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GENERAL TAXATION *IN VIETNAM*

VIETNAM: NAVIGATING TAX LANDSCAPE

Vietnam's dynamic economy is an attractive destination for global investment, offering significant opportunities for businesses looking to expand in Asia. However, this opportunity comes with the challenge of navigating a complex and evolving tax framework. As Vietnam continues to integrate into the global economy, its taxation policies have become increasingly sophisticated, affecting both traditional and digital commerce.

This guide serves as a strategic resource for businesses operating in Vietnam or planning to enter the market. It covers essential topics such as understanding corporate income tax incentives and ensuring compliance with value-added tax and personal income tax requirements. In addition to compliance, the guide highlights strategies for leveraging international agreements and preferential policies, enabling enterprises to thrive in a competitive yet regulated environment.

Whether you are an established multinational corporation or an ambitious startup, this comprehensive guide provides the insights needed to align your operations with Vietnam's tax regulations, mitigate risks, and optimize fiscal efficiency. Let's explore how Vietnam's taxation framework can influence your business strategies and pave the way for sustainable growth.

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ABBREVIATION

BEPS: Base Erosion and Profit Shifting

CIT: Corporate Income Tax

DTAs: Double Taxation Agreements

FCT: Foreign Contractor Tax

FICs: Foreign-Invested Companies

GDT: General Department of Taxation

IRC: Investment Registration Certificate

JSC: Joint-Stock Company

LLC: Limited Liability Company

MOF: Ministry of Finance

PE: Permanent Establishment

PIT: Personal Income Tax

SCT: Special Consumption Tax

TIN: Tax Identification Number

VAS: Vietnamese Accounting System

VAT: Value Added Tax

PART 1: INTRODUCTION TO VIETNAM TAXATION

1. KEY TAX AUTHORITIES

1.1. General department of taxation (GDT)

The GDT operates under the Ministry of Finance and is the central authority responsible for implementing tax policies, collecting taxes, and enforcing compliance nationwide.

It oversees the development of tax regulations, provides guidance to taxpayers, and ensures that tax laws are applied consistently across the country.

1.2. Local tax departments

These departments manage tax administration at the local level, including corporate and individual taxpayers within their respective jurisdictions.

They are responsible for tax registration, audits, and enforcement for businesses and individuals operating in their provinces.

1.3. Customs authorities

Customs authorities are tasked with managing import and export duties, ensuring compliance with customs regulations, and preventing tax evasion in cross-border trade.

They play a critical role in enforcing tax policies related to international trade, including the collection of Value Added Tax (VAT) and Special Consumption Tax (SCT) on imported goods.

2. KEY TAX REGULATIONS

Vietnam's tax system is governed by several foundational laws, supplemented by decrees and circulars that provide detailed guidance for implementation. The main laws include:

2.1. Law on tax administration

This law establishes the framework for tax registration, filing, payment, and enforcement.

It outlines the rights and obligations of taxpayers and tax authorities, including procedures for tax audits, appeals, and dispute resolution.

Subordinate regulations (decrees and circulars) provide detailed instructions on specific administrative processes, such as electronic tax filing, payment systems, and the regime for administrative penalties.

2.2. Law on corporate income tax (CIT)

This law governs the taxation of businesses operating in Vietnam, with a standard CIT rate of 20%.

Incentives are available for certain industries and regions to attract investment, such as reduced tax rates for high-tech industries or businesses in economically disadvantaged areas.

Decrees and circulars clarify deductible expenses, tax incentives, and transfer pricing regulations.

2.3. Law on personal income tax (PIT)

This law covers the taxation of individuals, including both residents and non-residents.

Residents are taxed on their worldwide income, while non-residents are taxed only on Vietnam-sourced income.

Subordinate regulations provide details on tax brackets, exemptions, and deductions, such as family allowances and dependents.

2.4. Law on value added tax (VAT)

This law regulates the imposition of VAT on goods and services. Decrees and circulars provide guidance on VAT refunds, input VAT credits, and VAT compliance for foreign contractors.

2.5. Role of subordinate regulations

In Vietnam, tax laws provide the overarching framework, but their implementation relies heavily on subordinate regulations, including decrees and circulars issued by the government and the Ministry of Finance. These regulations are critical for translating the broad provisions of tax laws into actionable rules and procedures. Key points include:

2.5.1. Decrees

Issued by the government to provide detailed guidance on the implementation of tax laws. For example, a decree may specify the criteria for tax incentives under the CIT law or outline procedures for VAT refunds for exporters.

2.5.2. Circulars

Issued by the Ministry of Finance to clarify specific aspects of tax laws and decrees.

Circulars often address practical issues, such as how to calculate taxable income, apply tax exemptions, or comply with reporting requirements.

They are frequently updated to reflect changes in tax policies or address emerging issues in tax administration.

They are the most commonly referenced regulations by taxpayers in their day-to-day operations.

3. INTERNATIONAL AGREEMENTS AND GLOBAL INTEGRATION

Vietnam has signed numerous international agreements, including Double Taxation Agreements (DTAs), to avoid double taxation and promote cross-border trade and investment. These agreements:

- Prevent the same income from being taxed both in Vietnam and in the taxpayer's home country.
- Provide mechanisms for resolving tax disputes and allocating taxing rights between countries.
- Encourage foreign investment by reducing the tax burden on international businesses and individuals.

Vietnam's commitment to aligning its tax system with international standards is evident in its adoption of the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan and its participation in the Global Forum on Transparency and Exchange of Information for Tax Purposes.

PART 2: CORPORATE INCOME TAX

Corporate Income Tax (CIT) is a key revenue source for the Vietnamese government and applies to both domestic and foreign businesses operating in Vietnam.

1. TAXABLE ENTITIES

Resident companies are defined as those incorporated in Vietnam or having their head office located in Vietnam. These companies are subject to CIT on their worldwide income, which includes income earned both within and outside of Vietnam.

Non-resident companies are foreign companies that are not incorporated in Vietnam and do not have their head office in Vietnam. However, if a non-resident company has a permanent establishment (PE) in Vietnam or earns income from Vietnam-sourced activities, it becomes subject to CIT on its Vietnam-sourced income only.

2. TAX RATES

Standard CIT Rate: 20% shall be applicable to most businesses in common general business activities, such as trading, and services.

Higher Rates: Certain industries, such as oil and gas exploration, are subject to rates ranging from 32% to 50%, depending on the project and location.

3. TAX INCENTIVES

Vietnam typically refrains from offering direct subsidies. Instead, it promotes economic growth in targeted sectors or regions through tax incentives. In difficult times, such as during the COVID-19 pandemic, temporary measures like tax reductions may also be implemented.

3.1. CIT incentive decisions

Foreign-invested companies (FICs) obtain tax incentives by applying through the Investment Registration Certificate (IRC). While the IRC briefly mentions the requested incentives, it usually does not provide detailed information.

For projects that do not require an IRC, such as domestic investments, tax incentives are granted through alternative processes, often involving approval or confirmation from local tax authorities.

It is important to note that tax incentives designed to enhance investment conditions differ from tax exemptions or reductions provided in response to significant losses caused by natural disasters, fires, or accidents.

3.2. Conditions for applying CIT incentives

Enterprises are required to comply with the Vietnamese Accounting System (VAS) and ensure accurate tax declarations and payments. To qualify for tax incentives, enterprises must maintain separate accounting records for income eligible for these benefits, as the incentives apply only to qualifying income. If an enterprise fails to meet the necessary conditions in any year during the incentive period, it will forfeit the incentive for that year and be subject to the standard tax rate. Losses from incentivized activities may be offset against other income, except for income derived from real estate transfers, project transfers, or mineral-related activities. While enterprises are responsible for determining their eligibility for tax incentives, tax authorities may review these determinations during audits and impose penalties for any violations.

3.3. Preferential tax rates

PREFERENTIAL TAX RATES	ELIGIBILITY
10% CIT rate for 15 years	<ul style="list-style-type: none"> • New investment projects in areas with special socio-economic conditions, economic zones, or high-tech zones. • Projects focused on scientific research, high-tech industries, renewable energy, infrastructure, or environmental protection. • Large-scale projects meeting specific thresholds for investment capital, revenue, or employment. • High-tech enterprises or agricultural businesses using advanced technologies. • Supporting industries (e.g., textiles, electronics, automotive, mechanical fabrication). • Manufacturing projects with a minimum investment of 12 trillion VND over 5 years, using technology approved under the Law on High-Tech or the Law on Science and Technology.

Unlimited 10% CIT rate	<ul style="list-style-type: none"> • Social sectors such as education, healthcare, culture, sports, and environmental protection. • Social housing, forestry, agriculture, and aquaculture in areas with difficult socio-economic conditions. • Activities like crop/livestock breeding, post-harvest preservation, and certain publishing activities.
17% CIT rate for 10 years	New projects in difficult socio-economic areas or industries such as high-grade steel, energy-saving products, or agricultural machinery
Unlimited 17% CIT rate	People's credit funds and microfinance institutions.
15% CIT rate	Income from agricultural and aquaculture activities outside difficult socio-economic areas.

The preferential tax rate period begins in the first year the enterprise generates revenue from the eligible activity. For large-scale or high-tech projects, the duration may be extended, but not beyond 15 years.

3.4. Tax holidays and reduction

Enterprises operating in special socio-economic areas or social sectors (e.g., education, healthcare, sports) are eligible for: 4 years of CIT exemption, followed by a 50% CIT reduction for the next 9 years.

Enterprises in industrial zones or difficult areas are entitled to: 2 years of CIT exemption, followed by a 50% CIT reduction for the next 4 years.

Socialization projects outside difficult areas receive: 4 years of CIT exemption, followed by a 50% CIT reduction for the next 5 years.

4. CIT COMPUTATION

4.1. Determine total revenue

Total revenue includes all income generated from the sale of goods, provision of services, and other business activities during the tax period.

Timing of Revenue Recognition: Revenue is recognized at the time when the right to receive income is established, regardless of whether the payment has been received. This is generally aligned with the accrual basis of accounting.

Revenue from Goods Sales: Revenue is recognized when the ownership or the right to use goods is transferred to the buyer, and the seller no longer has control over the goods.

Revenue from Services: Revenue is recognized at the point of time marking the completion of service or the partial completion of service.

Revenue in any foreign currency needs to be converted into VND at the actual exchange rate at the time of revenue recognition, as mentioned above. The actual exchange rate used for recording revenue is the buying exchange rate of the commercial bank where the taxpayer opened accounts. It is not possible to implement an average exchange rate or any other exchange rate.

4.2. Determine deductible expenses

Generally, all expenses not explicitly stated as non-deductible can be considered deductible expenses, if:

- The expenses arise from and are related to the activities of production or business of the enterprise; and
- They are supported by legally correct invoices and vouchers. For payments to Vietnamese entities, the VAT invoice (also known as a “red invoice”) is typically required. For payments to foreign entities, the invoice must comply with the legal requirements of the place of registration of the invoicing party. Additionally, the underlying agreement is usually required.
- The payment has been made via bank transfer. Cash payments are only accepted for amounts under VND 20 million including VAT.

Expenses in foreign currency must be converted into VND at the actual exchange rate at the time such expenses arise.

The actual exchange rate used for recording expenses is the selling exchange rate of the commercial bank where the taxpayer holds an account.

Non-deductible expenses are mainly:

- Expenses for non-business purposes;
- Accruals;
- Fines for administrative offenses;
- Expenses covered by other funding sources (e. g. another enterprise);

- Business management expenses allocated to a Vietnamese PE from abroad, exceeding the allocable actual expenses;
- Expenses exceeding the allowed level for contingency reserves;
- That part of an interest payment exceeding 150% of the basic interest rate (9%) as published by the State Bank if not paid to a credit institution. Loan interest expenses paid to related parties exceeding 30% EBIDA (Earnings Before Interest, Depreciation, and Amortization);
- Remuneration paid to founding members who are not directly involved in executive management;
- Remuneration accounted to be paid to employees but not actually paid or without invoices, or payments which are not clearly mentioned in the labor contract with a specific amount;
- Interest payments on loans provided when the charter capital has not been fully paid;
- Credited VAT;
- Financial aid/subsidies, except for aid in order to overcome the consequences of natural disaster, to build charitable homes or to support programs in special socio-economic areas;
- The part of expenses for voluntary retirement insurance exceeding the cap of VND 1 million a month per person;
- Expenses for business activities being banking, insurance, lotteries or securities;
- Depreciation for fixed assets not used for production or business, and depreciation exceeding the rates fixed in the regulations of the MOF;
- Interest due to late payment of tax liabilities.

4.3. Other income

The term 'other taxable income' (also known as 'irregular income') comprises all types of income derived by business entities not being income from activities of production and business in goods and services. All types of other income mentioned in the following are subject to the common CIT rate of 20%.

4.3.1. Capital Assignment

Income from capital assignment refers to income earned from transferring ownership of capital, with the assessable income determined based on the total value receivable as stated in the assignment contract. If payment is made in assets or material benefits instead of cash, their market value is used to determine the price. For payments in foreign currency, the value must be converted to VND using the buying exchange rate of the taxpayer's bank in Vietnam.

For computation, the purchasing price of the assignment is based on the value of the contributed capital recorded in accounting books or, if previously acquired, the original acquisition cost. Deductible expenses

include all valid costs directly related to the assignment, such as legal fees, transaction costs, and other reasonable expenses supported by proper documentation.

In cases where the transferor is a foreign entity, the assignee is responsible for calculating, declaring, and withholding CIT on behalf of the foreign organization.

4.3.2. Securities Transfer

Income from securities transfer encompasses revenue from trading shares, bonds, fund certificates, and other securities.

Regarding computation, for securities traded on a Stock Exchange, the selling price is determined by the order-matching price or agreed price officially announced by the Exchange, while for non-listed securities, it is based on the price stated in the transfer contract. Similarly, the purchasing price is either the official price announced by the Stock Exchange at the time of purchase, the price specified in the transfer contract for non-listed securities, or the winning bid price for securities acquired through auction. Deductible expenses include all directly related costs supported by valid documentation, such as legal procedure fees, transfer charges, securities deposit fees, entrustment fees, transaction costs, and other verifiable expenses related to negotiating and executing the transfer.

4.3.3. Real Estate Transfer

Income from real estate transfer includes earnings from transferring land use/lease rights, houses or construction works (with or without the underlying land rights), assets attached to such properties, and rights to use residential houses.

Assessable income is calculated as taxable income minus carried-forward losses from real estate activities of previous years. Taxable income is determined by subtracting the prime cost and deductible expenses from the turnover receivable. Turnover equals the actual transfer price, including fees and charges, and is recognized when the property is delivered to the buyer, regardless of ownership registration. While Vietnamese law does not explicitly define “prime cost”, it includes actual costs incurred when acquiring the property, supported by valid documents. Deductible transfer expenses must align with the turnover and include costs such as compensation for land damage or crop loss, resettlement assistance, land use rights fees, land improvement, infrastructure construction, and other directly related expenses.

Losses from real estate transfers can offset profits from other business activities in the same tax year, with remaining losses carried forward for up to five years. However, real estate profits cannot offset losses from other income types, except for real estate liquidation during dissolution.

4.3.4. *Further Types of Other Income*

- Income from the transfer of a project or project implementation.
- Income from the right to explore, mine or process minerals.
- Income from interest.
- Income from the sale of foreign currency.
- Income from bad debts which were written off and are now repaid.
- Income from accounts payable for which the creditor cannot be identified.
- Newly discovered income omitted in previous years.
- Income from fines and compensations payable by another contracting party.
- Income being gifts or donations, whether in cash or kind.
- Income from the revaluation of assets, except for income resulting from the revaluation of assets for capital contribution and transfers after the enterprise is separated/ incorporated/ merged/ transformed under the plan to equitize, restructure and renew entirely state-owned enterprises.
- Income from sales of waste materials.

4.4. **Exempt income**

The following types of income are considered tax-exempt under Vietnamese CIT legislation:

- Income earned from cultivation, husbandry, agricultural and aquaculture processing, salt production.
- Income earned from fishing activities.
- Income earned from technical services directly serving agricultural production.
- Income earned from: performance of contracts for scientific research and technological development, sale of products during their test production, products made from new technology applied in Vietnam for the first time.
- Income earned from activities of business and production by enterprises having an average number of 30% or more employees who are disabled, reformed drug addicts, or infected with HIV.
- Income earned from occupational training for ethnic minorities, disabled people, children living in particularly difficult conditions and reformed offenders.
- Income distributed from activities being capital contribution, purchase of shareholding, joint-venture or co-operation, distributed by a domestic company after paying tax on that income (dividends) in accordance with the law on CIT.
- Aid funds receivable for use for educational, scientific research, cultural, artistic, charitable, humanitarian, and other social activities in Vietnam.

- Income from transfer of certified emission reductions (CERS) of enterprises issued with certificates of emission reduction.
- Income from the transfer of technology if prior technology transferred to organizations/individuals in areas with special socio-economic conditions.
- Received profit distribution from a corporation registered in Vietnam.

4.5. Losses carried forward

Losses are negative amounts of taxable income that can be carried forward to the following year and deducted from the assessable income arising in that year. The carrying forward of a loss is continuous and limited to a maximum period of five consecutive years, counting from the year following the year in which the losses arise. There is no limitation on the amount of loss carried forward.

Losses incurred prior to a company separation or division are also allowed to be carried forward with a respective equity ratio for the successor companies.

Losses arising from activities being real estate transfer, transfer of an investment project (except for mineral exploration and mineral extraction projects) shall be accepted to be offset against the profit in the same tax period. If a loss remains after the offsetting, it can be carried forward to the assessable income from such activities for a maximum period of five years.

5. TRANSFER PRICING

The Vietnamese government has implemented strict transfer pricing rules to ensure that transactions between related parties are conducted at arm's length, and that profits are appropriately allocated and taxed in Vietnam.

Compliance requirements include:

- Submitting the Related Party Disclosure Form along with the annual CIT return.
- Preparing and maintaining transfer pricing documentation (Local File, Master File, and Country-by-Country Report, if applicable) before the CIT filing deadline.

While the documentation does not need to be submitted with the CIT return, it must be ready and available in case the tax authorities request it.

Deadline: Transfer pricing compliance is tied to the annual CIT filing deadline, which is typically 90 days after the end of the fiscal year.

Exemptions from Documentation: Taxpayers may be exempt from preparing transfer pricing documentation if they meet certain criteria, such as:

- Total revenue is below VND 50 billion, and related-party transactions are below VND 30 billion in the fiscal year.
- Only transacting with related parties subject to the same tax rate and without tax incentives.
- In these cases, taxpayers still need to submit the Related Party Disclosure Form with their CIT return.

6. DOUBLE TAXATION AGREEMENTS

According to the relevant DTA, tax exemptions or reductions may apply. Before they are applied, the foreign taxpayer must file related dossiers with the required information. Vietnam has signed over 80 DTAs.

Under most DTAs, Vietnam will apply the principle of ordinary credit to avoid the double taxation of income derived outside Vietnam. Depending on the DTA, one or a combination of 3 following methods are applied: (i) tax deduction method; (ii) deduction method of deemed tax; (iii) deduction method of indirect tax.

Taxes paid abroad can be deducted from the domestic tax payable, but the amount of deduction is restricted to that part of the tax which is appropriate to the income that may be taxed in the other state. The principle does not differ from the unilateral relief.

Therefore, the DTAs are primarily relevant for the avoidance or limitation of CIT payable in the foreign country. This means, the focus for Vietnamese taxpayers must be to apply the DTA exemptions or restrictions on the taxation abroad. This applies to the application of the foreign partner also but is not subject of this Brochure.

The DTA's regularly restrict the percentage of tax on dividends, interest and royalties withheld by the country where the income is originating. Often, the DTA limits the tax withhold on dividends in the country of source to be 15%, 10% or 5% depending on the percentage of shares owned by the company receiving the dividends.

The percentage of tax withhold on the payment of interest regularly is limited to 10%. The percentage of tax withhold on the payment of royalties usually is restricted to an amount of 15% (uncommon), 10% or 5%.

7. FILING REQUIREMENTS

7.1. Annual CIT filing obligation

Requirement: Taxpayers subject to CIT must file an annual CIT finalization return.

Timeline: The deadline for filing the annual CIT finalization return is no later than the last day of the third month following the end of the fiscal or calendar year.

7.2. Quarterly provisional CIT payments

Requirement: Taxpayers are required to make quarterly provisional CIT payments based on their estimated annual CIT liability.

Key Rule: The total provisional CIT payments made in all four quarters must account for at least 80% of the final CIT liability for the year. If the provisional payments fall short of this threshold (less than 80%), penalties or interest may be applied on the shortfall.

Payment Deadlines: Quarterly CIT payments must be made by the 30th day of the first month of the subsequent quarter.

7.3. Final CIT payment

After filing the annual CIT finalization return, taxpayers must pay any outstanding CIT liability (i.e., the difference between the total provisional payments and the final assessed CIT liability).

7.4. Standard tax year

In most cases, the standard tax year is the calendar year (January 1 to December 31).

Alternative Tax Year: Enterprises that wish to use a different tax year (e.g., a fiscal year) must notify the tax authorities in advance. The fiscal year could, for instance, run from April 1 to March 31 or another 12-month period.

8. PROFIT REPATRIATION

Once the CIT has been declared and paid, the company is allowed to distribute the remaining profits to its shareholders.

Profits distributed to corporations, whether registered in Vietnam or abroad, are not subject to withholding tax. For corporations registered in Vietnam, such payments are considered tax-exempt income.

However, profits distributed to individuals who are not sole owners of an LLC are subject to PIT. In this case, the distributing company is required to withhold PIT at a rate of 5%.

If the receiving individual is the sole owner of an LLC, the distributed profit is exempt from PIT in Vietnam. However, if the individual also receives a salary from the LLC, that salary is treated as taxable income under PIT, while the LLC cannot deduct it as a business expense.

It is important to note that the distributed profit may still be taxed in the individual's country of residence, depending on local tax laws and applicable DTAs. In such cases, measures should be in place to prevent double taxation.

The deadline for making the final CIT payment is the same as the deadline for filing the annual CIT finalization return - no later than the last day of the third month after the end of the fiscal or calendar year.

PART 3: VALUE-ADDED TAX

1. OVERVIEW

In Vietnam, Value Added Tax (VAT) is governed by the Law on Value Added Tax and its implementing regulations, operating on a multi-stage collection system applied throughout the production and distribution chain. Under this system, each seller charges VAT on their sales while being able to claim credits for VAT paid on their purchases.

VAT applies to both domestic and imported goods and services.

2. VAT RATES

Under Vietnam's VAT regulations, there are three main VAT rates: 0%, 5%, and 10%.

The 0% VAT rate applies to exported goods and services, and international transportation.

The 5% VAT rate applies to essential goods and services aimed at supporting basic needs, such as clean water for production and consumption, agricultural products, unprocessed foodstuffs, medicine, medical equipment, and educational books.

The 10% VAT rate is the standard rate applied to most goods and services not eligible for the 0% or 5% rates.

3. VAT EXEMPTION AND NO-NEED-TO-DECLARE-AND-PAY VAT

Under Vietnam's tax laws, VAT exemption and No-Need-To-Declare-And-Pay VAT are two different concepts with distinct applications.

VAT exemption applies to specific goods and services that are not subject to VAT, such as financial derivatives services, credit services, share/capital transfer, and regulated training/educational programs. In these cases, businesses do not charge VAT on their sales, and they are also not allowed to claim input VAT credits for any VAT paid on related purchases. This means that while the end consumer benefits from not paying VAT, businesses involved in these transactions bear the cost of any VAT incurred during production or service delivery.

In contrast, No-Need-To-Declare-And-Pay VAT applies to certain transactions or situations where VAT is not applicable. Examples include compensation payments, subsidies, internal transfers of goods between branches of the same company, transfer of investment projects, and the use of assets for capital contribution.

Businesses are not required to declare or pay VAT on these transactions. However, unlike VAT exemption, businesses can still claim input VAT credits for related expenses.

4. COMPUTATION

In Vietnam, there are two primary methods for calculating and paying VAT: the Credit Method and the Direct Method, each with distinct applications and calculation processes.

4.1. The credit method

This method is applicable to companies that maintain full accounting records in accordance with regulations.

Under this method, VAT payable is calculated using the formula: *VAT Payable = Output VAT - Input VAT*

Here, Output VAT is determined by multiplying taxable revenue by the applicable VAT rate, while Input VAT refers to the VAT paid on purchases and must be supported by valid VAT invoices, together with other supporting documents.

To claim input VAT credits, businesses must meet specific conditions, including:

- Having valid VAT invoices;
- Ensuring non-cash payments for transactions exceeding VND 20 million;
- Providing proof of payment through the banking system; and
- Maintaining proper documentation for imported goods.

This method is typically used by larger businesses with comprehensive accounting systems, as it allows for the deduction of input VAT, thus reducing the overall tax burden.

4.2. The direct method

The Direct Method is applied to specific types of businesses or individuals, particularly those with annual revenue under VND 1 billion, as well as businesses engaged in gold, silver, and gem trading, business households and individuals.

Instead of calculating VAT based on input and output VAT, the tax is determined as a percentage of total revenue. The applicable percentage varies depending on the type of business:

- Trading businesses: 1-5%

- Service businesses: 5-10%
- Manufacturing businesses: 3-10%
- Construction businesses: 2-6%

5. VAT REFUND

Businesses in Vietnam may be eligible for VAT refunds in specific cases, which can help to reduce financial burdens and improve cash flow.

Refunds are available for exporters, as exports are subject to a 0% VAT rate. If input VAT related to exports exceeds VND 300 million in a tax period, businesses can apply for a refund. Accordingly, for goods and services to qualify as zero-rated under VAT for being considered export, specific conditions must be met. These include having proper contracts with foreign buyers to establish the export nature of the transaction, providing evidence of non-cash payment to ensure the transaction is legitimate, and submitting customs declarations. Additionally, shipping documents must be also presented. Special rules may also apply to in-country export sales, where goods are sold locally but are ultimately destined for export, requiring compliance with specific documentation and procedural requirements.

Similarly, companies investing in large-scale projects or during the pre-operational phase can claim refunds on input VAT incurred before generating taxable revenue.

Other eligible cases include businesses undergoing mergers, dissolutions, or reorganizations, as well as certain international organizations.

6. E-INVOICE REQUIREMENTS

In Vietnam, e-invoicing became mandatory for all businesses from 1 July 2022. Taxpayers must issue e-invoices in XML format, either with or without a tax authority code, depending on their risk level and IT infrastructure. E-invoices must include key details (e.g., buyer/seller information, tax rates, digital signatures) and be transmitted to the GDT in real-time or within a specified timeframe. Companies must register their e-invoicing system with the GDT and use approved software that ensures compliance, security, and data integrity. E-invoices must be archived electronically for at least 10 years.

7. VAT FILING AND PAYMENT

Taxpayers subject to VAT are required to file VAT returns monthly or quarterly, depending on their revenue. Enterprises with annual revenue exceeding VND 50 billion must file monthly, while those with lower revenue can opt for quarterly filing. VAT returns must be submitted to the tax authority by the 20th day of the following month for monthly filers, or by the last day of the first month following the reporting quarter for quarterly filers. VAT payments are made simultaneously with the filing of returns.

As previously mentioned, taxpayers must calculate the VAT payable by offsetting input VAT (on purchases) against output VAT (on sales). Any excess input VAT can be carried forward to subsequent periods or refunded under specific conditions, such as for exporters or investment projects.

PART 4: PERSONAL INCOME TAX

1. OVERVIEW

PIT is a direct tax levied on the income of individuals, including both residents and non-residents, under the Law on PIT in Vietnam.

2. TAXABLE INDIVIDUALS

2.1. Tax residents

An individual is considered a tax resident in Vietnam if they meet one of the following conditions:

- Presence in Vietnam: Reside in Vietnam for 183 days or more in a calendar year or within 12 consecutive months from the first date of arrival.
- Permanent Residence: Have a registered permanent residence in Vietnam or a rented house with a lease term of 183 days or more in a tax year.

Taxable Income for Residents: Residents are taxed on their worldwide income, including income earned both inside and outside Vietnam.

2.2. Non-tax residents

An individual is considered a non-tax resident if they do not meet the above criteria.

Taxable Income for Non-Residents: Non-residents are taxed only on income derived from Vietnam (Vietnam-sourced income).

3. TAXABLE INCOME CATEGORIES

PIT applies to the following nine categories of income:

TAXABLE INCOME	DESCRIPTION
Employment Income	Salaries, wages, bonuses, allowances, and other benefits in cash or in kind, including housing allowances exceeding 15% of total taxable income,

	excluding certain PIT-exempt items such as one-off allowance for relocation, payments purely for business trips, overtime premium, etc.
Business Income	Income from production, trading, or service provision, including income from sole proprietorships and freelance activities.
Capital Investment Income	Dividends, interest from loans, and profits from capital contributions.
Capital Transfer Income	Gains from transferring capital in companies, partnerships, or securities.
Real Estate Income	Gains from transferring land use rights, property ownership, or leasing real estate.
Winning Income	Lottery winnings, prizes from competitions, and promotional awards.
Royalties	Income from intellectual property rights, technology transfers, or franchising.
Inheritances	Income from inheritances of real estate, securities, or other valuable assets.
Gifts	Income from gifts of real estate, securities, or other valuable assets.

4. PIT RATES

4.1. Employment income

For tax residents, employment income is taxed at progressive rates:

MONTHLY TAXABLE INCOME (VND)	TAX RATE (%)
Up to 5 million	5%
5 - 10 million	10%
10 - 18 million	15%
18 - 32 million	20%
32 - 52 million	25%
52 - 80 million	30%
Over 80 million	35%

For non-residents, employment income is taxed at a flat rate of 20% on Vietnam-sourced income.

4.2. Other income categories

INCOME TYPE	TAX RATE FOR RESIDENTS	TAX RATE FOR NON-RESIDENTS
Business Income	Varies by business type, from 0.5%-5%	Varies by business type, from 1%-5%
Capital Investment Income (not bank interests)	5%	5%
Capital Transfer Income (in the LLC)	20% of the net gain	0.1% of transfer price
Share Transfer Income (in the listed/non-listed JSC)	0.1% of transfer price	0.1% of transfer price
Real Estate Income	2% of transfer price	2% of transfer price
Prize-winning Income	10%	10%
Royalties	5%	5%
Inheritances and Gifts	10%	10%

5. PIT DEDUCTIONS

Taxpayers are entitled to various deductions to reduce their taxable income. The key deductions include a personal deduction of VND 11 million per month (equivalent to VND 132 million per year) for all resident taxpayers. Additionally, taxpayers can claim a dependent deduction of VND 4.4 million per month per dependent, applicable to qualifying dependents such as children under 18 years old, children over 18 who are studying and have no or low income, and spouses or parents who are unable to work or have no income. Dependents must be registered with the tax authorities to qualify for this deduction.

Contributions to compulsory insurance schemes, including social insurance, health insurance, and unemployment insurance, are also deductible. Furthermore, donations to approved charitable, humanitarian, or educational organizations are eligible for deduction, provided the organizations are recognized by the

Vietnamese government. Taxpayers may also deduct contributions to voluntary pension funds, up to a maximum of VND 1 million per month.

In addition, a foreign tax credit may be applied to avoid double taxation for income earned abroad and taxed in a foreign country.

However, the aforementioned deductions are applicable to resident taxpayers, while non-residents are taxed at a flat rate of 20% on Vietnam-sourced income without deductions. Proper documentation, such as dependent registration and proof of contributions, is required to claim these deductions.

6. ADMINISTRATION

6.1. Registration

Individuals earning taxable income are required to register for a Tax Identification Number (TIN). Employers, on the other hand, are responsible for registering their employees for PIT purposes if the employees do not already have a TIN. The registration process can be carried out either through the local tax authority or online via the GDT's portal.

6.2. Declaration and finalization

Employers or income-paying organizations are obligated to withhold PIT from employees' salaries and declare it either monthly or quarterly, depending on their revenue size. Meanwhile, individuals earning income from multiple sources, those earning income from overseas sources (e.g., foreign salaries, dividends, or royalties), or those who need to finalize their PIT annually (e.g., due to overpayment or underpayment of tax during the year) are responsible for declaring and paying PIT themselves.

For monthly declarations, PIT withheld by employers must be paid to the tax authority by the 20th day of the following month.

For quarterly declarations, payment must be made by the 30th day of the first month of the following quarter.

PIT finalization is required at the end of the tax year, which aligns with the calendar year. Employers are responsible for finalizing PIT on behalf of employees who have only one source of income. However, individuals with multiple sources of income or those seeking tax refunds or deductions must finalize their PIT directly with the tax authority. The deadline for PIT finalization is March 31 of the following year for the former. For self-finalization, the deadline is the last day of April following the calendar year-end.

PART 5: FOREIGN CONTRACTOR TAX

1. SCOPE OF APPLICATION

The FCT applies to foreign contractors and subcontractors who conduct business or earn income in Vietnam without establishing a permanent presence, such as a branch or subsidiary. Specifically, the FCT applies to:

- Foreign organizations: Companies, partnerships, or other entities that provide goods or services in Vietnam or earn income from Vietnam-based sources.
- Foreign individuals: Individuals who provide services or earn income in Vietnam without registering as a resident taxpayer.

Transactions Subject to FCT:

The FCT applies to a wide range of transactions, including but not limited to:

- Service contracts: Consulting, management, training, technical support, and other services performed in Vietnam.
- Construction and installation: Construction, installation, and assembly projects, including those with or without the supply of materials.
- Leasing of machinery and equipment: Rental of machinery, equipment, or other assets used in Vietnam.
- Royalties and licensing fees: Payments for the use of intellectual property, trademarks, patents, or technology.
- Interest payments: Interest paid on loans from foreign lenders.
- Supply of goods with associated services: Transactions where goods are supplied along with services performed in Vietnam, such as delivery, installation, or warranty services.

FCT exemptions apply in several cases, including:

- Pure trading of goods where delivery occurs at foreign or Vietnamese ports, and the seller bears no costs, obligations, or risks within Vietnam after delivery.
- Exemptions also apply to services provided and consumed entirely outside Vietnam, as well as specific services performed overseas, such as vehicle and equipment repairs, non-online advertising and marketing, trade promotion, foreign sales brokerage, in-person training, and sharing international postal or telecommunications charges.
- Additionally, foreign organizations and individuals using bonded warehouses or inland container depots (ICDs) for international transportation, transit, transshipment, storage, or processing purposes are also exempt from FCT.

2. TAX COMPONENTS

The FCT consists of two main components:

- VAT: Applied to the value of goods and services provided in Vietnam.
- CIT or PIT: Applied to the income earned by foreign contractors.

The VAT and CIT/PIT components are calculated separately and are based on the gross revenue of the foreign contractor.

3. METHODS OF TAX PAYMENT

Foreign contractors can fulfill their FCT obligations using one of three methods, depending on their business structure and level of compliance with Vietnamese regulations:

3.1. Deduction method

- This method applies to foreign contractors who register for VAT purposes in Vietnam and comply with Vietnamese accounting regulations.
- VAT is calculated using the credit method, where input VAT is deducted from output VAT.
- CIT is calculated based on the contractor's net taxable income, which is determined after deducting allowable expenses.
- Contractors using this method must file VAT and CIT returns directly with the tax authority.

3.2. Direct method

- This is the most common method and applies to foreign contractors who do not register for VAT purposes.
- Under this method, the Vietnamese party (payer) is responsible for withholding and remitting the FCT on behalf of the foreign contractor.
- The VAT and CIT components are calculated as a percentage of the gross revenue of the foreign contractor.

3.3. Hybrid method

- This method allows foreign contractors to register for VAT purposes and calculate VAT using the credit method, while CIT is calculated based on the direct method.
- It is less commonly used and requires approval from the tax authorities by requesting a ruling.

4. TAX RATES

The FCT rates vary depending on the type of income and the nature of the transaction. The following table outlines the standard VAT and CIT rates for common types of income:

TYPE OF INCOME	VAT RATE	CIT RATE
	Exempt ¹	1
General/Normal/Non-specialized services	5	5
Oversight and operation of integrated hospitality venues, including dining establishments, lodging facilities, and gaming destinations.	5	10
Execution and assembly services <u>excluding</u> the provision of materials, machinery, or equipment.	5	2
Execution and assembly services <u>including</u> the provision of materials, machinery, and equipment.	3	2
Transportation/Logistics arrangements	3 ²	2
Interests	Exempt	5
Royalties	Exempt ³	10
Securities transfer	Exempt	0.1
Financial instruments	Exempt	2
Not able to be classified into any of the categories listed above	2	2

¹ Applicable to (i) VAT-exempt goods and (ii) goods for which VAT has been duly paid upon importation

² If the statutory conditions for international transportation under VAT regulations are met, a 0% VAT rate will apply.

³ A VAT rate of 5% shall apply to charges for the right to use intellectual property under licensing and/or subscription agreements, as well as for the transfer of intellectual property not regulated by Vietnam's IP law.

5. COMPLIANCE REQUIREMENTS

Vietnamese entities engaging foreign contractors are responsible for ensuring compliance with FCT regulations. Key compliance requirements include:

Registration

- The Vietnamese party must register the foreign contractor's tax code with the local tax authority before making any payments.

Withholding and Payment

- The Vietnamese party must withhold the applicable FCT from payments made to the foreign contractor and remit it to the tax authority.
- The FCT must be declared and paid within 10 days of making the payment to the foreign contractor.

Tax Declaration

- FCT declarations must be submitted to the tax authority using the prescribed forms.
- The declaration must include details of the contract, payment amounts, and applicable tax rates.

Record-Keeping

- Proper documentation, including contracts, invoices, and payment records, must be maintained for tax audits.

6. DIGITAL (E-COMMERCE) SERVICES

Currently, Vietnam tax regulations also set out the tax administration framework for foreign companies conducting e-commerce, digital business, and other activities in Vietnam without a PE.

These companies are required to register, file quarterly tax declarations, and pay taxes online via the GDT's portal.

Where a foreign company does not directly comply, Vietnamese businesses are responsible for withholding and declaring taxes on their behalf, while banks or payment intermediaries must do so for individual customers. If withholding is not feasible, such as with credit card payments, banks or intermediaries must monitor and report transactions to the tax authorities on a monthly basis.

Notably, the GDT launched its tax portal for foreign e-commerce companies and published a list of registered companies, which is continuously updated. For foreign companies registered through the portal, Vietnamese businesses are not required to withhold taxes on payments made to them.

7. PERMANENT ESTABLISHMENT UNDER VIETNAM LAWS

Under Vietnamese law, a PE is broadly defined to include various forms of business presence in Vietnam.

This includes fixed places of business such as branches, offices, factories, or workshops, as well as construction sites or installation projects that last more than six months. It also covers establishments providing services, including consultancy, through employees or personnel for more than 183 days within a 12-month period. Additionally, a PE can be created through agents authorized to sign contracts or regularly deliver goods in Vietnam, or representatives acting on behalf of a foreign enterprise with the authority to conclude contracts or conduct business activities.

However, certain activities are excluded from creating a PE, such as using facilities solely for the storage, display, or delivery of goods, maintaining stock for these purposes, purchasing goods, collecting information for the enterprise, or engaging in preparatory or auxiliary activities.

Foreign enterprises with a PE in Vietnam are subject to tax on both taxable income arising in Vietnam and taxable income arising outside of Vietnam, provided the income is related to the activities of that PE. Additionally, they are also subject to tax on taxable income arising in Vietnam that is not related to the activities of the PE.



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