



DOING BUSINESS IN VIETNAM

A reference guide to entering the Vietnam market

Accelerate to breakthrough

April 2024

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Foreword

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April 2024



Dear Readers,

Welcome to the inaugural edition of the Doing Business Guide in Vietnam, an annual publication curated by VVIC. This publication aims to offer insights into the overarching economic landscape and serve as a valuable resource for business endeavors in Vietnam.

Vietnam, a swiftly progressing nation, has reaped substantial benefits from a multitude of free trade agreements. Notably, the recent surge in trade with participating nations following agreements such as the EVFTA and CPTPP has been remarkable. With the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in force and the impending ratification of the EU-Vietnam Free Trade Agreement (EVFTA), the Ministry of Planning and Investment of Vietnam anticipates a potential 1.35 percentage point GDP increase by 2035, with the EVFTA alone projected to boost GDP by 15 percent. These agreements, complemented by existing FTAs, are poised to uphold Vietnam's competitiveness in the foreseeable future.

Moreover, Vietnam has emerged as a significant beneficiary of the strategic shift away from China by numerous prominent multinational corporations.

Nevertheless, this rapid economic expansion has presented sustainability challenges. As global trade increasingly emphasizes environmental, social, and governance considerations, Vietnamese export-oriented firms have had to refine their practices to align with evolving expectations.

Concurrently, Vietnam has established pivotal regulatory frameworks focusing on sustainability for businesses operating within its borders. Against this backdrop, we introduce this comprehensive Doing Business in Vietnam guide, emphasizing sustainability.

This detailed guide encompasses various topics ranging from business establishment in Vietnam to social insurance contributions. In this edition of An Introduction to Doing Business in Vietnam 2024, we delve into:

- Setting Up in Vietnam
- Taxation, Auditing, and Accounting
- Human Resources and Payroll
- Special Feature: Investing in Vietnam's Sustainable Future

The guide outlines essential information on taxation and accounting in Vietnam, covering various aspects from business licensing fees to corporate income taxes. It also addresses transfer pricing and Vietnam's environmental tax, among other pertinent tax-related subjects.

Chapter 1

Forms of Foreign Direct Investment in Viet Nam

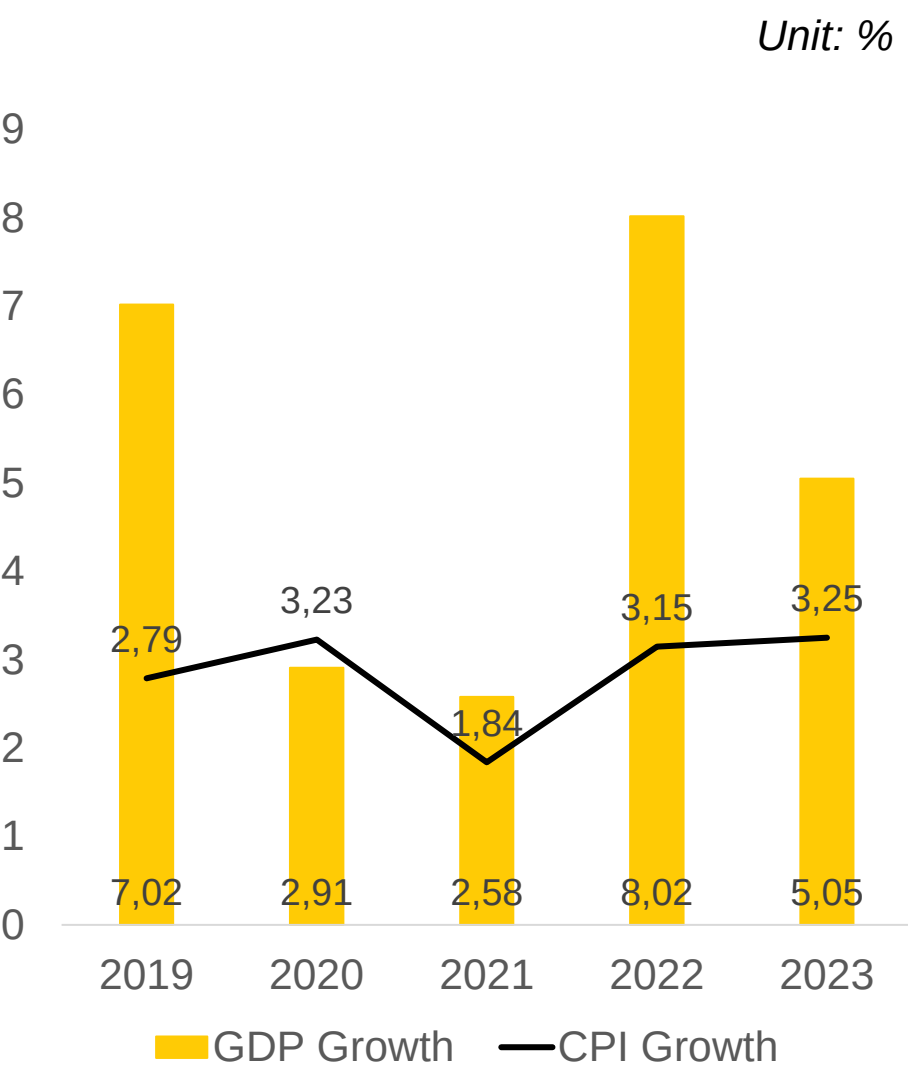
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Investment Climate (1 of 2)

Gross Domestic Product (GDP) Growth and Consumer price index (CPI) in Vietnam 2019-2023



In 2023, Vietnam's economy saw continued growth despite global challenges. The country's **Gross Domestic Product (GDP) increased by 5.05%** compared to 2022, surpassing the global average of 2.9% and ASEAN's growth of 4.3%.

Average Consumer price index (CPI) in the fourth quarter of 2023 increased by 3.54% compared to the fourth quarter of 2022. For the whole year 2023, **Consumer price index (CPI) increased by 3.25%** compared to the previous year, reaching the target set by the National Assembly.

In 2024, the government projects GDP growth of **6 to 6.5%**, driven by manufacturing, exports, and public spending. Increased public investment is expected to generate positive effects such as boosting aggregate demand, instilling investor confidence, and stimulating local economic activity in targeted regions.

Source: General Statistics Office of Vietnam

GDP by sectors



3.83%, contributing 8.84%

Agriculture, forestry and fishery



3.74%, contributing 28.87%

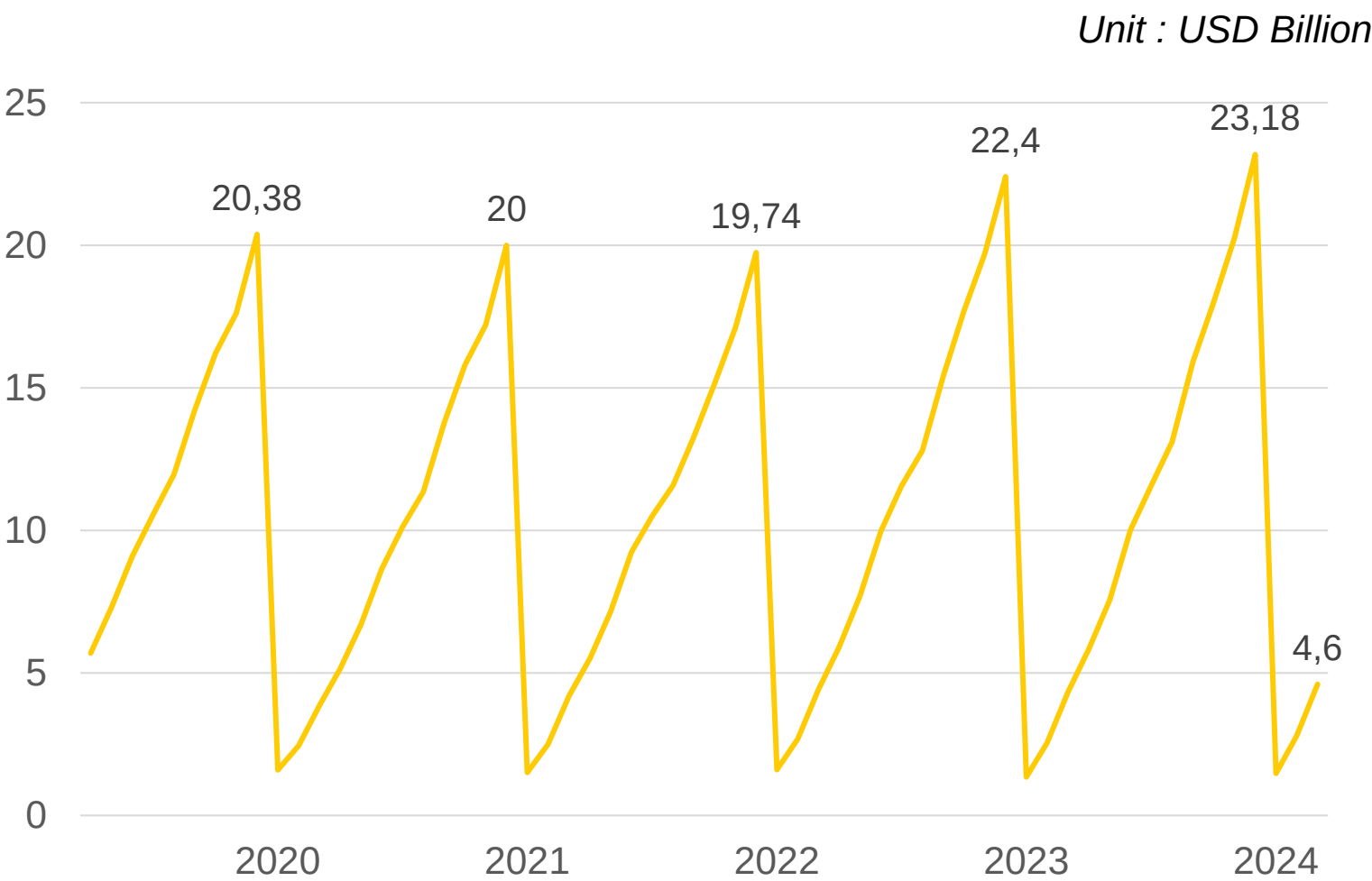
Industry and construction



6.82%, contributing 62.29%

Service

FOREIGN DIRECT INVESTMENT SITUATION



Source: Ministry of Planning and Investment, Vietnam

Foreign direct investment “FDI” in Vietnam saw a notable increase of 7.1% compared to the previous year, reaching USD 4.6 billion in the initial quarter of 2024, as reported by the Ministry of Planning and Investment. Furthermore, FDI commitments, often indicative of forthcoming disbursements, experienced robust growth of approximately 13.4% year-on-year, totaling \$6.17 billion. During this period, 644 new projects were approved for investment, with a combined registered capital of \$4.77 billion, marking a substantial rise of 23.4% in project numbers and 57.9% in value compared to the previous year. Notably, the manufacturing and processing sector is poised to attract the most significant share of investments at 63%, followed by real estate at 26%. Singapore and Hong Kong emerged as the primary sources of investment in Vietnam.

Vietnam consistently presents itself as a promising market for foreign investors. To streamline business activities in Vietnam, foreign investors have the option to acquire shares, invest in capital contributions, or contribute capital towards establishing a company.

Establishing a business in Vietnam in 2024 necessitates a keen focus on the evolving investment and business regulations. Moreover, against the backdrop of an economic recession, investors are compelled to evaluate burgeoning sectors for potential opportunities.

Despite Vietnam's allure as an investment hub for international stakeholders, the process of company establishment remains intricate, entailing adherence to elaborate legal protocols. This segment delineates the requisite steps for companies intending to commence operations within the country.

This publication offers clear and concise guidance on the various investment structures available in Vietnam, outlining the essential roles, required documentation, and procedures for investment.

For individuals seeking to establish a company in Vietnam, this guide provides a comprehensive overview of the necessary steps and requirements, aiding in distinguishing between different company types and operational structures.

Foreign investor may carry out the following forms of investment in Vietnam:

Direct investment

- Establishment of a new legal entity;
- Capital contribution/acquisition in existing legal entities;
- Implementation of an investment project;
- Business Cooperation Contracts (BCC) signed with other local or foreign investors

⇒ Direct Investment is the form of investment in which the investor **provides investment capital and directly participates** in the management of investment activities.

Indirect investment

- Purchase of shares, share certificates, bonds and other valuable papers traded on the stock exchanges;
- Investment through securities investment funds;
- Investment through other intermediary financial institutions.

⇒ Indirect Investment is the form of investment where the investment forms **part of a portfolio and does not participate** in the management of investment activities.

Types of business entities (2 of 3)

Investors have several options for entry into the Vietnamese market. In this chapter, we will outline the most common forms of corporate structure options for foreign investors.



A **REPRESENTATIVE OFFICE (RO)** is a common initial form of establishment for foreign organizations exploring investment or business opportunities in Vietnam. Legally, an RO is a dependent unit of the foreign business entity. It can survey the market and engage in commercial promotion activities as allowed by Vietnamese law. However, an RO cannot engage in directly profit-generating activities.



Technically, a **BRANCH** is a dependent unit of a foreign business entity, established to conduct commercial activities within Vietnam under Vietnamese law or relevant international treaties. However, branches are not a common form of presence in Vietnam, being limited to specific sectors like banking, finance, and construction.



LEGAL ENTITY
Depending on the business industry, the number of investors, and the intention to publicly list the entity, a foreign investor may establish a presence in Vietnam as a **limited liability company (LLC)**, a **joint-stock company (JSC)**, or a **partnership**.

Feature	Limited liability company (LLC)	Joint stock company (JSC)	Partnership
Required number of members/ shareholders	- One members (for single member LLC); - Two or more members, but not exceeding fifty (for multi-member LLC)	- At least three shareholders; - No restriction on maximum number of shareholders	- Unlimited liability partners: At least two general partners (individuals); - Limited liability partners (optional): Organizations or individuals
Liability of members/ shareholders	Limited to the extent of the registered capital contributions into the company	Limited to the extent of the registered capital contributions into the company	- Unlimited liability partners: Unlimited - Limited liability partners: Limited to the extent of the registered capital contributions into the company
Issuing bonds	Allowed	Allowed	Not allowed
Issuing shares	Not allowed	Allowed	Not allowed
Listing onstock exchange	Not allowed	Allowed	Not allowed

Types of business entities (3 of 3)

Mergers and Acquisitions

Foreign investors may also acquire an interest in an existing domestic enterprise, subject in some cases to ownership limitations which vary depending on the industry sector. **The legal framework for M&A** is set out under the Law on Enterprise and Law on Investment and their guiding documents, which cover conditions, procedures and tax consequences of such activities. The Competition Law also has an effect on M&A activities. Where a merger or acquisition may result in a legal entity with a **market share accounting for 30% to 50%** of the relevant market, the legal representative of such entity must notify the competition management body before the merger/ acquisition is implemented, unless the law provides otherwise.

Formal Positions Responsibilities

Main positions that each company must have in Vietnam, include:



Legal Representative

There can be more than one (1) Legal Representative appointed, but at least one of them must generally reside in Vietnam.



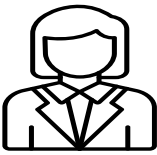
(General) Director

Is the person that operates the company on a day-to-day basis. Please note that these two (2) positions can be of any nationality, but there may be Work Permit matters to consider for foreign appointees.



Chairman of Company Members' Council Board of Managements

Who act on behalf of Owners/Capital Contribution Members/ Shareholders to execute their power toward important decisions related to the company's structure.



Chief Accountant

This position is appointed once the company is established, and takes on many of the responsibilities that a Company Secretary would do in other jurisdictions

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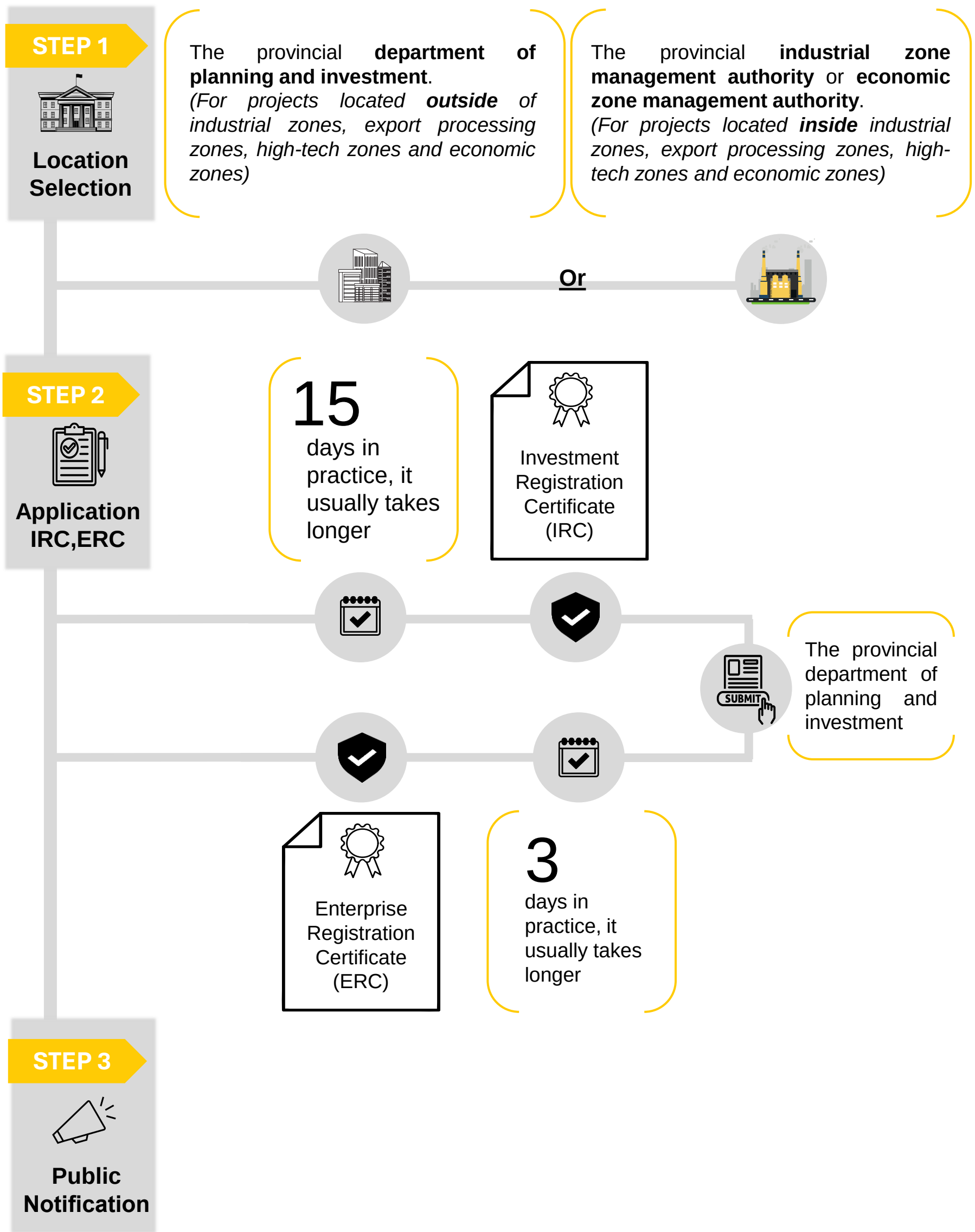
Forms of Foreign Direct Investment in Viet Nam

Setting Up a New Business (1 of 3)

Procedures for company set-up

Foreign investors investing in Vietnam in the form of establishing a new company need to obtain an Investment Registration Certificate (IRC) first for its investment project, then continue by obtaining an Enterprise Registration Certificate (ERC) for new company.

The process includes three (3) basic stages:



(*) The timeline for setup-up projects prioritized by national or provincial Government shall be shortened.
(**) Please note that an IRC is required only for investments by foreign investors or deemed-to-be foreign (i.e. companies with more than 51% of charter capital held by foreign ownership).

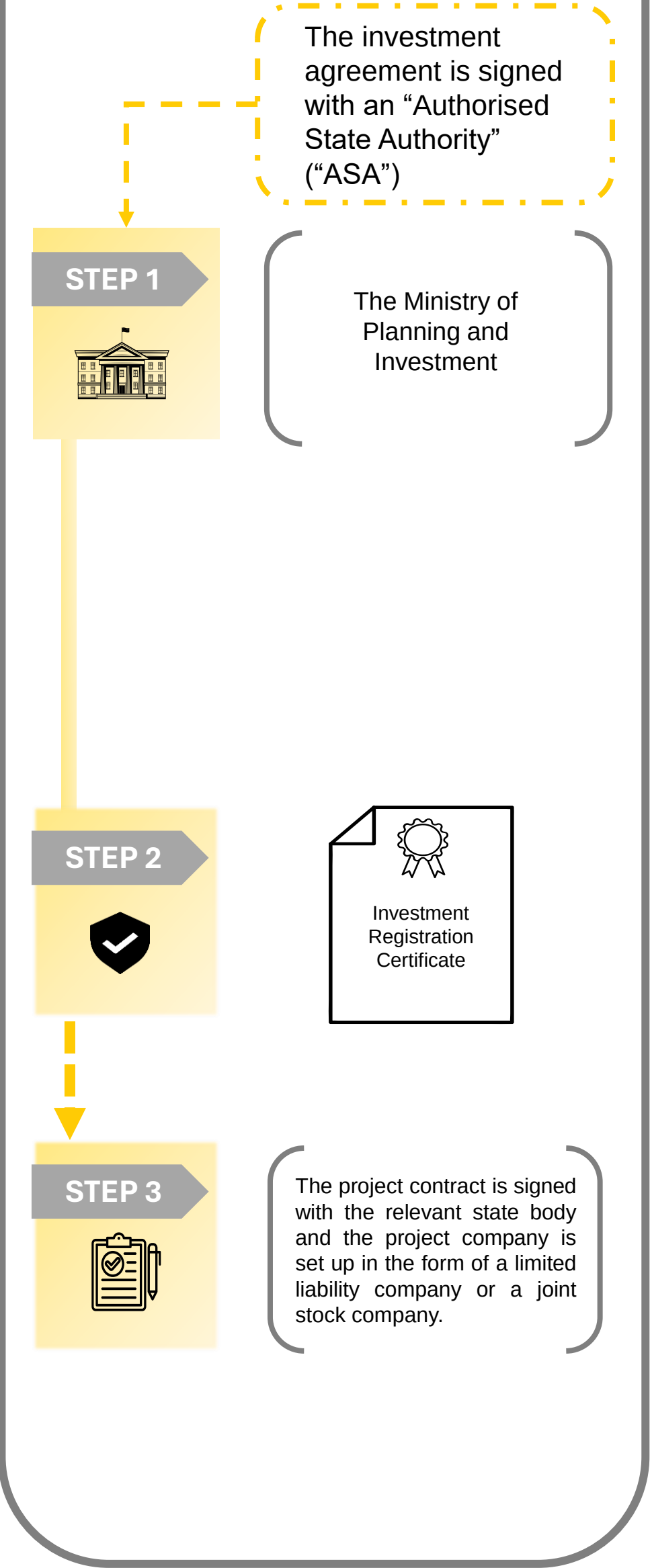
Forms of Foreign Direct Investment in Viet Nam

Setting Up a New Business (2 of 3)

Procedures for branch, representative office set-up



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



Forms of Foreign Direct Investment in Viet Nam

Setting Up a New Business (3 of 3)



Investment projects in Vietnam can qualify for incentives based on several criteria:



Location

Projects located in disadvantaged areas (difficult or especially difficult socio-economic conditions) or special economic zones are eligible.



Business Industry

Projects engaged in prioritized sectors like high-tech businesses, social services (education, medical), or infrastructure development are favored.



Other Considerations

Projects with significant investment capital, those involved in manufacturing supporting industries, rural development, or innovative startups may also qualify

Types of Investment Incentives

Qualified projects can benefit from various incentives:

I. Corporate Income Tax (CIT) Incentives

- Preferential CIT rate (lower than the standard 20% rate) for a specific period or the entire project duration.
- Exemption or reduction of CIT for a definite period (See "Chapter 04: Taxation – Section on Corporate Income Tax" for details).

II. Import Duty Incentives:

Exemption from import duties on goods for fixed assets, raw materials, and components used in the project.

III. Land Incentives:

Exemption or reduction of land rental and land use tax.

IV. Accelerated Depreciation:

Up to double the normal depreciation rate may be applied for highly efficient taxpayers.

Chapter 2

Accounting & Audit

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Accounting framework (1 of 1)

VIETNAMESE ACCOUNTING SYSTEM

The Vietnamese Accounting System for Enterprises is issued by the MOF (Circular No. 200/2014/TT-BTC date 22nd December 2014) as a general guidance on bookkeeping and reports. It provides rules and forms for companies to follow including a standard chart of accounts, regulated financial statements template, accounting books and documents templates, detailed double entries for companies' transactions and required language.

VIETNAMESE ACCOUNTING STANDARDS

From 2001 to 2015 the MOF currently has 26 Vietnamese accounting standards which are mainly based on the old versions of the respective International Accounting Standards ("IAS") at the time of issuance. However, they have not yet been updated with recent changes in IAS and do not include some key accounting standards, such as financial instruments, impairment of assets and fair value, etc.

VIETNAMESE ACCOUNTING LAW

The Law on Accounting is the highest accounting regulation issued by the National Assembly. Accounting issues are further guided and governed by various decisions, decrees, circulars, office letters and the Vietnamese Accounting Standards.

VIETNAM TO ADOPT IFRS NATIONWIDE

The Ministry of Finance ("MoF") issued Decision No. 345/QĐ-BTC approving the scheme for application of IFRS in Viet Nam with 3 stages:

- **Stage 1:** IFRS preparation (from 2020 – 2021)
- **Stage 2:** IFRS pilot implementation (from 2022 – 2025)
- **Stage 3:** IFRS compulsory implementation (from 2025) for specific subjects meeting conditions

Accounting records (1 of 1)

12
months

is **a common** duration
of the accounting
period

“VND”

Accounting records
are generally required
to be maintained in
Vietnamese Dong



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Meet our expert



Van Hau (*Harry*), CPA
Managing Partner

1. **FRAMEWORK**

Vietnamese Accounting Systems, Vietnamese Accounting Standards and applicable regulations.

2. **LANGUAGE**

Accounting records are required to be maintained in the Vietnamese language, but this can be combined with a commonly used foreign language.

3. **ACCOUNTING PERIOD**

The financial year is 12 months in length. The first accounting period of the newly established entities must not exceed 15 months from the Enterprise registration certificate date. Similarly, the last accounting period must not be longer than 15 months.

4. **CURRENCY**

The currency used in accounting is Vietnamese Dong (“VND”). Entities that receive and make payments mainly in foreign currencies can select that foreign currency to be used as their accounting currency and to prepare 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.

5. **ACCOUNTING DOCUMENTS**

Accounting documents 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 or chief accountants

6. **SEAL**

Companies are permitted to decide the form, quantity and contents of their official seals. The management, use and storage of an entity’s seal must comply with its charter.

7. **RETENTION PERIOD**

Accounting books and documents can be stored either in paper-form.. The retention periods are:

- Five years for those documents used for management or operation of the companies
- Ten years for accounting data, accounting book
- Unlimited time for documents that are important in terms of the economy, national security and defense



Financial reporting

Vietnamese accounting system requires regulated financial statements comprising:

- Balance sheet
- Income statement
- Cash flow statement
- Notes to the financial statements

An entity 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 entities and public interest entities must prepare and submit interim financial statements.

Meet our expert



Ngoc Thach (Rita), CPA
Director

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INTERNAL AUDIT

Decree No. 05/2019/ND-CP provides a legal framework for the establishment and implementation of an internal audit function, as well as the roles and responsibilities of the internal audit function and other stakeholders. 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. On 25 January 2021, the MoF also issued Circular No. 8/2021/TT-BTC on Vietnamese internal audit standards and principles of professional ethics for internal audit, which became effective from 1 April 2021. This circular provides more detailed guidance on the operation and basis for evaluating the performance of internal audit as well as the necessary professional ethics.

Target groups of the decree:



Entities including listed entities; entities with more than 50% of their charter capital held by the State, which are parent companies operating in a parent-subsidary business model; and State entities which are parent companies operating in a parent-subsidary business model.



Organisations and individuals conducting internal audit activities.



State-owned public service units satisfying certain requirements. Other governmental agencies required by the decree.



Other governmental agencies required by the decree.

47

Vietnamese Standards on Auditing

The Ministry of Finance “MoF” issued 47 Vietnamese Standards on Auditing (“VSA”) based on International Standards on Auditing (“ISA”) and which are fairly comparable to ISA at the date of issuance. The MoF is in the process to issue new VSA or amend existing VSA to be comparable to the prevailing ISA standards. In addition, Viet Nam self-developed a VSA No. 1000 on the audit of Investment Completion Audit.

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

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

The deadline for submitting **audited annual financial statements** can vary from type of business to business, but generally 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 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;
- The Department of Statistics;
- Other relevant authorities.

Roadmap of IFRS in Vietnam (1 of 1)

In the future, VAS will be superseded by IFRS, fostering global uniformity in accounting practices. The MoF is responsible for the introduction of IFRS in Vietnam. The MoF published a draft IFRS roadmap before it was submitted to the Prime Minister for approval. The roadmap divides the IFRS implementation into three stages:

2019 - 2021

Preparation stage

The MoF prepare necessary steps such as:

- Introduce the Vietnamese-translated version of IFRS
- Developing and issuing documents that provide guidelines in applying IFRS.
- Developing relevant financial mechanism.
- Provide human resource training, implementation process for businesses

2022 - 2025

Voluntary Application

Voluntarily applying IFRS to prepare **consolidated financial statements**:

- Parent company of large-scale state-owned economic group or have loans sponsored by international financial institutions;
- Parent company is a listed company;
- Large-scale public company is an unlisted parent company;
- Other parent companies.

Voluntarily applying IFRS to prepare **single financial statements**: Enterprises **with 100% FDI** capital that are subsidiaries of parent companies in foreign countries have needs and sufficient resources.

From 2025

Compulsory Application

IFRS will be mandatory for the consolidated accounts of all state-owned companies, listed companies, and (large) non-listed companies. All other companies can adopt IFRS for their financial statements on a voluntary basis.

Consider the benefits, costs and changes when implementing IFRS

The benefits of adopting IFRS:

- ✓ The quality of the company's financial statements would improve significantly;
- ✓ Companies will have more advantages in international transactions;
- ✓ FDI enterprises in Vietnam will reduce costs for converting financial statements prepared under VAS into IFRS for consolidation with overseas parent companies

However, before deciding to adopt IFRS, businesses need to consider:

- ✓ Cost and benefit issues;
- ✓ And the following material changes :
 - Tax bases will have differences with tax authorities;
 - Terms on business contracts may have to be changed in accordance with IFRS;
 - Enterprises need to be ready to comply with the requirements of providing complete and detailed information as required by IFRS.

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Source: Decision 345/QD – BTC

Chapter 3 Taxation

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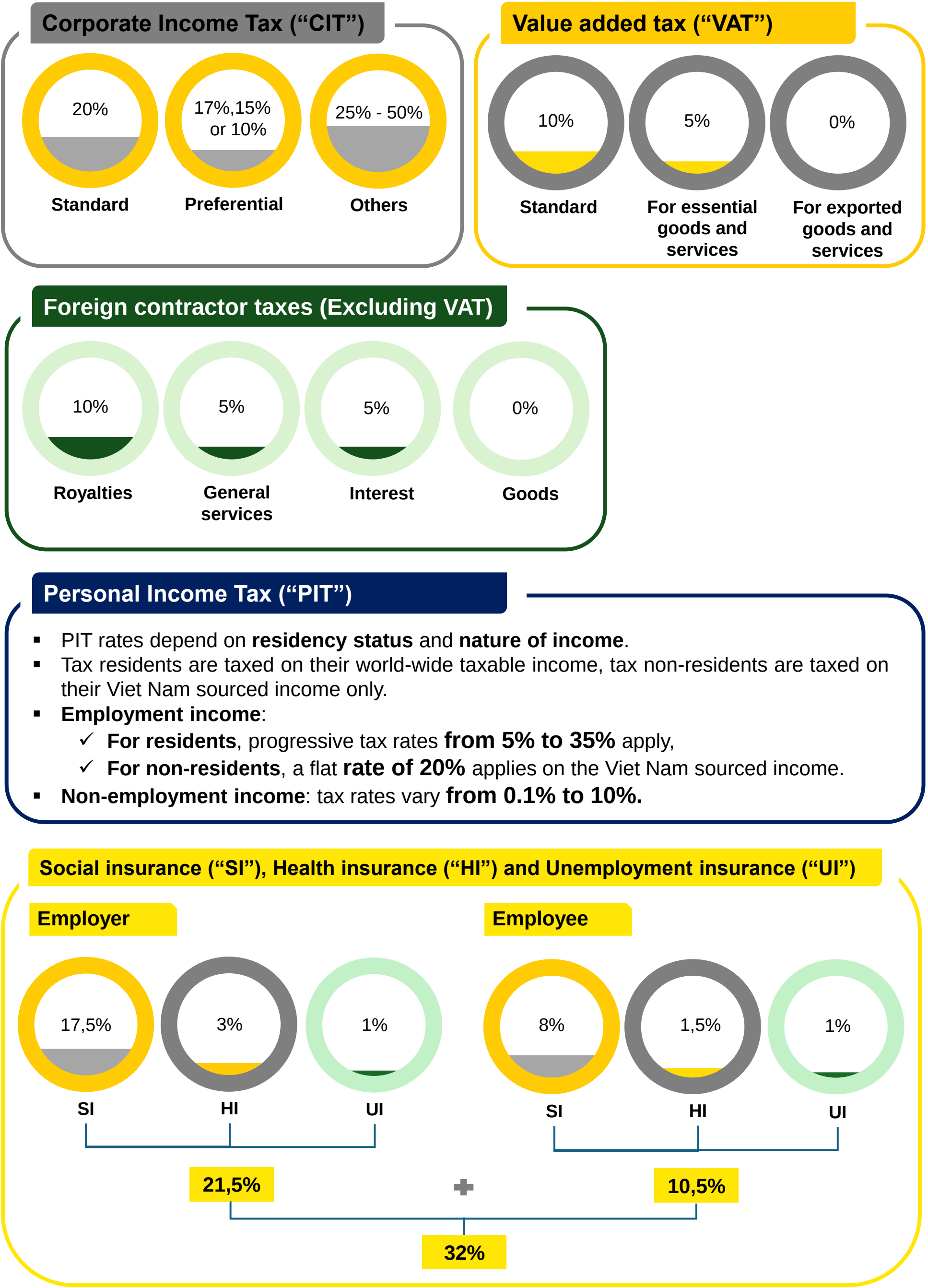
Most business activities and investments in Viet Nam will be affected by the following taxes:

- ✓ Corporate income tax;
- ✓ Foreign contractor tax;
- ✓ Value added tax;
- ✓ PIT and SHUI for employees.

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

- ✓ Special sales tax;
- ✓ Natural resources tax;
- ✓ Property taxes;
- ✓ Environment protection tax;

Tax rate summary (1 of 1)



Taxation

Tax Incentives (1 of 2)



There are two main types of CIT incentives in Vietnam:

- ✓ **Preferential tax rate:** lower tax rates compared to standard CIT rate 20%.
- ✓ **Tax holiday:** tax exemption for a certain period of time or throughout the project.
Generally, tax holiday is available from the first profit-making year or the fourth revenue-generation year, where applicable, except high-tech enterprises.



BY LOCATION

Activities	CIT incentives	
	Preferential tax rate	Tax holiday
- With especially difficult socio-economic conditions - Economic Zones - High-tech Zones, including concentrated information technology parks established under the Prime Minister's decision	10% for 15 year	4 years of tax exemption; and 50% reduction for the next 9 years
With difficult socio-economic conditions	17% for 10 years	2 years of tax exemption; and 50% reduction for the next 4 years
Industrial Parks (which are not located in the favorable socio-economic locations)	Not applicable	2 years of tax exemption; and 50% reduction for the next 4 years



BY BUSINESS SCALE

Activities	CIT incentives	
	Preferential tax rate	Tax holiday
- VND 6,000 billion capital project (1) - VND 12,000 billion capital project (2)	10% for 15 year	4 years of tax exemption; and 50% reduction for the next 9 years

Taxation

Tax Incentives (2 of 2)



BY SECTOR

The current incentive scheme is applicable for sectors that are prioritized for investment under the Government’s development policies.

Activities	CIT incentives	
	Preferential tax rate	Tax holiday
- High-tech enterprises (including science and technology enterprises); research, application, and incubation of hi-technology projects - Environmental protection - Investment for infrastructure development (water plant, power, road, port, etc.) - Software production - Supporting industries	10% for 15 year	4 years of tax exemption; and 50% reduction for the next 9 years
Socialized projects in regions with difficult/especially difficult socio-economic conditions	10% for whole project's duration	4 years of tax exemption; and 50% reduction for the next 9 years
Socialized project not located in difficult or especially difficult socio-economic regions	10% for whole project's duration	4 years of tax exemption; and 50% reduction for the next 5 years
Farming, husbandry, processing of agriculture and aquaculture in difficult regions; forestry in difficult regions; production of plant varieties, animal breeds; production of salt; preservation of agriculture products, aquaculture products and foods, etc.	10% for whole project's duration	Tax exemption and reduction under incentives for location (if applicable)
Farming, husbandry, processing of agriculture and aquaculture products not located in difficult and especially difficult regions	15% for whole project's duration	
Manufacturing of steel, energy saving products, machinery and equipment serving agriculture, forestry, fisheries and salt production, traditional crafts, etc.	17% for 10 years	

Corporate income tax “CIT” (1 of 2)

The Law on CIT applies to both domestic and foreign entities investing in Vietnam. It broadens the taxpayer base to encompass all foreign enterprises earning income from Vietnam, regardless of having any permanent establishment in the country.

Tax Year

A corporate taxpayer can choose to adopt a calendar year or a fiscal year ending on a quarter of a calendar year as the basis for the tax year.

Taxable Income

Taxable income is defined as income derived from production, trade of goods and services, and other sources from all business sectors and industries.

Deductions

An expense is deductible for CIT purpose if the following conditions are met:

1

Actually, incurred and relevant to the company's business activities

2

Payments above VND 20 million must be supported by bank payment vouchers or deemed as made via banks

3

Supported by proper documents

4

Not in the list of non-deductible expenses

Losses Carried Forward

Tax losses may be carried forward for a **maximum of five (5)** consecutive years. Ordinary losses may be offset against income that does not enjoy tax incentives and vice versa. Losses from transfer of real estate, transfer of investment projects and transfer of the right to participate in investment projects can be offset against profits from the main business activities.

After offsetting, any losses from such activities will be consecutively carried forward for a maximum period of five years to taxable income of those activities in the following years.

Losses of prior years may be rolled over and offset against provisional quarterly taxable income of the subsequent year, subject to year-end reconciliation.

Carry-back of losses is not permitted and there is no provision for transfer of losses within the group.

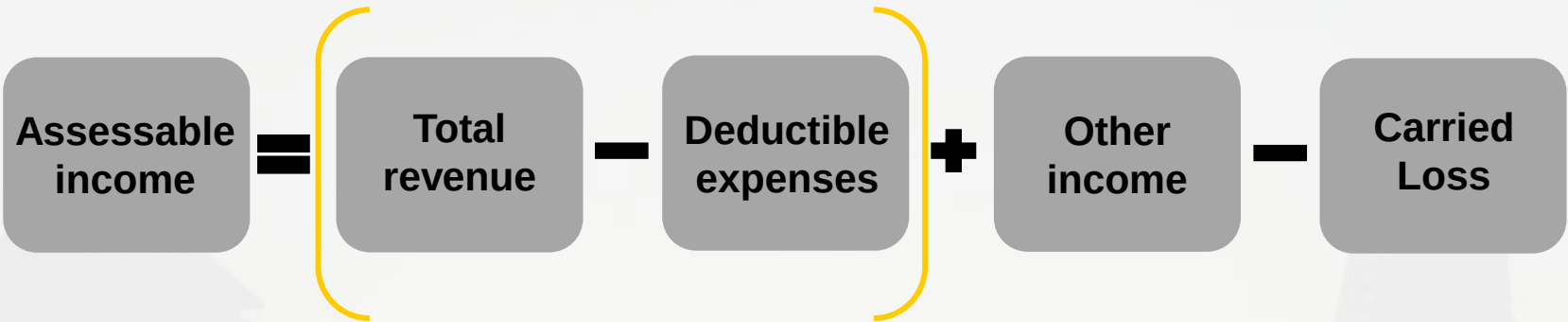
Tax rates

- The standard CIT rate is 20%;
- Companies operating in the oil and gas industry are subject to CIT rates ranging from 32% to 50%;
- Companies engaging in prospecting, exploration and exploitation of mineral resources are subject to CIT rates of 40% or 50%.

Corporate income tax “CIT” (2 of 2)

Tax payable calculation

CIT PAYABLE = TAX RATE X ASSESSABLE INCOME



Annual CIT finalization is required for companies in Vietnam (no quarterly provisional CIT returns are required but 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). This includes a section for adjusting accounting profit to arrive at taxable profit. Adjustments are generally the differences between accounting and tax regulations, such as non-deductible expenses following tax regulations, exempt incomes, etc.

The annual CIT return must be filed and submitted not later than the last day of the 3rd month (90 days) after the fiscal year end.

Profit remittance

Foreign investors are permitted to remit their profits annually at the end of the financial year or upon termination of the investment in Viet Nam in cases where they do not have accumulated losses (with notifying to the tax authorities at least 7 working days prior to the scheduled remittance).

Tax on capital transfer

CIT = 20% x (sales proceeds – cost – transfer expenses)

- Gains derived from the transfer of a Viet Nam company are subject to 20% CIT
- Cost is the initial value of contributed charter capital for the first transfer
- The tax authorities have the right to adjust the transfer price for CIT purposes where the price is not at an arms’ length market level.

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

Taxation

Value added tax (“VAT”) (1 of 1)

VAT applies to goods and services used for production, trading and consumption in Viet Nam. In addition, VAT applies on the dutiable value of imported goods. For imported services, VAT is levied via the FCT mechanism.

There are two VAT calculation methods



There are three VAT rates

The diagram shows three circles representing VAT rates. The first circle is labeled '10%' and 'Standard'. The second circle is labeled '5%' and 'For essential goods and services'. The third circle is labeled '0%' and 'For exported goods and services'. Each circle has a yellow segment at the bottom.

A Corporate Tax-payer is required to file and pay VAT on a monthly basis, or on a quarterly basis if relevant conditions are met. The standard VAT rate is 10%, but the rates are classified into four groups: exempt, 0%, 5% and 10%.

VAT exemption is provided for certain goods and services. VAT refunds are only granted in certain cases. 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.

In the effort of support businesses post Covid-19, Vietnam the Government temporarily **reduce 2%** VAT reduction applicable to most of goods and services currently subject to 10% VAT rate. This reduction shall be applied for the period **from 1 January 2024 to 30 June 2024**.

Invoicing

There are two types of e-invoices:

- **E-invoices with verification code** “High tax risk companies” are required to use e-invoices with verification codes from the tax authorities for 12 months.
- **E-invoices without verification code** Companies allowed to use e-invoices without verification codes from the tax authorities will be those in certain economic sectors.

From 01st July 2022, e-invoices will be compulsory for all enterprises

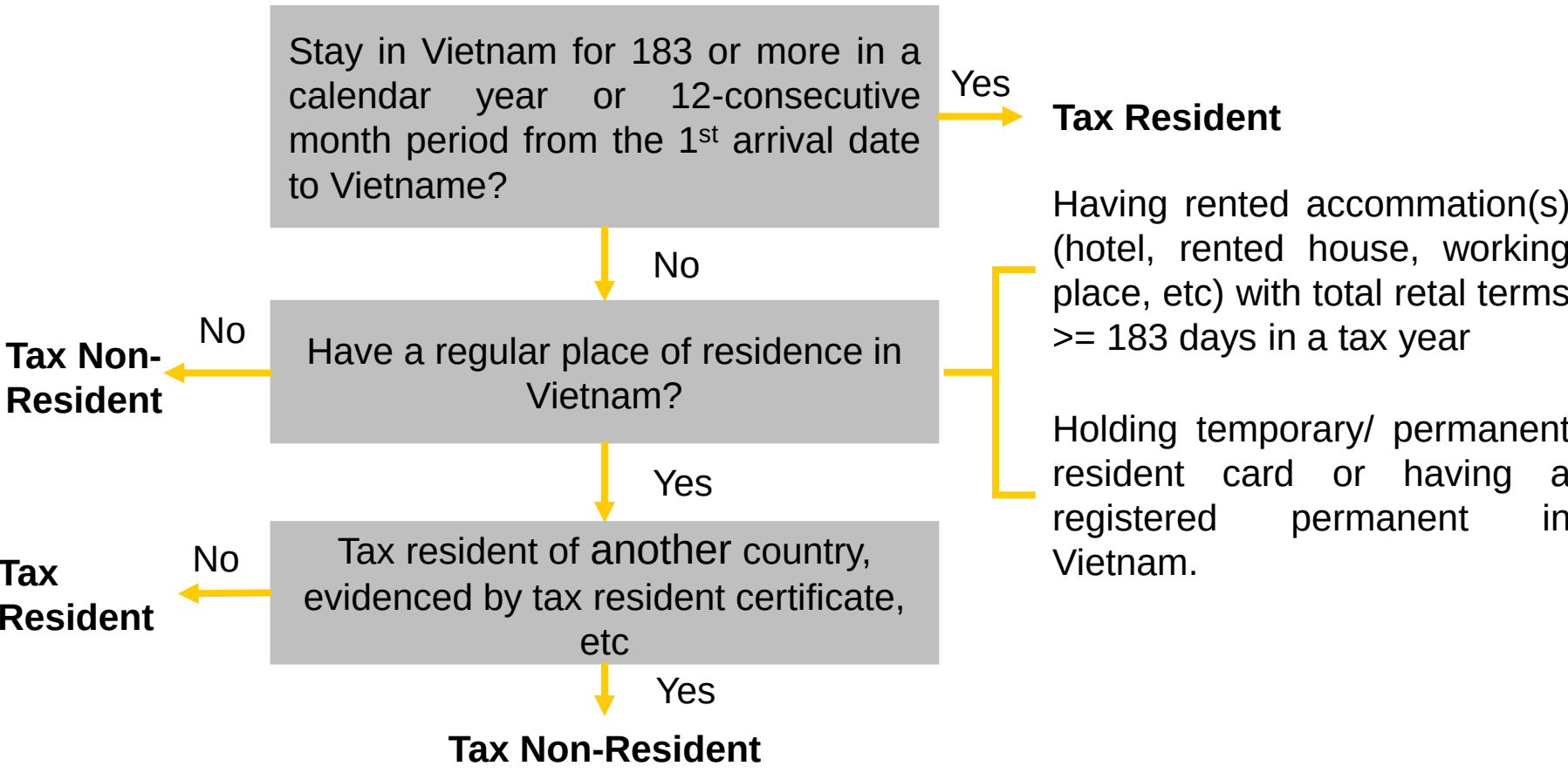
Overall

Taxpayer	Tax Resident	Tax Non-Resident
Taxable income	Worldwide income	Viet Nam-sourced income
Tax rate on employment income	Progressive rate (5~35%)	Flat rate (20%)
Tax calculation	Assessable Income = Taxable Income - Deductions	Assessable Income = Taxable Income
Deduction	▪ Personal deduction; ▪ Dependent deduction; ▪ Compulsory and (capped) voluntary insurance contribution; ▪ Charitable or humanitarian donation	No deduction is claimable
Tax finalization on employment income	Required	Not required
Tax relief	Foreign tax credit is allowed on the foreign-sourced income	Tax treaty exemption may be applicable if conditions are met

Tax residency

The incidence of PIT depends on whether an individual is a tax resident or a tax non-resident of Vietnam.

Determination of tax residency status in Vietnam



Taxpayers

FCWT is applicable to foreign organizations/individuals who conduct business or earn income in Viet Nam on the basis of a contract/agreement with

- (i) a Vietnamese party (as a main foreign contractor); or
- (ii) another foreign contractor to implement part of the contractual scope of works (as a foreign sub-contractor).

FCWT is a tax collection mechanism that normally comprises both CIT and VAT but may also include PIT for payments to foreign individuals.

Scope of application

	Subject to FCWT	Not subject to FCWT
Services	Services provided or consumed inside Viet Nam	Services provided and consumed outside Viet Nam
Goods	- Supply of goods accompanied by services; - Supply of goods in which the delivery point is inside Viet Nam	Supply of goods not accompanied by services and the delivery point is overseas or outside border gate of Viet Nam
Others	- Construction & installation - Interest - Royalties - Trademarks - Penalty/ compensation - Income from transportation activities - Security transfer	

Tax declaration

There are three methods for FCWT declaration including:



Double taxation agreements

The CIT element of FCT may be affected by a relevant Double Taxation Agreements (DTA) provided that certain conditions are met.

Viet Nam has signed around 80 DTAs and there are a number of others at various stages of negotiation.

Other Tax (1 of 1)

Special Sales Tax (SST)

Special Sales Tax (SST) is imposed on a selected number of goods and services, either at the stage of production, provision of services, or importation. Export products are exempted from SST. Imported goods liable to SST are subject to SST both upon importation from overseas and upon sales within the domestic market.

Business License Fee (BLF)

BLF is imposed on economic organizations in accordance with the registered capital in the business registration license or the investment license, ranging from VND1 million (US\$41) to VND3 million (US\$124) per year.

BLF payment is due upon registration of business for tax purposes and subsequently on an annual basis. Newly established businesses are exempt from BLF in the first year.

Natural Resources Tax

Natural Resources Tax (also known as royalty tax) is imposed on the exploitation of Vietnam's natural resources including petroleum, mineral resources, forest products, seafood and natural water. Tax rates vary depending on the specific classification of natural resource and are applied to the production output at a specified taxable value per unit.

Environment Protection Tax (EPT)

Effective from January 1, 2012, Vietnam introduced the Environment Protection Tax (EPT) to impose a tax on goods that may cause damage to the environment.

EPT applies to the production and importation of certain goods such as petroleum, coal, plastic bags, and restricted chemicals.

For 2024, a temporary 50% EPT reduction applies to petrol, gas, and grease to support taxpayers post-Covid-19.

Import and Export Duties

All goods entering Vietnam are generally subject to import duties (i.e., import duty/tax, import VAT). Import duty rates vary depending on the nature, the HS codes of the goods involved, and the origin of the goods.

There are **three import duty rates** applicable (**ordinary, preferential, and special preferential**), based on the trading relationship between Vietnam and the exporting countries are applied.

- **Special Preferential Import Duty:** In case the imported goods are proven to be originated (with a valid Certificate of Origin) from a country/region that has a Free Trade Agreement with Vietnam, a special preferential import duty is applied, which grants partial or full exemption from the import duty.
- **Exemptions:**
 - Raw materials and components imported into Vietnam for the manufacture of goods for export are usually exempt from import duties.
 - Enterprises with foreign-invested capital and parties to a BCC in especially encouraged projects are exempt from import duty in respect of certain imported goods which form part of their fixed assets.
- **Export Duties:** Most exports are duty-free, except for certain natural resources such as sand, chalk, marble, granite, ore, crude oil, forest products, and scrap metal.

Draft Tax Laws

Following the Approved Strategy on Taxation System reform up to 2030, Vietnam is in the progress of reviewing a number of tax laws as part of efforts to continue enhancing the country's investment environment.

It is targeted that the amended for VAT law, CIT law and SST law would be ratified by the National Assembly by the end of 2024 and 2025, respectively.

Chapter 4

Transferred Pricing

Accelerate to breakthrough

April 2024



FAQ of Transferred Pricing (1 of 2)

What is transfer pricing ?

Transfer pricing refers to the establishment of prices for internal transactions between affiliated enterprises within the same Group, where prices are not dependent on market factors. Prices are determined to minimize the tax burden on the Group on a global scale.

Example of transfer pricing

Multinational corporations aiming to increase their profits often use internal transfer pricing between subsidiary companies in different countries to shift a significant portion of their profits to countries with lower tax rates, with the goal of minimizing the taxes to be paid while maximizing after-tax profits across the entire Group.

Audits

In the case of transfer pricing audits, taxpayers will have 10 working days to provide the transfer pricing documentation, while they will have 30 working days to provide it during the consultation procedures prior to the audit.

Related party definition

The associated parties in Clause 1, Article 5 of Decree 132/2020/ND-CP are specifically regulated as follows:

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

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). The TP declaration forms must be submitted together with the annual CIT return within 90 days from the fiscal year end date.

Contemporaneous documentation

Companies which have related party transactions must also prepare and maintain contemporaneous three-tiered TP documentation including master file, local file and country-by-country report. The three-tiered TP documentation has to be prepared before the submission date of the annual tax return. A taxpayer may be exempt from preparing TP documentation if certain conditions are met.

30% of EBITDA cap on total interest

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 with certain conditions.

FAQ of Transferred Pricing (2 of 2)



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In case where taxpayers are exempted from the declaration and preparation of TP documentation, Decree 132 stipulates that taxpayers are **exempted from the declaration in parts III and IV in Appendix I and from the preparation of TP documentation** where taxpayers:

- (i) only engaged in related party transactions with related parties that are subject to CIT in Vietnam;
- (ii) are subject to the same CIT tax rates as the related party; and
- (iii) (neither taxpayer nor the related party is entitled to Vietnamese tax incentives in the tax period.

In case where taxpayers **are exempted from the preparation of TP documentation but still subject to declaration of Appendix I**, Decree 132 stipulates the following **three (03) exemption cases**:

- (i) Taxpayers incurring related party transactions but total sales less than VND 50 billion and total value of related party transactions less than VND 30 billion;
- (ii) Taxpayers has entered into an APA and submitted annual report in accordance with legislation on APAs. However, taxpayers still subject to determine transfer price for controlled transactions which are not covered transactions under APA.
- (iii) Taxpayers performing business activities by exercising simple functions; do not generate value or incur cost from operation or use of intangible assets; total sales less than VND 200 billion; and EBIT/ net sales reached the following thresholds: distribution sector at least 5%, manufacturing sector at least 10%, and processing sector: at least 15%.

The tax authorities have carried out many transfer pricing audits and have paid more attention in recent years. In Vietnam, companies have the option to enter into unilateral, bilateral or multilateral Advance Pricing Agreement (“APA”) with the tax authorities.

Transfer pricing assessments

Non-compliance with mandatory disclosures or contemporaneous transfer pricing documentation package, or non-arm’s length transfer pricing may be subject to reassessment of transfer pricing or profits for CIT purposes.

Penalties and late payment interest

For discrepancies identified by the tax authorities during a transfer pricing audit, a 20% penalty will be imposed on the amount of CIT shortfall, plus late payment interest (at the rate of 0.03%/day). Note that other minor administrative penalties may also be applied.

Chapter 5

HR & PAYROLL

Accelerate to breakthrough

April 2024



Human Resources “HR” (1 of 1)

In recent years, many foreign investors have moved operations to Vietnam to take advantage of its large, skilled, and inexpensive labor force. As the economy expands further and more business enters the country, it will increasingly become an important part of corporate strategy to find ways to effectively motivate staff while also complying with local labor laws.

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Meet our expert



Dai Nga (Sally)
Head of Payroll Services & HR Consulting

LABOR CONTRACTS

The Labour Code 2019 (Law No. 45/2019/QH14) stipulates that a labour contract is an agreement between an employee and an employer on paid employment, wages, working conditions, rights and obligations of each party in industrial relations. Where the two parties agree by another name having contents showing the paid job, salary and the management, administration and supervision of one party, the agreement is still considered a labour contract under Vietnamese laws.

LABOR REGULATIONS

As stipulated by the Vietnam Labour Code 2019, a newly established company is required to establish internal documents including Internal Labour Regulations, a Payroll Policy and a Salary Scale which will be issued and publicised within the company for internal application. There is no requirement to lodge the Payroll Policy and Salary Scale with the authorities (differing from the Labour Code 2012 which required the registration of a Salary Scale); however, Internal Labour Regulations must be registered with DOLISA when the number of staff employed by the company exceeds 10.

WORKING HOURS

The Labour Code 2019 stipulates that the regular working time is no more than 8 hours per day and no more than 48 hours per week.

The employer must obtain the consent of the employee to work overtime and on the contents of the work. The maximum overtime is 200 hours a year, with designated sectors, as stipulated by law, are permitted to organize overtime work up to 300 hours a year, and are required to undertake notification/registration with relevant authorities.

Human Resources & Payroll

Payroll (1 of 1)



“VVIC will act as your payroll function which makes sure that the monthly calculation and payment of staff salary is implemented properly, accurately and timely and the declaration and payment of personal income tax and related insurances comply with the valid laws.”

GROSS SALARIES

Vietnamese labour laws are structured around gross salaries being the default approach for employers. Taxes are withheld from the employees’ gross salary, and insurances are applied to the employer and employee based upon the gross salary. Where employers agree to apply net salary contracts for staff, calculations become somewhat more difficult. Further to this, although personal taxes are being paid by the employer, any tax refunds will usually be returned directly to the employee despite the employer having borne these as its costs.

MINIMUM WAGES

Zone	Minimum Monthly Wage (VND)
Zone 1	4,680,000
Zone 2	4,160,000
Zone 3	3,640,000
Zone 4	3,250,000

Zones are designated by the Government. For example, Zone 1 covers areas including urban areas of Hanoi, Ho Chi Minh City and Hai Phong, along with certain industrial areas of Binh Duong and Dong Nai.

OVERTIME

Employees who work overtime will be paid an amount based on the piece rate or actual salary.

Overtime type	Compensation rate
Weekday - day time	150%
Weekend – daytime	200%
Public holiday, paid leave days	300% (not including the daily salary during the public holidays or paid leave for employees receiving daily salaries)
Nighttime	30% extra of the aforementioned rates (Working hours at night is the period from 10 pm to 6 am)

PERSONAL INCOME TAX

Tax rate	Monthly Taxable Income (VND)
5%	up to 5,000,000
10%	5,000,001 – 10,000,000
15%	10,000,001 – 18,000,000
20%	18,000,001 – 32,000,000
25%	32,000,001 – 52,000,000
30%	52,000,001 – 80,000,000
35%	80,000,001 and above

Taxable Income for each employee, before calculating PIT, is further reduced by:

- Personal Relief of 11,000,000 VND per month, and
- Dependent Relief of an additional 4,400,000 VND per month for each registered dependent

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Human Resources & Payroll

Social, Health and Unemployment Insurance (SHUI) (1 of 1)

SOCIAL INSURANCE

Social Insurance is levied on the Gross Salary of the Employee as follows:

Employer	17.5%
Employee	8%

The maximum monthly salary that is subject to Social Insurance is capped at **36,000,000 VND** (being 20 times the Minimum Basic Wage, which is currently 1,800,000 VND per month, applied from 1 July 2023).

HEALTH INSURANCE

Health Insurance is levied on the Gross Salary of the Employee as follows:

Employer	3%
Employee	1.5%

The maximum monthly salary that is subject to Social Insurance is capped at **36,000,000 VND** (20 times the Minimum Basic Wage, which is currently 1,800,000 VND per month, applied from 1 July 2023).

UNEMPLOYMENT INSURANCE

Unemployment Insurance is levied on the Gross Salary of the Employee as follows:

Employer	1%
Employee	1%

The maximum monthly salary that is subject to Unemployment Insurance is capped at 20 times the Minimum Monthly Wage of the Zone the Employer is in. The Zone 1 minimum is 4,680,000 VND, which equates to a cap of **93,600,000 VND** per month.

TRADE UNION

Trade Union is levied on the Gross Salary of the Employee as follows:

Employer	2%
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The maximum monthly salary that is subject to the Trade Union is capped at **36,000,000 VND** (20 times the Minimum Basic Wage, which is currently 1,800,000 VND per month).

Vietnamese employees are subject to Trade Union costs at 1% of their gross salary and the cost is capped at **180,000 VND** (10% of Minimum Basic Wage) only when they participate in Trade Union.

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