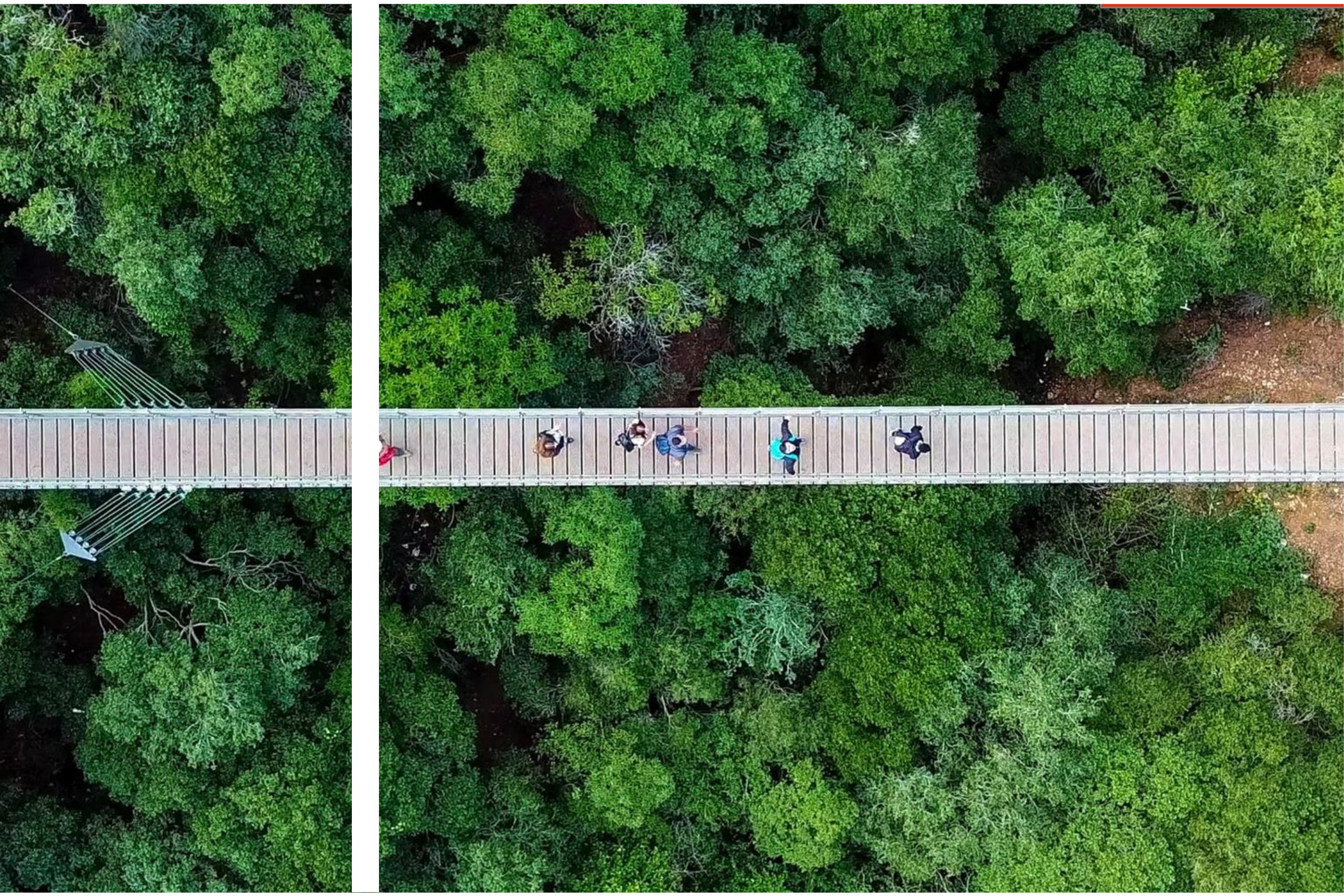
Pocket Tax Book 2021



Contents

A summary of Vietnam taxation

The information in this booklet is based on current taxation regulations and practice including certain legislative proposals as at 31 December 2020.

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

Taxation

General Overview

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

- Corporate income tax;
- Various withholding taxes;
- Capital gains tax;
- Value added tax;
- Import duties;
- Personal income tax on Vietnamese and expatriate employees; and
- 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; and
- Land rental fee.

Corporate Income Tax ("CIT")

Tax Rates

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

Tax Incentives

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

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

- Locations which are encouraged include qualifying economic and high-tech zones, certain industrial zones and difficult socio-economic areas.

- Large manufacturing projects (excluding those related to the manufacture of products subject to special sales tax or those exploiting mineral resources) are entitled to CIT incentives as follows:

  ✔ Projects with total capital of VND6,000 billion or more, disbursed within 3 years of being licensed, meeting either of the following criteria:
    i. minimum revenue of VND10,000 billion/annum by the 4th year of operation; or
    ii. head count of more than 3,000 by the 4th year of operation.

  ✔ Projects with total capital of VND12,000 billion or more, disbursed within 5 years of being licensed and using technologies appraised in accordance with relevant laws.

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

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

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

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

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

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

Calculation of Taxable Profit

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

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

Non-deductible Expenses

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

- Depreciation of fixed assets which is not in accordance with the prevailing regulations;
- Employee remuneration expenses which are not actually paid, or are not stated in a labour contract, collective labour agreement or company policies;
- Staff welfare (including certain benefits provided to family members of staff) exceeding a cap of one month's average salary. Non- compulsory medical and accident insurance is considered a form of staff welfare;
- Contributions to voluntary pension funds and life insurance for employees exceeding VND 3 million per month per person;
- Reserves for research and development not made in accordance with the prevailing regulations;
- Provisions for severance allowance and payments of severance allowance in excess of the prescribed amount per the Labour Code;
- Overhead expenses allocated to a permanent establishment ("PE") in Vietnam by the foreign company's head office exceeding the amount under a prescribed revenue-based allocation formula;
- Interest on loans corresponding to the portion of any charter capital not yet contributed;
- Interest on loans from non-economic and non-credit organisations exceeding 1.5 times the interest rate set by the State Bank of Vietnam;
- Certain interest exceeding the cap of 30% of EBITDA;
- Provisions for stock devaluation, bad debts, financial investment losses, product warranties or construction work which are not made in accordance with the prevailing regulations;
- Unrealised foreign exchange losses due to the year-end revaluation of foreign currency items other than accounts payable;
- Donations except certain donations for education, health care, natural disaster or building charitable homes for the poor or for scientific research;
- Administrative penalties, fines, late payment interest; and
- Service fees paid to related parties that do not meet certain conditions.

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

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

Losses

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

Administration

Companies are required to make quarterly provisional CIT payments based on estimates. The provisional CIT payments in the first 3 quarters of a tax year must not account for less than 75% of the final CIT liability for the year. Any shortfall is subject to late payment interest (currently as high as 11% per annum), counting from the deadline for payment of the quarter 3 provisional CIT liability.

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

Where a taxpayer has a dependent accounting unit (e.g. branch) in a different province, a single CIT return is required. However, manufacturing companies are required to allocate tax payments to the respective provincial tax authorities in the locations where they have dependent manufacturing establishments. The basis for allocation is the proportion of expenditure incurred by each manufacturing establishment over the total expenditure of the company. However, for dependent units or business locations which are entitled to CIT incentives, companies are required to separately determine (not allocate) the CIT payable.

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

Profit Remittance

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

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

Transfer Pricing

Decree 20/2017/ND-CP ("Decree 20") was enacted on 24 February 2017 and became effective from 1 May 2017. The guiding Circular 41/2017/TT-BTC ("Circular 41") was enacted on 28 April 2017 and became effective from 1 May 2017.

Decree 20 and Circular 41 are broadly based on concepts and principles from the Transfer Pricing Guidelines of the Organisation for Economic Co-operation and Development (OECD) and Base Erosion and Profit Shifting (BEPS) Action Plan.

On 24 June 2020, the government released Decree 68/2020/ND-CP ("Decree 68") amending Article 8 Point 3 of Decree 20 which relaxed the interest deductibility cap rules. These new rules took effect from the signing date. Under certain conditions, non-deductible interest can be carried forward for a maximum period of 5 years.

On 5 November 2020, the Government issued Decree 132/2020/ND-CP ("Decree 132"), setting out new rules on transfer pricing in Vietnam. Decree 132 takes effect from 20 December 2020, and applies for the financial year 2020 onwards and replaces Decree 20 and Decree 68.

Vietnam's transfer pricing rules also apply to domestic related party transactions.

Related Party Definition

The ownership threshold required to be a 'related party' under Decree 132 is still 25%. Under Decree 132, a new related party definition (Item l, Point 2, Article 5 of Decree 132) is also introduced. An enterprise and certain individuals are considered related parties if they have the following transactions in a tax period:

- the individual transfers or receives at least 25% of the enterprise; or
- the individual borrows or lends an amount equal to at least 10% of the contributed capital of the enterprise.

TP Methodologies

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

Tightening of the acceptable arm's length range

Under Decree 132, the acceptable arm's length range is narrowed to span the 35th percentile to the 75th percentile (tightened from the 25th to the 75th percentile range under Decree 20). As such, the lower-quartile of the threshold is raised by 10%.

Therefore, taxpayers will need to re-assess their transfer pricing positions for financial year 2020 onwards to ensure that their margins fall within this tighter range.

Expansion of the scope for selection of comparables

Under Decree 132, taxpayers must first look for comparables in the same local market or region, and then broaden to other countries in the region which have similar industry circumstances and economic development level.

TP Declaration Forms

Compliance requirements include an annual declaration of related party transactions and TP methodologies used, and a taxpayer confirmation of the arm's length value of their transactions (or otherwise the making of voluntary adjustments). Decree 132 requires that the TP method applied must ensure that there is no decrease of tax liabilities to the state budget, which could imply that no downward adjustments are allowed. Decree 132 contains a TP declaration form which requires disclosure of detailed information, including segmentation of profit and loss by related party and third party transactions.

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

Decree 132 gives the tax authorities the power to use internal databases for TP assessment purposes in cases where a taxpayer is deemed non-compliant with the requirements of Decree 132.

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

TP Documentation

Companies which have related party transactions must also prepare and maintain contemporaneous TP documentation. Decree 132 introduces a three-tiered TP documentation approach to collect more tax-related information on multinational companies' business operations, specifically, a master file, a local file and country-by-country report ("CbCR"). The three-tiered TP documentation has to be prepared before the submission date of the annual tax return.

If the taxpayer's ultimate parent resides in Vietnam and has worldwide consolidated revenues in the fiscal year of over VND 18,000 billion, the ultimate parent company in Vietnam is responsible for preparing and submitting the CbCR. Under Decree 132, the CbCR is required to be filed with the tax authorities within 12 months from the fiscal year-end. However, if the ultimate parent is outside Vietnam, the CbCR is not required to be filed locally, if the CbCR can be made available to the Vietnamese tax authorities through the automatic exchange of information ("AEOI") procedure. A company is however required to submit the CbCR and relevant notification locally in certain circumstances.

Under Decree 132, a taxpayer is exempt from preparing transfer pricing documentation if one of the following conditions is met:

- has revenue below VND 50 billion and total value of related party transactions below VND 30 billion in a tax period; or
- concludes an advance pricing agreement ("APA") and submits annual APA report(s); or
- has revenue below VND 200 billion, performs simple functions and achieves at least the following ratios of earnings before interest and tax to revenue from the following businesses: distribution (5%), manufacturing (10%), processing (15%); or
- taxpayers only have domestic related party transactions; and taxpayers and their related parties have the same tax rate; and none of the parties enjoy tax incentives.

TP audits

There has been a marked increase in the number of transfer pricing audits performed in recent years, with these adopting an increasingly sophisticated approach, often challenging the validity of comparables cited in TP documentation. Most general tax audits will now include a review of the taxpayer's transfer pricing position.

30% of EBITDA cap on total interest expenses

Under Decree 132, the cap on tax deductibility of interest increases from 20% to 30% of EBITDA. The cap applies to net interest expense (i.e. after offsetting with interest income from loans and deposits).

Non-deductible interest expenses can be carried forward to the subsequent five years. Certain types of financing are excluded from the cap, including interest on official development assistance (ODA) loans, various preferential loans made by the government, and loans made for implementing national programs and state social benefit policies.

The provisions relating to the change in interest calculation and the deductibility cap apply retrospectively to 2017 and 2018 in certain conditions.

Advance Pricing Agreement ("APA")

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

Foreign Contractor Tax ("FCT")

Scope of Application

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

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

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

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

Dividends

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

Interest

A withholding tax of 5% CIT applies to interest paid on loans from foreign entities. Offshore loans provided by certain government or semi-government institutions may obtain an exemption from interest withholding tax where a relevant double taxation agreement or inter-governmental agreement applies.

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

Royalties

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

Taxing e-commerce activities

Under the Law on tax administration 2019 and its guiding Decree, for transactions where Vietnamese individuals purchase goods & services from overseas suppliers conducting e-commerce and digital-based business activities ("e-commerce foreign contractors"), banks and payment intermediary service companies are required to:

- Withhold and pay tax on behalf of the e-commerce foreign contractors on a monthly basis if such contractors do not register to pay tax in Vietnam. The General Department of Tax (GDT) will work with relevant authorities to determine the name and website address of e-commerce foreign contractors which do not register in Vietnam and provide this information to the banks and payment intermediary service companies.
- Keep records of payments remitted to overseas and provide this data to the GDT on a monthly basis if the Vietnamese individual customers use a payment method whereby withholding cannot be performed (e.g. payments via credit cards).

FCT Payment Methods

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

Method One – Deduction Method

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

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

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

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

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

Method Two – Direct Method

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

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

Method Three – Hybrid Method

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

Foreign contractors wishing to adopt the hybrid method must:

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

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

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

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

Double Taxation Agreements ("DTAs")

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

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

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

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

Capital Gains Tax (“CGT”)

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

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

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

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

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

Value Added Tax ("VAT")

Scope of Application

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

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

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

Goods or Services where VAT declaration and payment are not required

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

- Compensation, bonuses and subsidies, except those provided in exchange for certain services;
- Transfers of emission rights and various financial revenues;
- Certain services rendered by a foreign organisation which does not have a PE in Vietnam where the services are rendered outside of Vietnam, including repairs to means of transport, machinery or equipment, advertising, marketing, promotion of investment and trade; overseas brokerage activities for the sale of goods and services overseas, training, certain international telecommunication services;
- Transfer of investment projects;
- Sale of agricultural products that have not been processed into other products or which have only been through preliminary processing;
- Capital contributions in kind;
- Collections of compensation/indemnities by insurance companies from third parties;
- Collections on behalf of other parties which are not involved in the provision of goods/services (e.g. if company A purchases goods/services from company B, but pays to company C and subsequently company C pays to company B, then the payment from company C to company B is not subject to VAT);
- Commissions earned by (i) agents selling services, including postal, telecommunications, lottery, airlines/bus/ship/train tickets, at prices determined by principals; and (ii) agents for international transportation, airlines and shipping services entitled to 0% VAT; and (iii) insurance agents;
- Commissions from the sale of exempt goods/services; and
- Goods exported and then re-imported back to Vietnam due to sales returns by overseas customers.

Exempt Goods and Services

There are stipulated categories of VAT exemption, including:

- Certain agricultural products;
- Goods/services provided by individuals having annual revenue of VND 100 million or below;
- Imported or leased drilling rigs, aeroplanes and ships of a type which cannot be produced in Vietnam;
- Transfer of land use rights ("LUR") (detailed guidance is provided to specific cases);
- Financial derivatives and credit services (including credit card issuance, finance leasing and factoring); sale of 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; elderly/disabled people care services;
- Teaching and training;
- Printing and publishing of newspapers, magazines and certain types of books;
- Passenger transport by public buses;
- Transfer of technology, software and software services except exported software which is entitled to 0% rate;
- Gold imported in pieces which have not been processed into jewellery;
- Exported natural resources which are unprocessed or processed but with at least 51% of their cost being natural resources and energy;
- Imports of machinery, equipment and materials which cannot be produced in Vietnam for direct use in scientific research and technology development activities;
- Equipment, machinery, spare parts, specialised means of transport and necessary materials which cannot be produced in Vietnam for prospecting, exploration and development of oil and gas fields;
- Goods imported in the following cases: international non-refundable aid, including from Official Development Aid, foreign donations to government bodies and to individuals (subject to limitations); and
- Fertilizer, feed for livestock, poultry, seafood and other animals, machinery and equipment specifically used for agriculture.

Tax Rates

There are three VAT rates as follows:

0% This rate applies to exported goods including goods sold to non-tariff areas and export processing companies, goods processed for export or in-country export (subject to conditions), goods sold to duty free shops, certain exported services, construction and installation carried out for export processing companies, aviation, marine and international transportation services.

5% This rate applies generally to areas of the economy concerned with the provision of essential goods and services. These include: clean water; teaching aids; books; unprocessed foodstuffs; medicine and medical equipment; husbandry feed; various agricultural products and services; technical/ scientific services; rubber latex; sugar and its by-products; certain cultural, artistic, sport services/products and social housing.

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

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

Exported Goods and Services

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

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

There are a number of services specified in the VAT regulations which do not qualify for 0% VAT, in particular advertising, hotel services, training, entertainment, tourism provided in Vietnam to foreign customers; and various services provided to non-tariff areas (including leasing of houses, transport services for employees to and from their workplace, 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; and
- Certain cases voluntarily registering for VAT declaration under the deduction method.

- Determination of VAT payable

VAT payable = Output VAT – Input VAT

- Calculation of output VAT

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

- Input VAT

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

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

Method two - Direct method

This method applies to:

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

- Determination of VAT payable

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

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

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

Discounts and Promotions

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

Goods and Services for internal consumption

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

Administration

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

Companies which have multiple business activities in different provinces, where such activities are accounted centrally at the head office, must declare VAT centrally at head office, but are required to apportion and pay such tax in the respective provinces. This does not however apply in certain cases such as transportation, insurance, construction, electricity, etc.

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

VAT Refunds

VAT refunds are only granted in certain cases, including:

- Exporters having excess input VAT credits over VND 300 million. The refunds are provided on a monthly or quarterly basis, in line with the VAT declaration period of the taxpayer. The amount of input VAT relating to export sales (meeting the criteria for VAT refunds) that can be refunded to a taxpayer must not exceed 10% of its export revenue. VAT refunds are available to companies which import goods and then export them without further processing subject to various conditions;
- New projects of companies adopting VAT deduction method which are in the pre-operation investment phase and have accumulated VAT credits over VND 300 million. Exceptions include conditional investment projects which do not satisfy the regulated investment conditions, or investment projects of companies whose charter capital has not yet been contributed as regulated; and
- Certain ODA projects, diplomatic exemption, foreigners buying goods in Vietnam for consumption overseas.

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

Invoicing

Tax Invoices

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

E-invoices

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

However, on 19 October 2020, the Government issued Decree 123/2020 (Decree 123) guiding invoices and documents, which extended the deadline for compulsory implementation of e-invoices from 1 November 2020 until 1 July 2022.

However, taxpayers that meet the technology infrastructure requirements are encouraged to implement e-invoicing and e-documents earlier.

E-invoices with verification code

"High tax risk companies" are required to use e-invoices with verification code continuously for 12 months. High tax risk companies are defined as those which have charter capital of less than VND 15 billion and have certain features, for example:

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

The "high tax risk company" status will then be reassessed after 12 months for possible approval for using e-invoices without verification code.

E-invoices without verification code

Industries where companies are allowed to use e-invoices without verification code of the tax authorities will be determined based on the economic sectors as regulated such as electricity, petrol, telecommunication, transportation, credit institution, insurance, e-commerce, supermarkets, etc or other companies which satisfy certain conditions.

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

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

Timing of introduction of e-invoicing

The compulsory use of e-invoices is extended to 1 July 2022. During the transition period up to 30 June 2022, the current invoicing regulations (i.e. Decree 51/2010, Decree 04/2014 amending Decree 51/2010 and Decree 119/2018) still apply and companies can continue invoicing thereunder until receipt of a notification from the tax authorities.

Special Sales Tax ("SST")

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

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

Taxable Price

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

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

Tax Credits

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

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

Tax Rates

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

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

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

The SST rates are as follows:

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

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

Natural Resources Tax (“NRT”)

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

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

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

Property Taxes

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

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

Environment Protection Tax

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

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

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

In November 2020, the National Assembly approved a new Law on environmental protection, which will take effect from 1 January 2022. There is no specific change to the above EPT rates in this new law.

Import and Export Duties

Rates

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

Most goods imported into Vietnam are subject to import duty except when they meet the conditions for exemption.

Import duty is computed on an ad valorem basis, i.e. multiplying the imported good's dutiable value by the corresponding import duty rate.

Import duty rates are classified into three 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 line with Vietnam's World Trade Organization (WTO) commitments and are applicable to goods imported from other WTO member countries.

Special preferential rates are applicable to imported goods from countries that have a special preferential trade agreement (or Free Trade Agreement) with Vietnam. Currently, effective free trade agreements (FTAs) to which Vietnam is a party include:

- The FTA between ASEAN member states;
- The FTA between ASEAN member states and Japan;
- The FTA between ASEAN member states and China;
- The FTA between ASEAN member states and Hong Kong;
- The FTA between ASEAN member states and India;
- The FTA between ASEAN member states and Korea;
- The FTA between ASEAN member states and Australia and New Zealand;
- The FTA between ASEAN member states and Australia, China, Japan, Korea, and New Zealand (i.e. the RCEP);
- The FTA between Vietnam and Japan;
- The FTA between Vietnam and Korea;
- The FTA between Vietnam and Chile;
- The trade agreement between Vietnam and Cambodia;
- The trade agreement between Vietnam and Laos;
- The FTA between Vietnam and Eurasian Economic Union (Vietnam and the Customs Union of Russia, Armenia, Belarus, Kazakhstan, Kyrgyzstan);
- The CPTPP pact or TPP-11 (i.e. the Comprehensive and Progressive Trans-Pacific Partnership agreement among Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore and Vietnam);
- The FTA between Vietnam and the EU (i.e. the EVFTA);
- The FTA between Vietnam and the UK (i.e. the UKVFTA).

In addition, negotiations on FTAs with the European Free Trade Association (Vietnam and Iceland, Liechtenstein, Norway, and Switzerland) and with Israel are in progress.

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

Import VAT is also applied to imported goods at a rate most commonly at 10%.

Customs valuation

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.

Exemptions

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

Categories of import duty exemption include:

- Machinery & equipment, specialised means of transportation and construction materials (which cannot be produced in Vietnam) comprising the fixed assets of encouraged investment projects;
- Machinery, equipment, specialised means of transportation, materials (which cannot be produced in Vietnam), office equipment imported for use in oil and gas activities;
- Materials, supplies and components imported for the production of exported goods;
- Materials, supplies, components imported for processing of exports;
- Goods manufactured, processed, recycled, assembled in a free trade zone without using imported raw materials or components when imported into the domestic market;
- Materials, supplies and components which cannot be domestically produced and which are imported for the production of certain encouraged projects;
- Goods temporarily imported or exported for the purpose of warranty, repair, and replacement.

Refunds

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

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

Export Duties

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

Other taxes potentially imposed on imports

In addition to import duty and import VAT, there are other taxes that may be applied to imported goods. These taxes include SST, environment protection tax, anti-dumping tax, safeguard tax and anti-subsidy tax, which are applied to a limited number of goods.

Customs audits

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

Personal Income Tax ("PIT")

Tax Residency

Residents are those individuals meeting one of the following criteria:

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

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

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

Tax Year

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

Employment Income

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

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

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

Non-employment Income

Taxable non-employment income includes:

- Business income (including rental income in excess of VND 100 million/year);
- Investment income (e.g. interest, dividends);
- Gains on sale of shares;
- Gains on sale of real estate;
- Inheritances in excess of VND 10 million;
- Winning prizes/gifts in excess of VND 10 million (excluding income from winnings at casinos);
- Income from copyright/ franchising/ royalties/ receiving gifts in excess of VND 10 million.

Non Taxable Income

Non taxable income includes:

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

Foreign Tax Credits

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

Tax Deductions

Tax deductions include:

1. Employee contributions to mandatory social, health and unemployment insurance schemes;
2. Contributions to local voluntary pension schemes (subject to a cap);
3. Employee contributions to certain approved charities;
4. Tax allowances:
   - Personal allowance: VND 11 million/month;
   - Dependent allowance: VND 4.4 million/month/dependent. The dependent allowance is not automatically granted, and the taxpayer needs to register qualifying dependents and provide supporting documents to the tax authority.

PIT Rates

Residents - employment income

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

Residents – other income

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

Non-residents

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

Administration

Tax codes

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

Tax declarations and payment

For employment income, tax has to be declared and paid on a monthly or quarterly basis by the 20th day of the following month or by the last 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, by the last day of the 3rd month of the following tax year for employer PIT returns and by the last day of the 4th month of the following tax year for individual PIT returns.

Expatriate employees are also required to carry out PIT finalisation on completion of their Vietnam assignment. Expatriate employees should review and reconcile their payment history to ensure taxes are duly paid/updated. Tax refunds are only available to those who have a tax code.

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

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

Social, Health and Unemployment Insurance Contributions

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

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

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

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

SI/HI/UI contribution rates are as follows:

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

** Please refer to the table below.

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

Effective from 15 July 2020, companies operating in industries with a high risk of occupational disease and accidents, subject to meeting specific conditions, can apply for a lower contribution rate of 0.3% instead of the current regulated rate of 0.5%.

The income subject to SI/HI/UI contributions includes salary, certain allowances and other regular payments, but this is capped at 20 times the minimum salary for SI/ HI contributions and 20 times the minimum regional salary for UI contribution. Effective from 1 July 2019, the minimum salary is VND 1,490,000/month. Effective from 1 January 2020, the minimum regional salary varies from VND 3,070,000 to VND 4,420,000/month - these minimum salaries are subject to review annually.

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

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

Other Taxes

Numerous other fees and taxes can apply in Vietnam, including business licence tax and registration fees (akin to stamp duty) on the transfer of certain registrable 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 generally be imposed on the amount of tax under-declared. Interest of 0.03%/day applies for late payment of tax.

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

Accounting and Auditing

Accounting framework

Vietnamese Accounting Standards

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

Accounting Law and applicable implementation guidance

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

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

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

Accounting records

- Framework: Vietnamese Accounting System.
- Language: Accounting records are required to be maintained in the Vietnamese language, but this can be combined with a commonly used foreign language.
- Accounting period: An entity's accounting period is generally 12 months in length. The first accounting period must not exceed 15 months from the license date for a newly setup company. Similarly, the last accounting period must not be longer than 15 months.
- Currency: Accounting records are generally required to be maintained in Vietnamese Dong ("VND"). Entities that receive and make payments mainly in other currencies can select a foreign currency to be used in their accounting records and financial statements provided that they meet all the stipulated requirements. However, for statutory reporting, entities using another currency as their accounting currency must convert their financial statements prepared in that currency into VND pursuant to certain prescribed regulations.
- Accounting documents: Records can be stored either in hard copies or electronic files. Entities that use electronic documents are not required to print them out for storage purposes. If the relevant authorities request copies for testing, inspection, monitoring and auditing, these entities have to print out electronic accounting documents and have them signed by their legal representatives and/or chief accountants.
- Seal: Companies are permitted to decide the form, quantity and contents of their official seals. The management, use and retention of an entity's seal must comply with its charter.
- Retention: Five years for documents used for management or operation of the company; ten years for accounting data, accounting books; and permanently retained for historical documents.

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

Financial reporting

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

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

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

Moving to International Financial Reporting Standards ("IFRS")

One of the areas that the MoF has focused on is promoting IFRS adoption in Vietnam. On 16 March 2020, the MoF issued Decision No. 345/QD-BTC approving the scheme for application of IFRS in Vietnam. The IFRS implementation roadmap has three stages: stage 1 – IFRS preparation (from 2020 to 2021); stage 2 – IFRS pilot implementation (from 2022 to 2025); and stage 3 – IFRS compulsory implementation (from 2025).

IFRS is expected to bring benefits to businesses including better transparency and comparability in financial reporting which should better facilitate the provision of financial information to relevant stakeholders and attract more foreign investment.

Audit requirements

Vietnam has issued 47 auditing standards which are primarily based on international auditing standards with certain local customisations.

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

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

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

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

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

Internal audit

Decree No. 05/2019/ND-CP provides a legal framework for the establishment and implementation of an internal audit function. The objective of the decree is for entities to adopt international best practices in internal audit, enhancing the transparency of information in the marketplace and the efficiency and effectiveness of corporate governance. This decree came into effect on April 1, 2019. Within 24 months of the effective date, companies within the scope of this decree must complete necessary preparation tasks for the implementation of internal audits.

Appendix I - Double Taxation Agreements

A summary of withholding tax rates is presented below:

No	Recipient	Interest (%)	Royalties (%)	Notes
1	Algeria	15	15	1, 2
2	Australia	10	10	-
3	Austria	10	7.5/10	2
4	Azerbaijan	10	10	2
5	Bangladesh	15	15	2
6	Belarus	10	15	2
7	Belgium	10	5/10/15	2
8	Brunei Darussalam	10	10	2
9	Bulgaria	10	15	2
10	Cambodia	10	10	2
11	Canada	10	7.5/10	2
12	China	10	10	2
13	Croatia	10	10	-
14	Cuba	10	10	-
15	Czech Republic	10	10	2
16	Denmark	10	5/15	2
17	Egypt	15	15	1
18	Estonia	10	7.5/10	-
19	Finland	10	10	2
20	France	Nil	10	-
21	Germany	10	7.5/10	2
22	Hong Kong	10	7/10	2
23	Hungary	10	10	-
24	Iceland	10	10	2
25	India	10	10	2
26	Indonesia	15	15	2
27	Iran	10	10	2
28	Ireland	10	5/10/15	2
29	Israel	10	5/7.5/15	2
30	Italy	10	7.5/10	2
31	Japan	10	10	2
32	Kazakhstan	10	10	2
33	Korea (South)	10	5/15	2
34	Korea (North)	10	10	2
35	Kuwait	15	20	1, 2
36	Laos	10	10	-
37	Latvia	10	7.5/10	2
38	Luxembourg	10	10	-
39	Macau	10	10	2
40	Macedonia	10	10	1
41	Malaysia	10	10	2
42	Malta	10	5/10/15	2
43	Mongolia	10	10	2
44	Morocco	10	10	2
45	Mozambique	10	10	-

46	Myanmar	10	10	2
47	Netherlands	10	5/10/15	2
48	New Zealand	10	10	-
49	Norway	10	10	2
50	Oman	10	10	2
51	Pakistan	15	15	2
52	Palestine	10	10	-
53	Panama	10	10	-
54	Portugal	10	7.5/10	2
55	Philippines	15	15	2
56	Poland	10	10/15	-
57	Qatar	10	5/10	2
58	Romania	10	15	2
59	Russia	10	15	-
60	San Marino	10/15	10/15	-
61	Saudi Arabia	10	7.5/10	2
62	Serbia	10	10	2
63	Seychelles	10	10	-
64	Singapore	10	5/10	2
65	Slovakia	10	5/10/15	2
66	Spain	10	10	2
67	Sri Lanka	10	15	2
68	Sweden	10	5/15	2
69	Switzerland	10	10	-
70	Taiwan	10	15	-
71	Thailand	10/15	15	2
72	Tunisia	10	10	2
73	Turkey	10	10	2
74	UAE	10	10	2
75	Ukraine	10	10	2
76	United Kingdom	10	10	2
77	United States	10	5/10	1, 2
78	Uruguay	10	10	-
79	Uzbekistan	10	15	2
80	Venezuela	10	10	2

Sources: General Department of Taxation

Notes:

1. Not in force yet

1. Interest derived by certain government bodies is exempt from withholding tax.

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

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

PwC Services in Vietnam

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

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

Our services include:

Tax Services:

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

Customs and International Trade Advisory Services:

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

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

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

Deals Services:

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

Consulting services:

- Financial risk management
- Forensics
- Finance
- Performance management
- Operations
- Technology
- People and organisation
- Digital and customer strategy

Assurance Services:

- Audit of financial statements
- Review of financial information
- IFRS and accounting consulting services
- Cyber security assurance
- Risk assurance services (internal audit, IT assurance and performance, business resilience, business control advisory, performance assurance, etc.)
- Capital markets services
- Technical accounting advice/training

Support for local IPO and Overseas listing

Private Business Services

Country Desk Services:

- Japanese business services
- Chinese and Taiwanese business services
- Korean business services
- European business services

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We regularly share insights about the Vietnamese market via newsletters and our website. To sign up for our email alerts on regulatory & tax changes, please scan the QR code.

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