods, commercial invoices 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.

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

**Taxable Price**

There are various anti-avoidance rules which specify minimum prices for SST purposes.

For example, for certain manufactured or imported goods which are subsequently sold by a trading entity, the SST taxable price cannot be less than 93% of the average selling price of the trading entity. A “trading entity” is the first entity within the distribution network that has no parent - subsidiary relationship with or does not have the same parent as the manufacturing or importing company.

For imported cars with less than 24 seats sold via a trading entity, the SST taxable price is the importer’s selling price, but this cannot be lower than 105% of the imported car cost (import price + import duty + SST at import stage).

**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:

<table>
<thead>
<tr>
<th>Products / services</th>
<th>Tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cigar/Cigarettes</td>
<td></td>
</tr>
<tr>
<td>- From 1 January 2016 to 31 December 2018</td>
<td>70</td>
</tr>
<tr>
<td>- From 1 January 2019</td>
<td>75</td>
</tr>
<tr>
<td>Spirit/Wine</td>
<td></td>
</tr>
<tr>
<td>a) Spirit/Wine with ABV ≥ 20°</td>
<td></td>
</tr>
<tr>
<td>- From 1 January 2016 to 31 December 2016</td>
<td>55</td>
</tr>
<tr>
<td>- From 1 January 2017 to 31 December 2017</td>
<td>60</td>
</tr>
<tr>
<td>- From 1 January 2018</td>
<td>65</td>
</tr>
<tr>
<td>b) Spirit/Wine with ABV &lt; 20°</td>
<td></td>
</tr>
<tr>
<td>- From 1 January 2016 to 31 December 2017</td>
<td>30</td>
</tr>
<tr>
<td>- From 1 January 2018</td>
<td>35</td>
</tr>
<tr>
<td>Beer</td>
<td></td>
</tr>
<tr>
<td>- From 1 January 2016 to 31 December 2016</td>
<td>55</td>
</tr>
<tr>
<td>- From 1 January 2017 to 31 December 2017</td>
<td>60</td>
</tr>
<tr>
<td>- From 1 January 2018</td>
<td>65</td>
</tr>
<tr>
<td>Automobiles having less than 24 seats</td>
<td>10 - 60</td>
</tr>
<tr>
<td>Motorcycles with cylinder capacity above 125cm³</td>
<td>20</td>
</tr>
<tr>
<td>Airplanes</td>
<td>30</td>
</tr>
<tr>
<td>Boats</td>
<td>30</td>
</tr>
<tr>
<td>Petrol</td>
<td>7 - 10</td>
</tr>
<tr>
<td>Air-conditioner (not more than 90,000 BTU)</td>
<td>10</td>
</tr>
<tr>
<td>Playing cards</td>
<td>40</td>
</tr>
<tr>
<td>Votive papers</td>
<td>70</td>
</tr>
<tr>
<td>Discotheques</td>
<td>40</td>
</tr>
<tr>
<td>Massage, karaoke</td>
<td>30</td>
</tr>
<tr>
<td>Casinos, jackpot games</td>
<td>35</td>
</tr>
<tr>
<td>Entertainment with betting</td>
<td>30</td>
</tr>
<tr>
<td>Golf</td>
<td>20</td>
</tr>
<tr>
<td>Lotteries</td>
<td>15</td>
</tr>
</tbody>
</table>
**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:

<table>
<thead>
<tr>
<th>No.</th>
<th>Goods</th>
<th>Unit</th>
<th>Tax rate (VND)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Petrol, diesel, grease, etc.</td>
<td>litre/kg</td>
<td>900 - 3,000</td>
</tr>
<tr>
<td>2</td>
<td>Coal</td>
<td>ton</td>
<td>10,000 - 20,000</td>
</tr>
<tr>
<td>3</td>
<td>HCFCs</td>
<td>kg</td>
<td>4,000</td>
</tr>
<tr>
<td>4</td>
<td>Plastic bags (*)</td>
<td>kg</td>
<td>40,000</td>
</tr>
<tr>
<td>5</td>
<td>Restricted use chemicals</td>
<td>kg</td>
<td>500 - 1,000</td>
</tr>
</tbody>
</table>

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

**Property Taxes**

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

In addition, owners of houses and apartments have to pay land taxes 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%.

**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 (“FTA”) with various countries including the ASEAN member states, Japan, China, India, Korea, Chile, Australia, New Zealand and the Customs Union of Russia, Belarus, Kazakhstan.

Vietnam has recently concluded 2 important agreements, the Trans-Pacific Partnership (TPP) and the European Union FTA and is negotiating other agreements including the Regional Comprehensive Economic Partnership (RCEP), FTAs with Iceland, Liechtenstein, Norway, Switzerland, Hong Kong, and 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 Vietnam follows the WTO Valuation Agreement with certain variations. The dutiable value of imported goods is typically based on the transaction value (i.e. the price paid or payable for the imported goods, and where appropriate, adjusted for certain dutiable or non-dutiable elements). Where the transaction value is not applied, alternative methodologies for the calculation of the dutiable value will be used.

SST 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, 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 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 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 or a rented house in Vietnam 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.

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

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

Tax Year

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

Employment Income

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

- Payments for business trips;
- Payments for telephone charges/stationery costs;
- Office clothes (subject to a cap if the office clothes are provided in cash);
- Overhead premium (i.e. the additional payment above the normal wage for not the full amount of the overtime/nightshift payment);
- One-off allowance for relocation
  - from Vietnam for Vietnamese working overseas;
  - to Vietnam for expatriates working in Vietnam;
  - to Vietnam for Vietnamese residing overseas on a long term basis.

Transportation to and from work;
- Once per year home leave round trip

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 Vietnam international transportation companies;
- 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:

- 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:

- 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:

- 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:

- 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:

- 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.
### Foreign Tax Credits

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

### Tax Deductions

Tax deductions include:

1. Employee contributions to mandatory social, health and unemployment insurance schemes;
2. 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/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

<table>
<thead>
<tr>
<th>Annual Taxable Income (million VND)</th>
<th>Monthly Taxable Income (million VND)</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 60</td>
<td>0 – 5</td>
<td>5%</td>
</tr>
<tr>
<td>60 – 120</td>
<td>5 – 10</td>
<td>10%</td>
</tr>
<tr>
<td>120 – 216</td>
<td>10 – 18</td>
<td>15%</td>
</tr>
<tr>
<td>216 – 384</td>
<td>18 – 32</td>
<td>20%</td>
</tr>
<tr>
<td>384 – 624</td>
<td>32 – 52</td>
<td>25%</td>
</tr>
<tr>
<td>624 – 960</td>
<td>52 – 80</td>
<td>30%</td>
</tr>
<tr>
<td>More than 960</td>
<td>More than 80</td>
<td>35%</td>
</tr>
</tbody>
</table>

#### Residents – other income

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

### Non-residents

<table>
<thead>
<tr>
<th>Type of taxable income</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment income</td>
<td>20%</td>
</tr>
<tr>
<td>Business income</td>
<td>1% - 5%  (based on the type of business income)</td>
</tr>
<tr>
<td>Interest / dividends</td>
<td>5%</td>
</tr>
<tr>
<td>Sale of shares / Capital assignment</td>
<td>0.1% of the sales proceeds</td>
</tr>
<tr>
<td>Sale of real estate</td>
<td>2% of the sales proceeds</td>
</tr>
<tr>
<td>Income from royalties / Franchising</td>
<td>5%</td>
</tr>
<tr>
<td>Income from inheritance / gifts / winning prizes</td>
<td>10%</td>
</tr>
</tbody>
</table>

### 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 termination of their Vietnam 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 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:

<table>
<thead>
<tr>
<th></th>
<th>SI</th>
<th>HI</th>
<th>UI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>8%</td>
<td>1.5%</td>
<td>1%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Employer</td>
<td>18%</td>
<td>3%</td>
<td>1%</td>
<td>22%</td>
</tr>
</tbody>
</table>

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 currently VND1,150,000 and the minimum regional salary varies from VND2,400,000 to VND3,500,000 depending on the region – 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.

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.

Appendix I - Double Taxation Agreements

A summary of withholding tax rates is presented below:

<table>
<thead>
<tr>
<th>No.</th>
<th>Recipient</th>
<th>Interest (%)</th>
<th>Royalties (%)</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Algeria</td>
<td>15</td>
<td>15</td>
<td>1, 2</td>
</tr>
<tr>
<td>2</td>
<td>Australia</td>
<td>10</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>Austria</td>
<td>10</td>
<td>7.5/10</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>Azerbaijan</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>5</td>
<td>Bangladesh</td>
<td>15</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>6</td>
<td>Belarus</td>
<td>10</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>7</td>
<td>Belgium</td>
<td>10</td>
<td>5/10/15</td>
<td>2</td>
</tr>
<tr>
<td>8</td>
<td>Brunei Darussalam</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>9</td>
<td>Bulgaria</td>
<td>10</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>10</td>
<td>Canada</td>
<td>10</td>
<td>7.5/10</td>
<td>2</td>
</tr>
<tr>
<td>11</td>
<td>China</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>12</td>
<td>Cuba</td>
<td>10</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>13</td>
<td>Czech Republic</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>14</td>
<td>Denmark</td>
<td>10</td>
<td>7/15</td>
<td>2</td>
</tr>
<tr>
<td>15</td>
<td>Eastern Uruguay</td>
<td>C3</td>
<td>7/15</td>
<td>1</td>
</tr>
<tr>
<td>16</td>
<td>Egypt</td>
<td>15</td>
<td>15</td>
<td>1</td>
</tr>
<tr>
<td>17</td>
<td>Finland</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>18</td>
<td>France</td>
<td>8/4</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>19</td>
<td>Germany</td>
<td>10</td>
<td>7.5/10</td>
<td>2</td>
</tr>
<tr>
<td>20</td>
<td>Hong Kong</td>
<td>10</td>
<td>7/10</td>
<td>2</td>
</tr>
<tr>
<td>21</td>
<td>Hungary</td>
<td>10</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>22</td>
<td>Ireland</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>23</td>
<td>India</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>24</td>
<td>Indonesia</td>
<td>15</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>25</td>
<td>Iran</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>26</td>
<td>Ireland</td>
<td>10</td>
<td>5/10/15</td>
<td>2</td>
</tr>
<tr>
<td>27</td>
<td>Israel</td>
<td>10</td>
<td>5/7.5/15</td>
<td>2</td>
</tr>
<tr>
<td>28</td>
<td>Italy</td>
<td>10</td>
<td>7.5/10</td>
<td>2</td>
</tr>
<tr>
<td>29</td>
<td>Japan</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>30</td>
<td>Kazakhstan</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>31</td>
<td>Korea (South)</td>
<td>10</td>
<td>5/15</td>
<td>2</td>
</tr>
<tr>
<td>32</td>
<td>Korea (North)</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>33</td>
<td>Kuwait</td>
<td>15</td>
<td>20</td>
<td>1, 2</td>
</tr>
<tr>
<td>34</td>
<td>Laos</td>
<td>10</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>35</td>
<td>Luxembourg</td>
<td>10</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>36</td>
<td>Malaysia</td>
<td>10</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>37</td>
<td>Maldives</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>38</td>
<td>Mongolia</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>39</td>
<td>Morocco</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>40</td>
<td>Mozambique</td>
<td>10</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>No</td>
<td>Recipient</td>
<td>Interest (%)</td>
<td>Royalties (%)</td>
<td>Notes</td>
</tr>
<tr>
<td>----</td>
<td>------------------</td>
<td>--------------</td>
<td>---------------</td>
<td>-------</td>
</tr>
<tr>
<td>41</td>
<td>Myanmar</td>
<td>10</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>42</td>
<td>Netherlands</td>
<td>10</td>
<td>5/10 15</td>
<td>2</td>
</tr>
<tr>
<td>43</td>
<td>New Zealand</td>
<td>10</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>44</td>
<td>Norway</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>45</td>
<td>Oman</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>46</td>
<td>Pakistan</td>
<td>15</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>47</td>
<td>Palestine</td>
<td>10</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>48</td>
<td>Philippines</td>
<td>15</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>49</td>
<td>Poland</td>
<td>10</td>
<td>10/15</td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>Qatar</td>
<td>10</td>
<td>5/10</td>
<td>2</td>
</tr>
<tr>
<td>51</td>
<td>Romania</td>
<td>10</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>52</td>
<td>Russia</td>
<td>10</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>53</td>
<td>San Marino</td>
<td>10/15</td>
<td>10/15</td>
<td></td>
</tr>
<tr>
<td>54</td>
<td>Saudi Arabia</td>
<td>10</td>
<td>7.5/10</td>
<td>2</td>
</tr>
<tr>
<td>55</td>
<td>Serbia</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>56</td>
<td>Seychelles</td>
<td>10</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>57</td>
<td>Singapore</td>
<td>10</td>
<td>5/10</td>
<td>2</td>
</tr>
<tr>
<td>58</td>
<td>Slovakia</td>
<td>10</td>
<td>5/10 15</td>
<td>2</td>
</tr>
<tr>
<td>59</td>
<td>Spain</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>60</td>
<td>Sri Lanka</td>
<td>10</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>61</td>
<td>Sweden</td>
<td>10</td>
<td>5/15</td>
<td>2</td>
</tr>
<tr>
<td>62</td>
<td>Switzerland</td>
<td>10</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>63</td>
<td>Taiwan</td>
<td>10</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>64</td>
<td>Thailand</td>
<td>10/15</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>65</td>
<td>Tunisia</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>66</td>
<td>Turkey</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>67</td>
<td>UAE</td>
<td>10</td>
<td>10</td>
<td>1, 2</td>
</tr>
<tr>
<td>68</td>
<td>Ukraine</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>69</td>
<td>United Kingdom</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>70</td>
<td>United States</td>
<td>10</td>
<td>5/10</td>
<td>1, 2</td>
</tr>
<tr>
<td>71</td>
<td>Uzbekistan</td>
<td>10</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>72</td>
<td>Vanuatu</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
</tbody>
</table>

Notes:
1. Not in force yet.
2. Interest derived by certain government bodies is exempt from withholding tax.
3. The content of these new DTAs is not available at the time this booklet was published.

In most cases the limits set by the DTAs are higher than the present withholding rates under domestic law; therefore the domestic rates will apply.
Accounting and Auditing

Accounting records are generally required to be maintained in 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 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") which applies the historical cost convention. 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.

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 certain other authorities.

Vietnam has issued 26 accounting standards and 47 auditing standards which are primarily based on international standards with some local modifications.
Vietnam’s population is over 91.7 million and is expected to grow at an annual rate of 1.3%. Around 60% of the population is under 25 years of age. Approximately 12% 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 for 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 Vietnamese workers, wages and salaries must be set in Vietnamese dong. The wages of employees are subject to minimum rates determined by the Government from time to time.

Foreigners working in Vietnam must generally have a work permit issued by the labour management authority. In order to obtain a work permit, foreigners assigned to work in Vietnam 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).

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

A business visa is issued to foreign individuals who conduct business in Vietnam.
Following Vietnam’s accession to the WTO in 2007, the market was liberalised in certain areas, including the trading of goods.

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

- ‘Right to import’ refers to the right to import goods into Vietnam for sale to business entities that themselves have the right to distribute the goods in Vietnam. The import right does not include the right to organise or participate in the distribution of goods in Vietnam.
- ‘Right to export’ refers to the right to purchase goods in Vietnam for export. The export right does not include the right to organise a network of collecting and purchasing goods in Vietnam 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.

Vietnamese enterprises are free to carry out trading activities in Vietnam 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 Vietnam may directly distribute or set up distribution networks to sell the products they manufacture in Vietnam 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 Vietnam joined the WTO. However, in accordance with Vietnam’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 Vietnamese government wishes to protect domestic distribution enterprises, retail distribution by foreign investors in Vietnam 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).
**Trade Statistics**

**Export & Import Growth (2011-2015)**

**Key traders (2015)**

- ASEAN: 18, 24
- China: 17
- Japan: 14
- Korea: 14
- US: 9
- EU: 13, 31

**FTAs**

- AFTA
- ASEAN - India
- ASEAN - Australia/New Zealand
- Vietnam - EU
- EFTA - Vietnam
- ASEAN - Korea
- ASEAN - Japan
- ASEAN - China
- Vietnam - Japan
- Vietnam - Chile
- Vietnam - Korea
- Vietnam - Israel
- TPP

**Key export commodities:**

- Telephones and their parts: $30 billion
- Textiles, sewing products: $23 billion
- Computers & Electrical products: $16 billion
- Footwear: $12 billion
- Machinery, instruments, accessories: $8 billion
- Wood and wooden products: $7 billion
- Seafood: $7 billion
- Plastic materials: $6 billion
- Petroleum oil, refined: $5 billion

**Key import commodities:**

- Machinery, instruments, accessories: $28 billion
- Computers & Electrical products: $23 billion
- Telephones and their parts: $11 billion
- Textiles, fabrics: $10 billion
- Iron, steel: $8 billion

**Top manufacturing industries**

- Key exporters (2015):
  - ASEAN
  - China
  - Japan
  - Korea
  - US
  - EU

- Key importers:

**Export & Import Growth (2011-2015):**

<table>
<thead>
<tr>
<th>Year</th>
<th>ASEAN</th>
<th>China</th>
<th>Japan</th>
<th>Korea</th>
<th>US</th>
<th>EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Signed and effective:**

- AFTA
- ASEAN - India
- ASEAN - Australia/New Zealand
- Vietnam - EU
- EFTA - Vietnam
- ASEAN - Korea
- ASEAN - Japan
- ASEAN - China
- Vietnam - Japan
- Vietnam - Chile
- Vietnam - Korea
- Vietnam - Israel

**End of negotiation / Signed but not yet effective:**

- TPP
- Vietnam - Eurasian Economic Union
- Vietnam - EU

**Under negotiation:**

- RCEP
- EFTA - Vietnam
- ASEAN - Hong Kong
- Vietnam - Israel
Banking

Generally, all foreign investors with established presences in Vietnam will need to open a bank account in order to conduct their business in Vietnam. Foreign investors in Vietnam may open accounts denominated in Vietnamese dong, and may also open accounts denominated in United States dollars and other foreign currencies.

Banks include domestic commercial banks, state-owned commercial banks, 100% foreign-owned subsidiary banks, foreign bank branches and cooperative banks.

The Law on Credit Institutions allows commercial banks to provide a wide range of products and services, from traditional financial products to fund management and securities business.

Foreign Exchange Control

The Vietnamese dong is not freely convertible and cannot be remitted overseas. The Government has been implementing measures to gradually reduce the country’s dependency on the US dollar.

All buying, selling, lending and transfer of foreign currency must be made through banks and other financial institutions authorised by the State Bank of Vietnam (“SBV”). As a general rule, all monetary transactions in Vietnam must be undertaken in Vietnamese dong. Payments, contracts, quotations, etc. within Vietnam must generally be in Vietnamese dong.

Foreign invested enterprises may, subject to certain conditions, buy foreign currency from banks to make certain foreign currency payments to overseas.

The outflow of foreign currency by transfer is only authorised for certain transactions such as payments for imports and services abroad, repayment of certain loans and the payment of interest accrued thereon, transfers of profits and dividends and for transfer of technology/royalties.

Foreign investors and foreigners working in Vietnam are permitted to transfer abroad profits and income earned in Vietnam, and any remaining invested capital upon the liquidation of an investment project.

Supporting documents evidencing the legitimate purpose of transferring foreign currency abroad are required to be submitted to the remitting bank in order to purchase and remit foreign currency.
Introduction to PwC Vietnam

At PwC Vietnam, 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 208,000 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 Vietnam established offices in Hanoi and Ho Chi Minh City in 1994. Our team of more than 750 local and expatriate staff have a thorough understanding of the economy in which they work and have a wide knowledge of Vietnam’s policies and procedures covering areas such as investment, legal, taxation and regulatory matters, accounting and mergers/acquisitions.

We also operate a foreign law company, licensed in Vietnam 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 Vietnam.

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 Vietnam 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 Vietnamese 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
- Legal
- Tax

We also provide tailored support to special groups of clients with service packages such as Private Business Services, Japanese Business Services, Korean Business Services, and Chinese and Taiwanese Business Services.
Corporate Responsibility

At PwC Vietnam, 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

We take pride in adding value through our services by improving the transparency, trust, and consistency of business processes. Our core values of Excellence, Teamwork and Leadership help us deliver high-impact support to our clients.

Excellence

Delivering what we promise and adding value beyond what is expected. We achieve excellence through innovation, learning and agility.

Teamwork

The best solutions come from working together with colleagues and clients. Effective teamwork requires relationships, respect and sharing.

Leadership

Leading with clients, leading with people and thought leadership. Leadership demands courage, vision and integrity.

Our Awards

• Audit Firm of the Year - Vietnam and Best Vietnamese Business Tax Advisors, 2016
  Acquisition International
• Tier 1 Leading Tax Advisory Firm, 2016
  International Tax Review
• Vietnam Transfer Pricing Firm of the Year, 2016
  International Tax Review
• IFLR1000 Recommended Law Firm, 2016
  International Financial Law Review
• Tax Controversy Leaders, 2015
  International Tax Review
• Deal Makers of the Year-Vietnam, 2015
  Acquisition International
• Notable M&A Law Firm, 2014
  IFLR1000
• Certificate of Merit for Contribution to the Tax Consultancy Profession, 2013
  Prime Minister of Vietnam
• Certificate of Merit for Contribution to the Independent Auditing Profession, 2011
  Prime Minister of Vietnam

Key Contacts

Dinh Thi Quynh Van
General Director
Partner, Tax Services
T: +84 4 3946 2231
E: dinh.quynh.van@vn.pwc.com

Richard Irwin
Chairman
Partner, Tax Services
T: +84 8 3824 0117
E: r.j.irwin@vn.pwc.com

Nasir Dao PKM Abdul
Partner, Legal Services
T: +84 8 3824 0109
E: nasir.pkm@vn.pwc.com

Christopher Marjoram
Partner, Tax Services
T: +84 8 3824 0118
E: christopher.marjoram@vn.pwc.com

Richard Peters
Partner, Audit & Assurance Services
T: +84 8 3824 0123
E: richard.peters@vn.pwc.com

Stephen Gaskill
Partner, Advisory Services
T: +84 8 38240125
E: stephen.gaskill@vn.pwc.com