cutting through complexity

Vietnam Tax Profile

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1 Corporate Income Tax

Corporate income tax	Corporate income tax
Tax rate	The standard corporate tax rate is 22 percent with effect from 1 January 2014 (previously the rate was 25 percent). The standard corporate tax rate will further reduce to 20 percent from 1 January 2016. Preferential tax rates can be obtained for encouraged projects. See "Other incentives" section for further details. Certain industries may have a higher tax rate applied (e.g. oil and gas operations and natural resources industry – 32 percent to 50 percent).
Residence	Corporate income tax applies to all domestic and foreign entities that invest in Vietnam – i.e. companies incorporated under Vietnamese laws and those which are incorporated under foreign laws and carry on a business in Vietnam.
Compliance requirements	Assessment system: generally self-assessment. There are three types of filling, as follows: ▪ Annual return (i.e. the 90th day following the end of the calendar year or fiscal year) Note: provisional quarterly corporate income tax returns are no longer required. Companies will instead be required to make quarterly provisional corporate income tax payments based on estimates. If the provisional quarterly corporate income tax payments account for less than 80% of the total corporate income tax liability per annual return, the shortfall in excess of 20% is subject to late payment interest (currently calculated at 0.05% per day), counting from the deadline for payment of the fourth quarter corporate income tax liability. ▪ Ad hoc (transaction based) returns (i.e. the 10th day following the date of incurrence of tax liability) ▪ Return for cessation of business, completion of contract, change of ownership, or re-organization (i.e. the 45th day following the event or completion of the transaction)

International withholding tax rates

Dividends paid to non-resident corporate investors are not subject to withholding tax.

Royalties paid to a foreign party for the right to use or license of patents, inventions, industrial property, designs, trademarks, copyright, and technical knowhow (broadly referred to as "transfer of technology") are subject to withholding tax of 10 percent. Where a tax treaty provides for a lower rate and conditions are met, the tax treaty rate should apply.

Withholding tax of 5 percent is applicable to interest and any other amounts charged by the offshore lender in connection with the loan agreement. An offshore loan provided by certain government or a semi-government institution may be eligible for an exemption, where a tax treaty applies.

Vietnam has a "foreign contractor tax" regime. The regime covers the taxation of outbound cross-border remittance of contract payments by a resident entity to overseas goods and services providers. Refer to the "Other Taxes" section for further details.

Holding rules

Distributions repatriated abroad by foreign invested enterprises are not subject to withholding tax. A foreign investor generally may repatriate its after-tax dividends out of Vietnam after fulfilling all tax and financial obligations towards the Vietnamese Government.

Dividends (after tax) received from a domestic business by another domestic business are also not subject to further tax; however, gross dividends (before tax) received by a domestic business from a foreign business are treated as taxable income of the domestic business. Any foreign tax which is paid on the part of income out of which dividends are paid will be deductible against the corporate tax payable in Vietnam (up to the equivalent of Vietnamese corporate tax payable on that income).

Vietnam does not have a separate "capital gains tax" regime. Capital gains made by an enterprise in Vietnam will form part of the taxable income of the enterprise and will be taxed at the prevailing standard corporate tax rate. There are specific rules for corporate income tax imposed on the transfer of capital in an enterprise or sale of securities by investors. The purchase price and transfer expenses are generally deducted from the transfer price in order to calculate the taxable capital gain.

Tax losses

Tax losses of business establishments may be carried forward fully and consecutively and offset against the profits of subsequent years for a maximum of five years. Carry back of tax losses is not allowed.

From 1 January 2014, losses from activities of real property assignments are also allowed to be offset against income from activities of production and business, or from other income.

Tax consolidation / group relief

The current corporate tax provisions do not address the concept of grouping/consolidation. The prevailing regulations do not allow profits and losses to be offset between companies within a group.

Transfer of shares

Generally, gains from transfer of shares are taxed at the prevailing standard corporate tax rate.

Currently there is no registration fee on the transfer of shares.

Transfer of assets

Gains from the transfer of assets should be subject to the prevailing standard corporate tax rate.

Where a registerable asset (such as houses, land, ships, cruisers and boats, automobiles, motorcycles, aircrafts etc.) is transferred, the new owner will be required to pay registration fees. Registration fee rates vary from 0.5 percent to 20 percent depending on the asset transferred.

CFC rules

Vietnam does not have specific "CFC" rules. However, a Vietnamese enterprise, which derives income from an investment project in a foreign country must declare and pay corporate tax in respect of the foreign income, including the case where it enjoys tax reduction or exemption under the law of the foreign country. The foreign income will be taxed at the prevailing standard corporate tax rate, even if the Vietnamese enterprise enjoys an exemption or a reduced tax rate pursuant to the current law on corporate tax.

Where foreign income has been subject to any foreign tax, which is "similar" to Vietnamese corporate tax, the Vietnamese enterprise, in principle, may claim a foreign tax credit up to the equivalent of the tax payable under Vietnamese corporate tax law.

Transfer pricing

Transfer pricing has become one of the tax authorities' priorities in relation to tax administration in recent years. The latest regulations place emphasis on the need for taxpayers to adhere to the transfer pricing guidelines and clearly defines (amongst others), related party transactions which are subject to the transfer pricing rules, transfer pricing methods and compliance requirements.

The tax authorities are given power to make transfer price adjustments, with respect to non-arm's length related party transactions, where taxpayers fail to comply with the transfer pricing requirements.

Taxpayers are required to disclose their related party transactions when filing their annual corporate tax return. In addition, the burden of proof is on taxpayers to demonstrate that related party transactions are carried out on arm's length terms. Therefore, taxpayers are required to prepare and maintain contemporaneous transfer pricing documentation.

The Government has recently issued guidance on Advanced Pricing Agreements (APAs).

Thin capitalization

Currently, there are no specific tax-driven thin capitalization rules in Vietnam. However, certain restrictions to that effect can be found in the regulations on foreign loans and corporate income tax (i.e. permitted borrowing capacity and excessive interest rates).

General anti-avoidance	There are no specific anti-avoidance rules in Vietnam. However, the regulations on tax administration have a provision which generally requires all transactions to be in line with market rate, otherwise the tax authorities will have the right to re-assess for taxation purposes.
Anti-treaty shopping	Domestic law contains provisions to limit treaty benefits where the main purpose of an agreement is to obtain tax treaties' entitlements, or where the recipient is not the beneficial owner.
Other specific anti-avoidance rules	None.
Rulings	Formal rulings are allowed and relatively common in Vietnam. Official letters issued by General Department of Taxation and Tax Departments are applicable to all relevant taxpayers or a specific organization/individual and can be used as a reference.
Intellectual property incentives	Newly established enterprises involving certain high technology projects; scientific research and technology development projects; and software production projects may be eligible for incentives.
R&D incentives	Tax law allows corporate taxpayers incorporated under Vietnamese laws to set aside a fund of up to 10 percent of its annual taxable income for research and development (R&D) purposes and deduct the same amount from its taxable income. Taxpayers self-determine the rate to be provided for R&D and are required to report details of their R&D expenditure to the tax authority together with their annual tax return. The R&D provision may only be utilized for R&D activities in Vietnam and must be substantiated by proper invoices and supporting documentation.

Other incentives

Preferential tax rates can be obtained for encouraged projects:

- A 20 percent rate is applicable to relevant enterprises with total annual revenue not exceeding VND 20 billion.
- Incentives rates may decrease to 17 percent from 1 January 2016 if certain conditions are met.
- A 10 percent rate is applicable to relevant enterprises implementing projects on investment trading of social housing.

Preferential tax treatments such as tax exemption, tax reduction, and preferential rates are limited to:

- Encouraged sectors including: healthcare, education, high-tech, infrastructure development, and software;
- Encouraged special economic zones or areas with difficult socio-economic conditions.

The taxpayer must self-assess the applicable incentives in accordance with the current tax regulations.

Hybrid instruments

There are no special rules related specifically to hybrid instruments in Vietnam.

Hybrid entities

There are no special rules applicable to hybrid entities in Vietnam.

Special tax regimes for specific industries or sectors

There are some specific tax rules that apply to the Oil and Gas, Mining, and Real Estate industries.

Related business factors

The legal entities typically used for conducting business in Vietnam are:

- One member limited liabilities company ("LLC");
- Two or more members LLC (with a maximum of 50 members); and
- Joint Stock Company (with a minimum of three shareholders).

There are capital requirements for establishing a legal entity in Vietnam and these will depend on the business sectors and/or scale of the project to be undertaken by the entity.

In addition, there may be other local requirements to establish a legal entity and these will depend on the business activities of the entity.

The foreign exchange regulations in Vietnam require that all transactions within the country and between Vietnam residents (defined for foreign exchange purpose) must be carried out in VND.

There are only certain transactions that the entity can conduct in foreign currencies as follows: Payment for purchases of goods and services from individuals and organizations outside Vietnam; repayment of foreign loans and interest; collection of revenues from the provision of goods and services to foreign customers outside Vietnam; and other allowed transactions.

2 Income Tax Treaties for the Avoidance of Double Taxation

In Force

Australia
Austria
Bangladesh
Belarus
Belgium
Brunei
Bulgaria
Canada
China
Cuba
Czech Republic
Denmark
Finland
France
Germany
Hong Kong
Hungary
Iceland
India
Indonesia
Ireland
Israel
Italy
Japan
Korea (Republic of)
Korea (Democratic People's Republic)
Kuwait
Laos
Luxembourg
Malaysia
Mongolia
Morocco
Myanmar
Netherlands
New Zealand
Norway
Oman
Pakistan
Palestine
Philippines
Poland
Qatar
Romania
Russia
Saudi Arabia
Serbia
Seychelles
Singapore
Slovak Republic
Spain
Sri Lanka
Sweden
Switzerland
Taiwan
Thailand
Tunisia
Ukraine
United Arab Emirates
United Kingdom
Uzbekistan
Venezuela

Not yet in force at time of publication	Income Tax Treaties with Algeria, Azerbaijan, Egypt, Iran, Kazakhstan, Macedonia, Mozambique, Portugal, San Marino, Turkey and Uruguay
Under negotiation	Income Tax Treaties with Argentina, Cambodia, Costa Rica, Croatia, Estonia, Kyrgyzstan, Latvia, Lithuania, Mauritius, Panama, South Africa, Sudan and Untied States
	Source: IBFD

3 Indirect Tax (VAT)

Indirect tax	Value Added Tax (VAT)
Standard rate	10 percent
What supplies are liable to the standard rate?	Goods and services used for the purposes of production, trading, and consumption in Vietnam.
Are there any reduced rates, zero rates or exemptions, and if so, what do they apply to?	Zero rate – exported goods or services; construction and installation in overseas and in non-tariff zones; international transportation; and certain airline and marine services. Exempt – there are 26 categories of VAT exempt supplies including, but not limited to, certain agricultural products; salt products; transfer of land use rights; life insurance, financial, medical, public postal, telecommunications; construction work related to cultural work; education and vocational training; radio and television broadcasting; publication; and public transportation; temporary imported goods for re-export; technology transfer. 5 percent – The provision of certain essential goods and services including, but not limited to, clean water; fertilizer; agricultural activities, products and equipment; fresh foodstuffs; medical and education equipment; and scientific and technology services *VAT ignorable transactions* There are also some transactions whereby the supplier is not required to charge VAT but is generally allowed to claim the input VAT associated with such transactions. These transactions include, but are not limited to, payments of indemnities, bonuses; financial assistance or other financial receipts, some services rendered by foreign contractors such as repair of means of transportation, advertising, brokerage services; disposal of assets owned by non VAT-registered owners; certain intercompany transfer of fixed assets; capital contributions in the form of assets; receipts from insurance claims against a third party; receipts on behalf of a third party.
Who is required to register, and what is the threshold?	VAT registration is compulsory to all organizations and individuals producing and trading taxable goods and services in Vietnam and importing taxable goods or purchasing taxable services from overseas.
Is voluntary registration possible?	Yes

Is voluntary registration available for an overseas company, or a fiscal representative?	Yes. Voluntary registration is available to eligible overseas companies carrying on business in Vietnam as 'foreign contractors', subject to their satisfaction of accounting and bookkeeping requirements under Vietnamese Accounting Standards
Typical frequency of returns	Monthly or quarterly
Are there any items that a registered business cannot recover VAT on?	Yes. These include, and are not limited to, input VAT suffered on purchases for purposes other than producing taxable goods or services; input VAT on invalid invoices; export transactions that do not satisfy bank remittance requirements
Can an overseas company recover VAT if it is not registered?	No
Typical time taken to obtain VAT refund following return filing	The tax administration law generally requires the tax authorities to process a refund application within a maximum period of 6-40 days following receipt of all required documents from the applicant. In practice, delays are common.
Are there specific requirements for content of invoices to be considered valid for VAT purposes?	Yes, invoices should be in Vietnamese and must contain name of invoice type; symbols of invoice, and invoice number pattern; names of copies of invoice; serial number of invoice; details of seller and buyer, especially their tax code numbers; details of goods/services; signatures of buyer and seller; etc.
Is it possible to apply for formal or informal advance rulings from the tax authority?	Yes
Further information	For more detailed indirect tax information, refer to: KPMG's VAT/GST Essentials and KPMG Asia Pacific Indirect Tax Guide

4 Personal Taxation

Income tax	Personal income tax
Top rate	For tax residents, there is a unified progressive tax rates applicable to (worldwide) employment and business income, with a top tax rate of 35 percent. For non-residents, a flat tax rate of 20 percent is applicable to Vietnam-sourced employment income. For non-residents Vietnam-sourced business income is taxed at 1 percent, 2 percent, or 5 percent depending on the business activities. Other income items e.g. dividends, capital gains etc. are subject to flat rates.
Social security	Social, health, and unemployment insurance contributions are compulsory in respect of Vietnamese employees. Health insurance is also applicable to foreigners working in Vietnam under labor contracts. These contributions provide the employees with entitlement to various benefits such as retirement, maternity and healthcare under the public social security and healthcare systems. The total contribution rates (i.e. social, health and unemployment insurance) are 22 percent for employers and 10.5 percent for employees, based on gross salary.
International social security agreements	Vietnam has not entered into any international social security agreements or treaties.
Further information	For more detailed personal taxation information, refer to: KPMG's Thinking Beyond Borders

5 Other Taxes

Foreign contractor tax (FCT)

FCT is a system of withholding tax with wide application in Vietnam. It is applicable to foreign entities or individuals derive income from carrying on business in Vietnam or engaging in a transaction with a Vietnamese contracting party, regardless they do have or do not have any legal entity in Vietnam (in one of the forms prescribed in the Enterprise Law- a permanent establishment).

Foreign contractors are taxed through a withholding mechanism, comprising two components: CIT and VAT. FCT rates vary depending on whether the foreign contractor has a permanent establishment in Vietnam, is registered for Vietnamese Accounting System (VAS), the length of time the services are provided, as well as the nature of supplies.

Special sales tax (SST)

SST is a form of excise tax that applies to the production or import of certain goods including cigarettes, cigars, spirits, beer, certain automobiles, assorted types of petrol, air conditioners and the provision of certain services including dance halls, massage parlors, casinos, golf clubs and lotteries.

SST rates range from 10 percent to 75 percent. Exported goods are not subject to SST.

Stamp duty

Stamp duty (formally known in Vietnam as a "Registration Fee") only applies on the required registration of ownership of certain assets, including buildings/land, transportation vehicles and guns.

Rates vary between 0.5 percent and 20 percent.

Inheritance/gift tax

The income from inheritance or gifts in excess of VND10 million/per receipt is subject to personal income tax at the rate of 10 percent except for inheritances, or gifts of real property between specified family members or next-of-kin.

Property taxes

Property tax in Vietnam is levied in the form of three taxes: land-use fee, land rental and non-agricultural land-use tax.

The land-use fee applies to organizations which are allocated land by the State to develop infrastructure for sale or for lease. The duration of land usage under this category should be "long term stable use".

Land rental is the amount an investor may pay to lease (or rent) land in Vietnam. The amount varies depending on a number of factors including location of the land and the value of the land. Payment of the lease can be for a long and fixed period of time or annually.

Non-agricultural land-use tax applies to residential land in rural/urban areas and non-agricultural land used for business purposes. The calculation of tax liability is based on the land area, price of land and tax rate.

Natural resource tax (NRT)

NRT (also known as production royalty tax) is imposed on the exploitation and use of natural resources including metallic or non-metallic minerals, crude oil, natural gas, coal gas, natural forest products, natural marine products, natural water, swallow's nests, and other natural resources. The applicable tax rates vary from 3 percent to 35 percent depending on the specific classification of natural resources and/or production output.

Business license tax (BLT)

BLT is imposed on economic organizations in accordance with the registered capital in the business registration license or the investment license, ranging from VND1 million to VND3 million per year.

Payment of BLT is due upon registration of business for tax purpose and subsequently on an annual basis.

Environment protection tax and fee

Vietnam introduced Environment Protection Tax (EPT) in 2012, which is aimed to impose tax on goods, which may cause damage to the environment, such as gasoline, oil and grease, coal and certain chemicals.

Besides EPT, Vietnam has also introduced Environment Protection Fee (EPF). EPF is aimed at businesses engaging in mining natural resources including crude oil, natural gas, coal gas, and both metallic and non-metallic minerals. Rates vary depending on the type of mineral.

6 Trade Agreements

In Force

Bilateral agreements:

- Canada
- Chile
- European Union (Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom)
- Israel
- Switzerland
- United States of America

Bilateral Free Trade Agreements (FTAs):

- Vietnam-Chile Free Trade Agreement (VCFTA)
- Vietnam-Japan Economic Partnership Agreement (VJEPA)

ASEAN FTAs:

- ASEAN Trade In Goods Agreement (ATIGA)
- ASEAN-Australia-New Zealand Free Trade Area (AANZFTA)
- ASEAN-China Free Trade Area (ACFTA)
- ASEAN-India Free Trade Area (AIFTA)
- ASEAN-Japan Comprehensive Economic Partnership (AJCEP)
- ASEAN-Korea Free Trade Area (AKFTA)

Not yet in force

- Vietnam-Korea Free Trade Agreement (VKFTA) (officially signed and expected to be effective as of 1 January 2016)
- Vietnam-Eurasian Economic Union Free Trade Agreement (VEEUFTA) (officially signed but not yet effective)

Being negotiated

- Regional Comprehensive Economic Partnership (RCEP) including: ASEAN-China-Japan-India-Korea-Australia-New Zealand
- ASEAN-EU
- Vietnam-EU
- Vietnam-EFTA
- Trans-Pacific Partnership (TPP)

7 Tax Authority

Tax authority

General Department of Taxation, which is directly under the Ministry of Finance.

Link to General Department of Taxation

Tax audit activity

A tax audit may be opened into any tax return filed. The tax authority generally takes a risk based approach to the selection of returns for tax audit. However, some tax audits are opened based simply on random selection. In our experience, the majority of companies can expect to be audited by the tax authority approximately every 3-5 years, although some companies are audited every year.

The tax authority's approach to tax audits is largely a manual approach including detailed consideration of invoices and key documents. A typical tax audit commences with a site visit, questionnaire, or letter requesting provision of supplementary analysis or information. Taxpayers are advised to contact their tax advisor immediately when a tax audit commences or any correspondence is received from the tax authority.

Key focus areas for the tax authority in tax audits conducted in recent years have included:

- Transfer pricing
- Corporate income tax
- Value added tax
- Personal employment income tax
- Foreign contractor tax

The tax authority sometimes uses data analysis technology in order to enhance the targeting and focus of their tax audit activity.

Appeals

Upon the receipt of a tax audit report, a company is entitled to appeal against the tax authority or directly bring the matter to the court. The former option is politically more preferred than the latter.

Tax governance

There are some schemes that encourage good governance for customs duties but not for other taxes at present in Vietnam. However, all businesses would be encouraged to periodically review their tax risks, governance and controls across their various relevant national and international tax compliance obligations, as appropriate to their size and complexity.

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