KPMG

Investing in Vietnam

Going for Gold

"Investing in Vietnam" Webinar Agenda

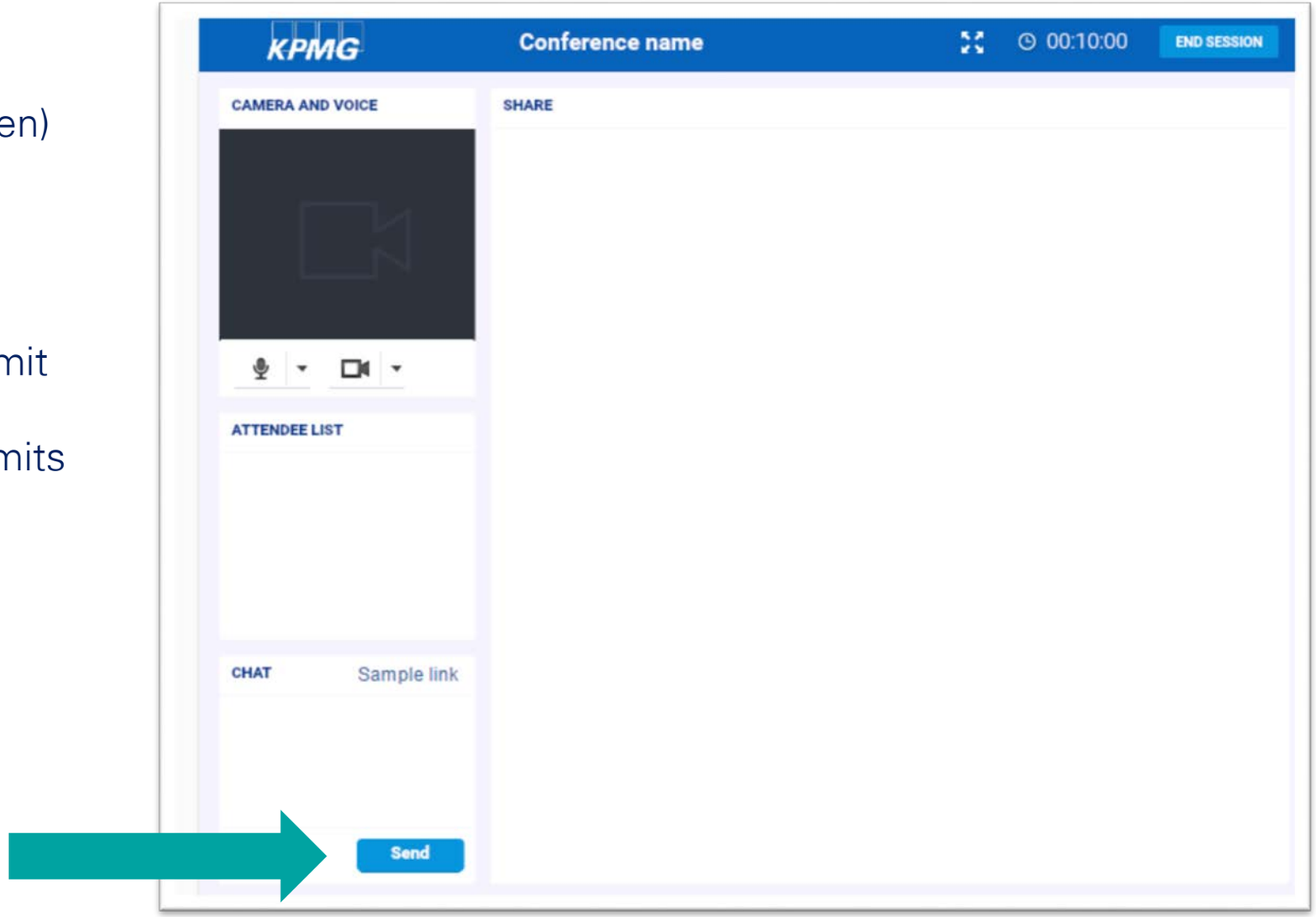
15:00 - 15:05	Introductions
15:05 - 15:20	Vietnamese Economy, an Overview
15:20 - 15:30	A. Vietnam: Opening of the Market B. Tax Overview, and Incentives
15:30 - 15:40	Why invest in Vietnam?
15:40 - 16:00	Question & Answer

Question and Answer Session

Please submit questions in chat window (bottom right corner of screen) any time.

Don't forget to hit SEND.

I will compile the questions and submit them to the speakers in the last 20 minutes of the webinar, as time permits



Key Presenters

Dr. Nguyen Cong Ai,
PhD International Business

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Mr. Huynh Nhan

Partner, Transfer Pricing Services,

KPMG Vietnam

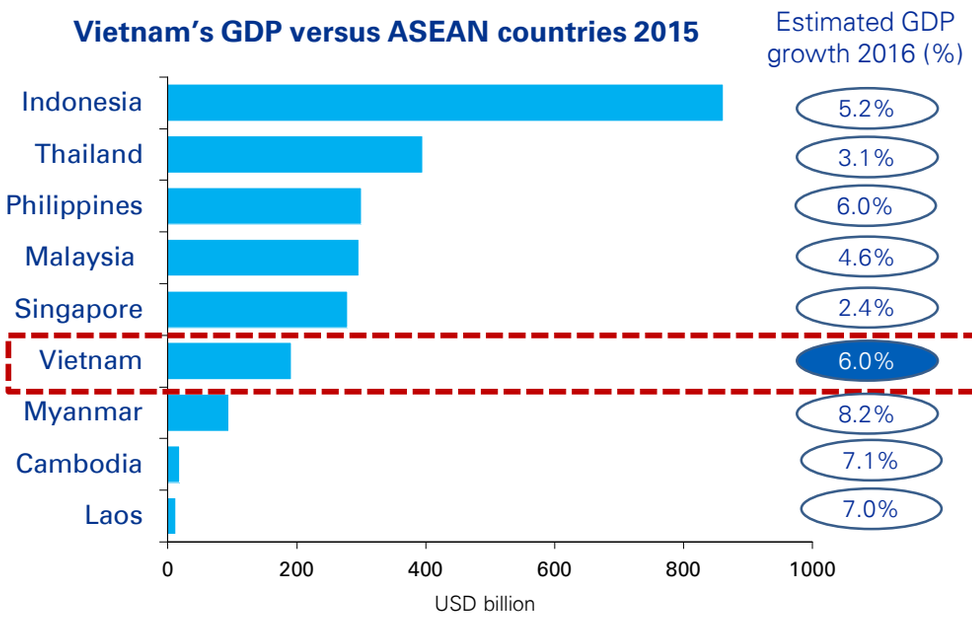
Vietnam Economy Overview

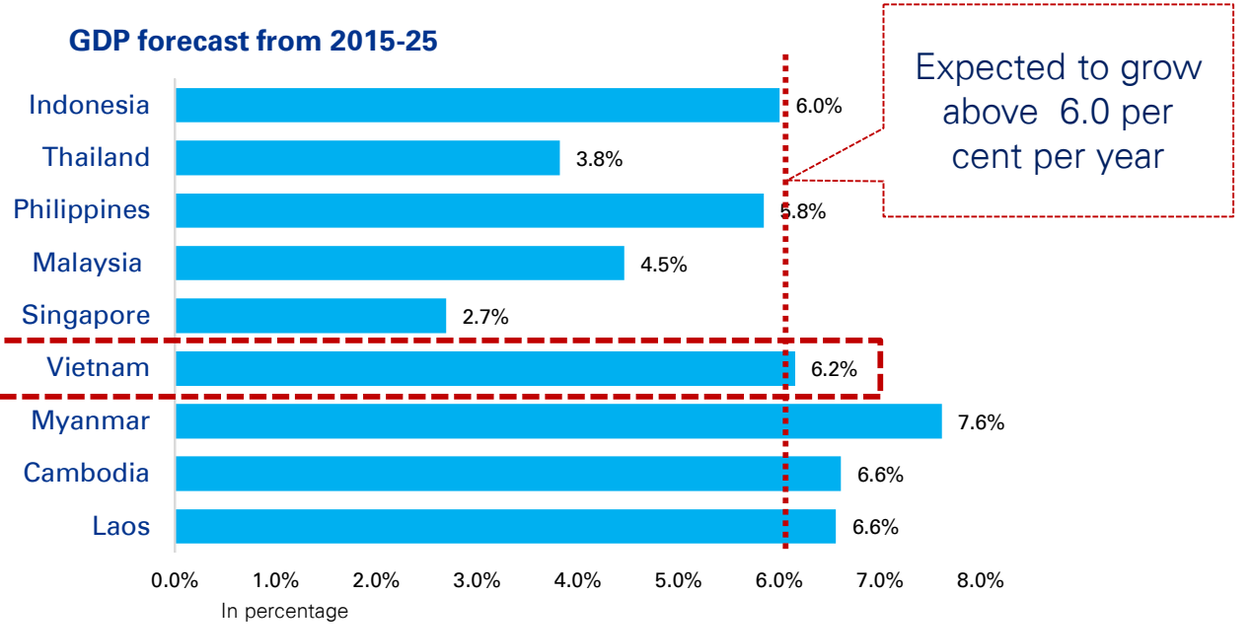
Vietnam Overview

- Population of more than 90 million people
- Large workforce of around 60% of total population
- Fast growing economy
- Politically stable
- Reform oriented
- Attractive market with:
  - Relatively low-cost base
  - Part of ASEAN Economic Community (AEC), access to South China Market
  - Emerging domestic market

Vietnam continues to grow

Vietnam's GDP is expected to grow at approximately 6% per year till 2025, one of the fastest growing economies in the region

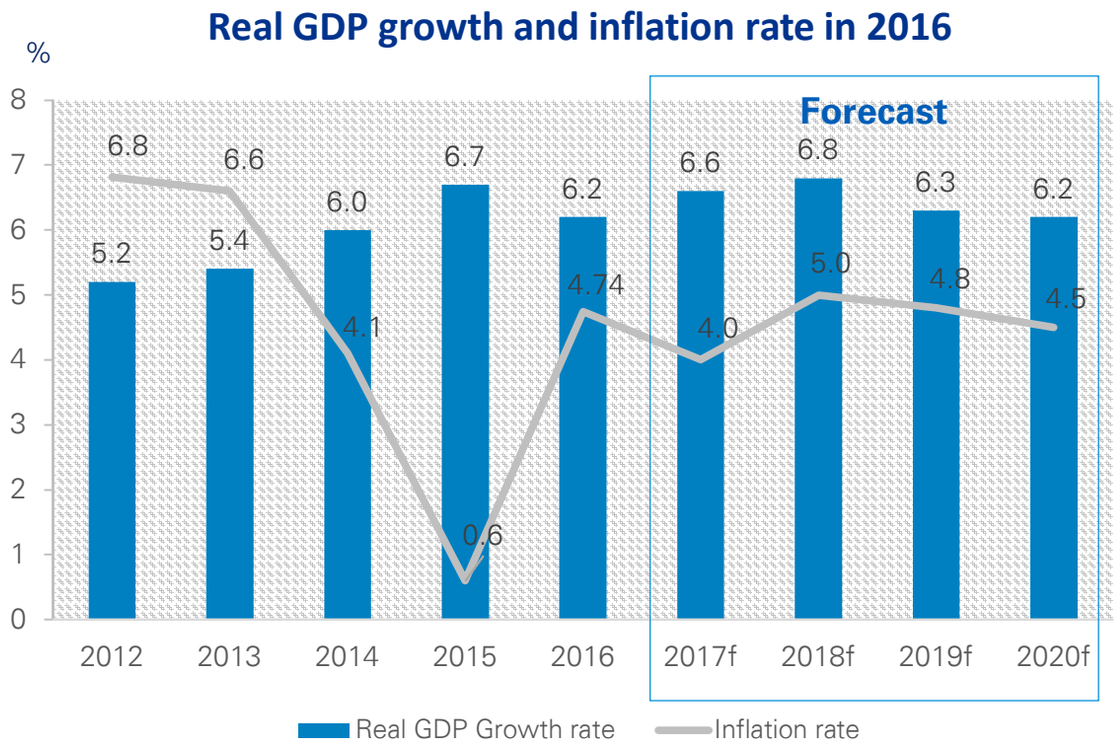


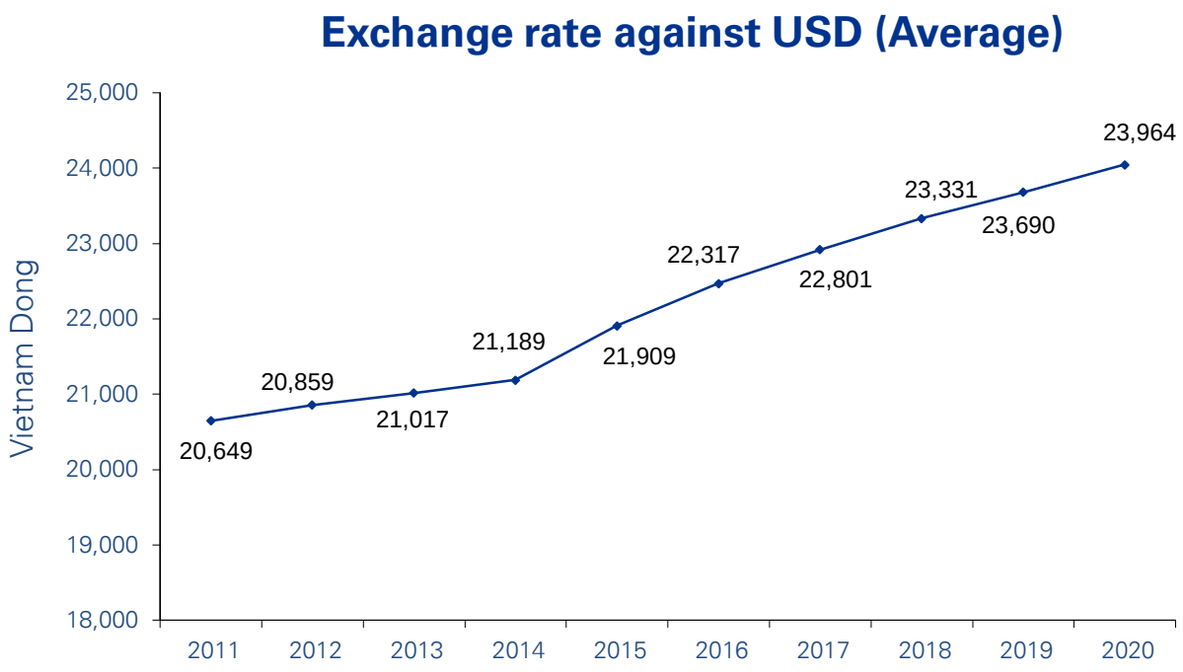


Sources: Business Monitor International

A Stable Economy

The government shifted from a high growth strategy to one that would bring macroeconomic stability, where enabling a sustainable growth



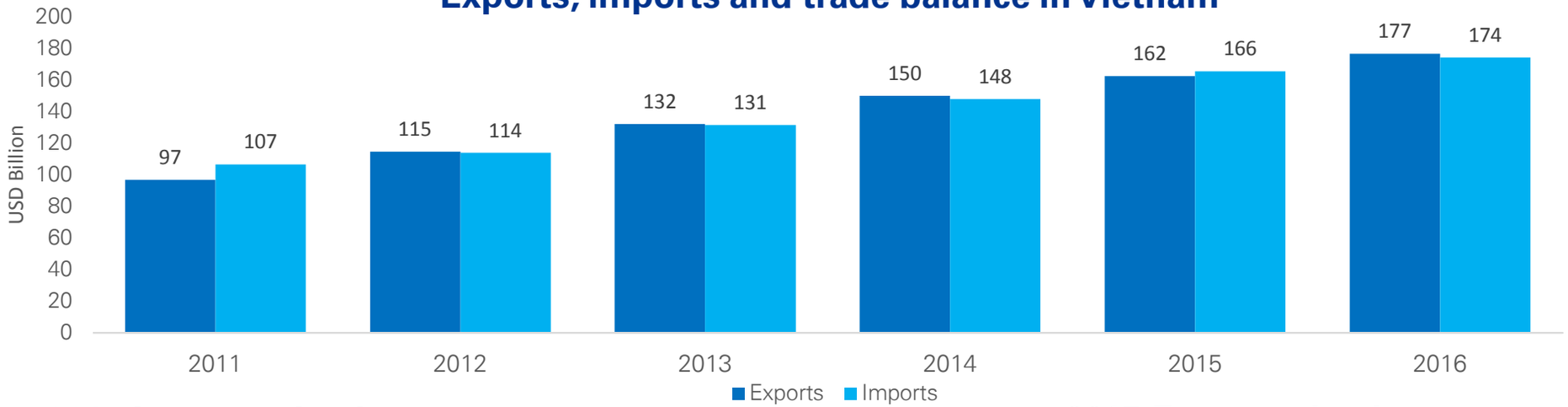


Note: GDP growth (% real change per annual
Inflation rate (% change per annum; average)
Source: Economic Intelligence Unit, GSO

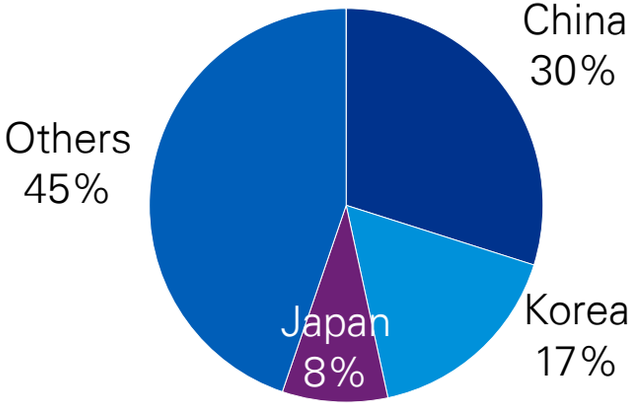
Exports Performed Strongly

While **the United States and China continue to lead export and import** trading with Vietnam, trading activities with other nations such as South Korea and Japan, have seen significant growth in the past 5 years.

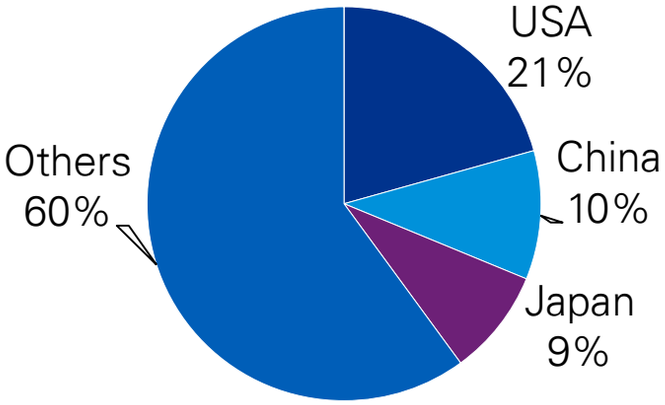
Exports, imports and trade balance in Vietnam



2015 Import value by country



2015 Export value by country



Source: KPMG's analysis based on GSO's data

Major exports and imports in 2016

Top imported goods by Vietnam- Aug 2016

1. Machinery, instrument, accessory
2. Computers, electronic products and parts
3. Telephones and their parts
4. Textile fabrics
5. Iron, Steel
6. Plastic materials
7. Auxiliary materials for textile, garment, leather, footwear
8. Petroleum oil, refined
9. Other base metals
10. Article of plastics

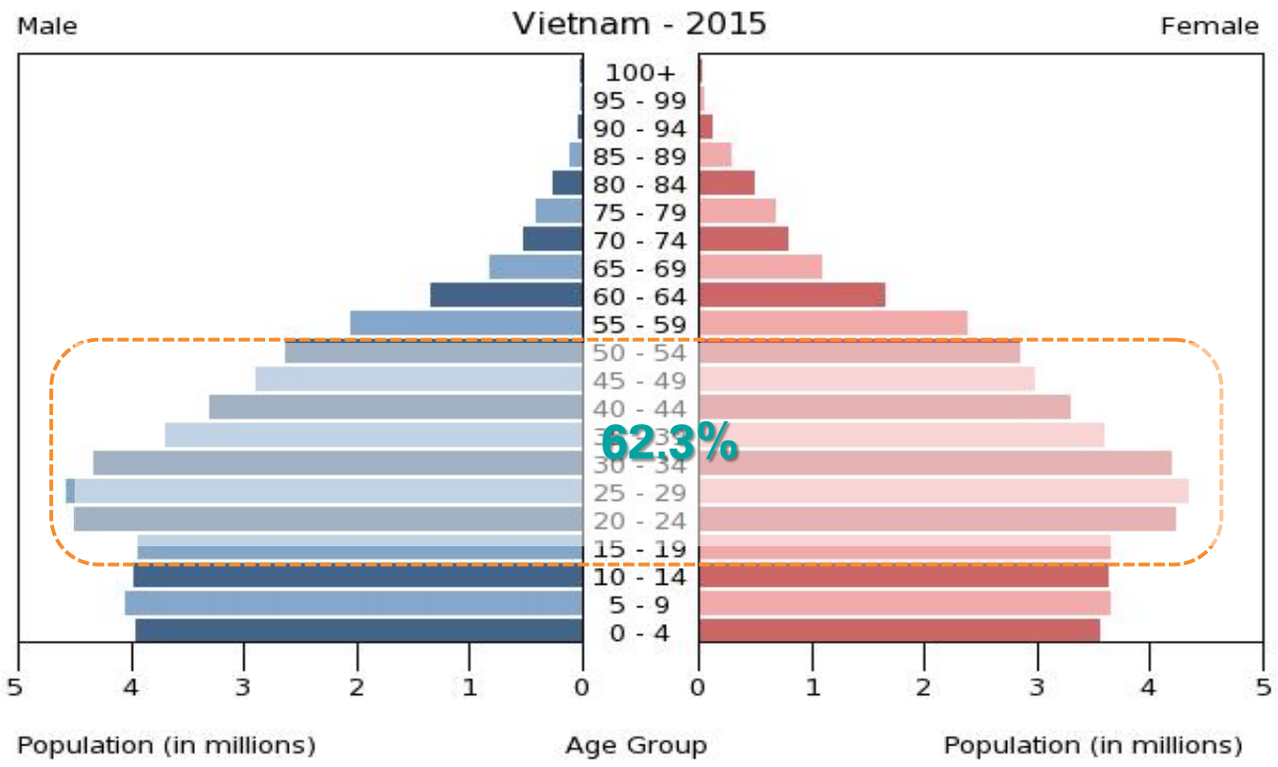
Top exported goods by Vietnam- Aug 2016

1. Telephones and their parts
2. Textile, sewing products
3. Computers, electronic products and parts
4. Footwear
5. Other machinery, instrument, accessory
6. Seafood
7. Wood and wooden products
8. Means of transport and equipment
9. Coffee
10. Handbags, luggage, hats and umbrellas

Source: KPMG's analysis based on GSO's data

Discovering the Consumer Society

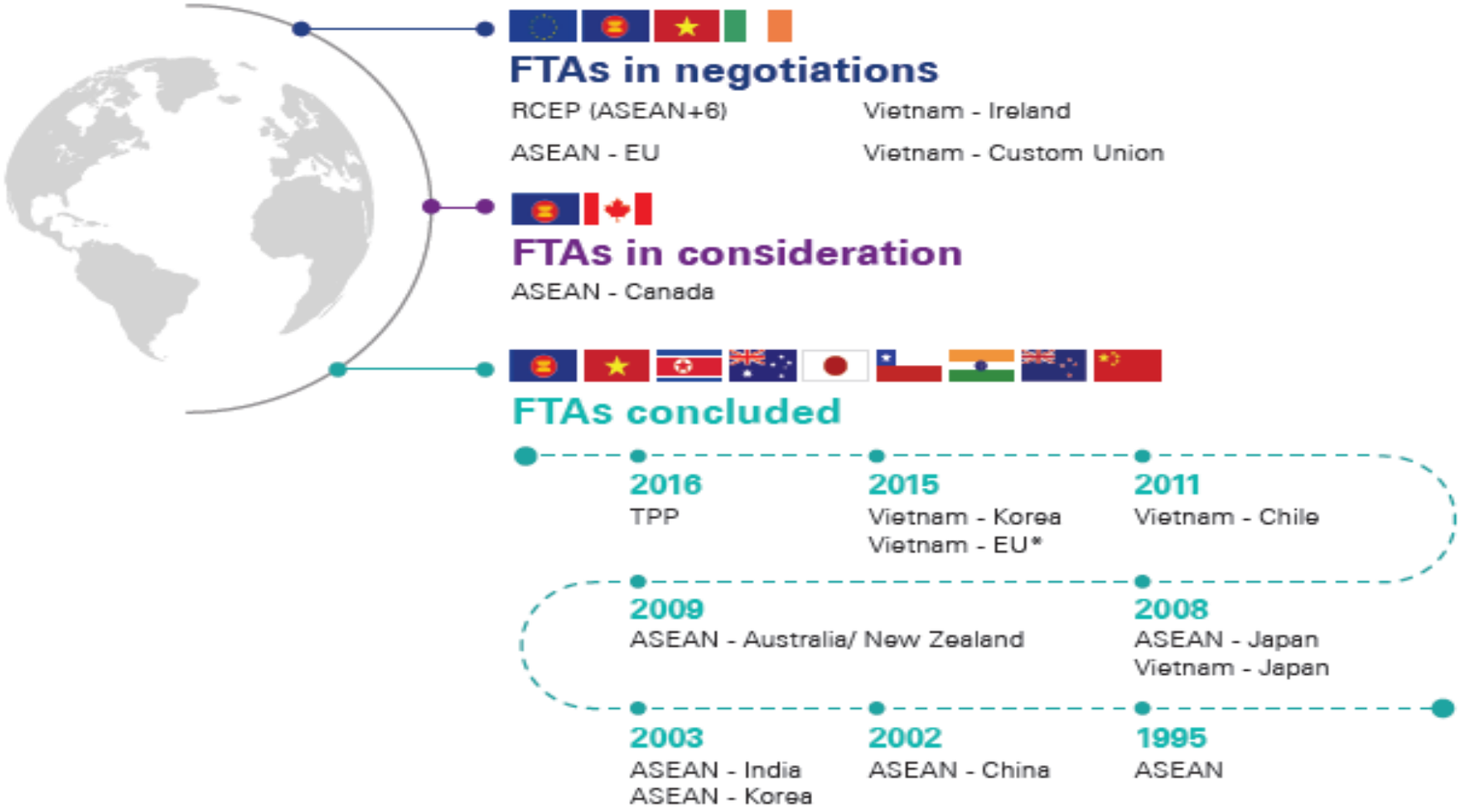
A young population and the rapid adoption of modern technology make Vietnam an exciting market for consumer/retail focused businesses



…Together with rising disposable income, a golden demographic structure and higher living standards have set Vietnam apart as one of the most attractive investment destinations in Asia

2016: the Year of FTAs

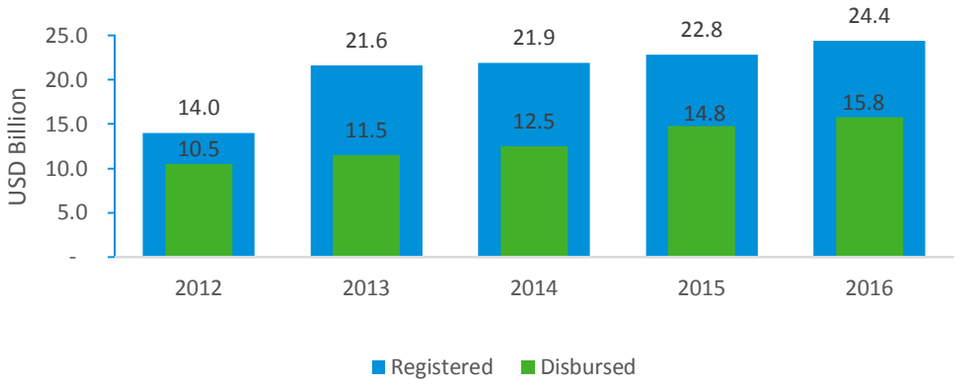
In 2016, Vietnam's participation in a number of Free Trade Agreements has shown the nation's efforts to further integrate into the world economy.



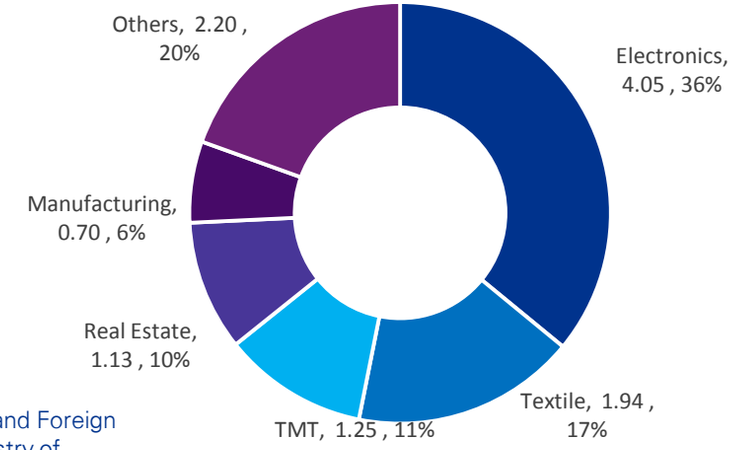
FDI - Important Drivers of Growth

Vietnam's participation in the FTAs and TPP process has helped it attract investment from abroad, because exports of merchandize to overseas markets are expected to increase sharply thanks to phased-in tariff reductions.

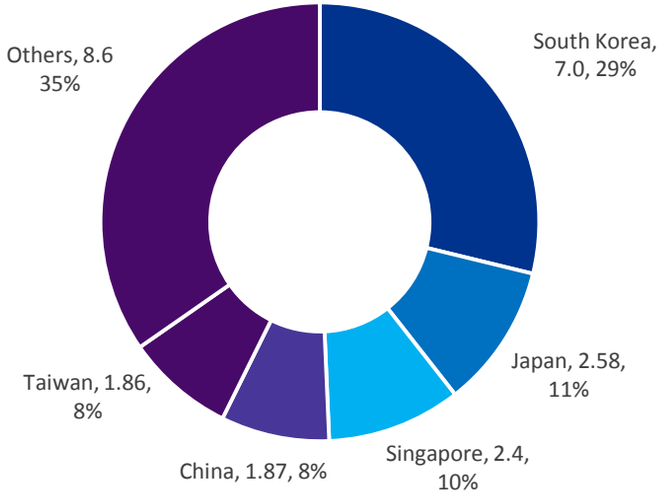
Registered And Disbursed FDI



New Registered FDI By Sectors In 2016 (USD, Billion)



Top 5 Countries for New FDI In 2016 (USD, Billion)

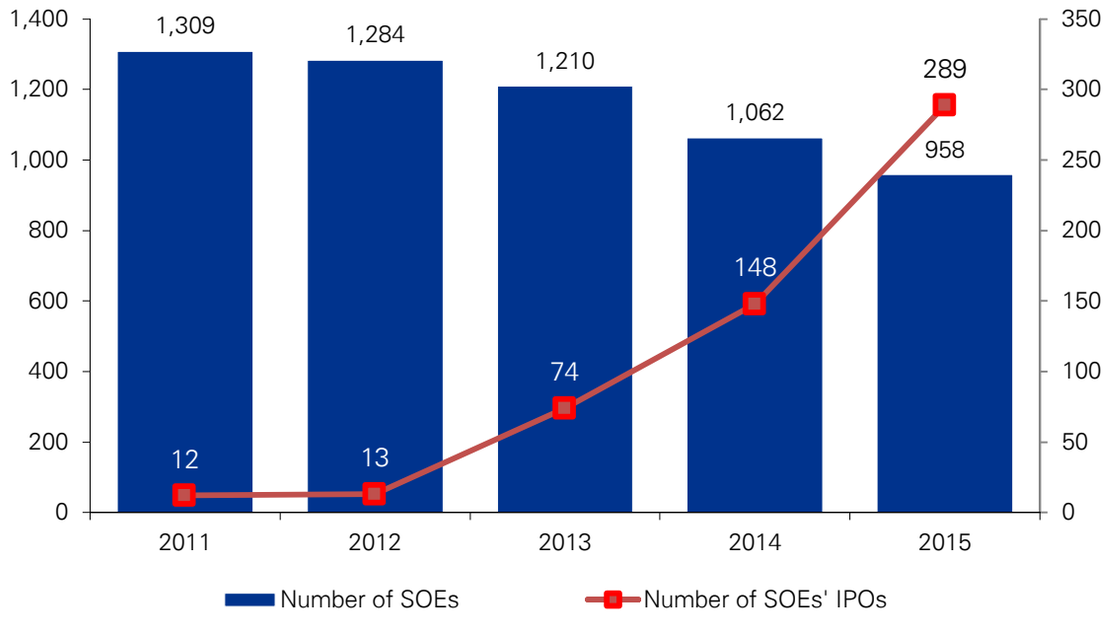


Source: General Statistics Office, and Foreign Investment Agency – Ministry of Planning and Investment

Vietnam:
Opening of the Market

Equitization of State Owned Enterprise (SOE)

Number of SOEs and SOEs' IPOs in Vietnam

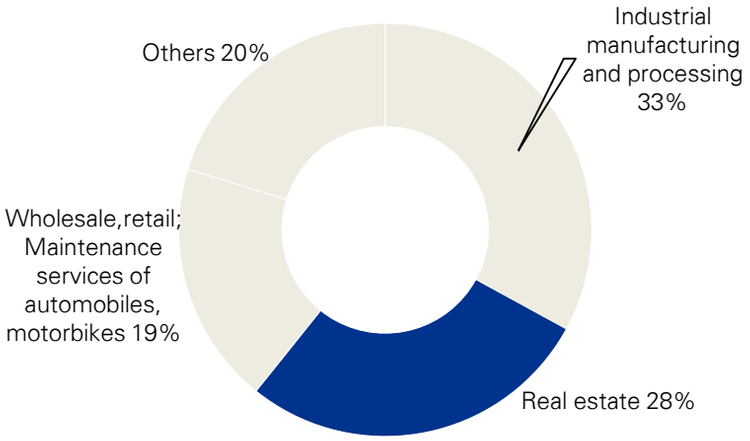


Source: Stoxplus

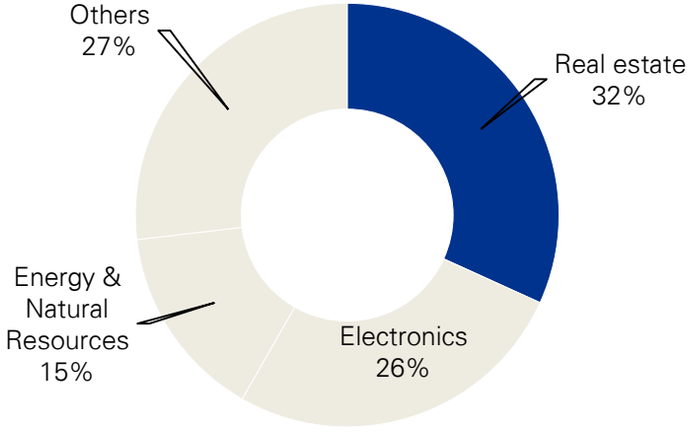
- The number of SOEs in Vietnam has decreased significantly during the period of 2011 – 2015 from 1,309 to approximately 958 SOEs, with plan to reduce to 190 SOEs by 2020 according to the equitization plan of the government
- Within the first 3 months of 2017, Vietnam State investment arm – SCIC has **divested 9% of its capital from Vietnam Dairy Products JSC (Vinamilk),** a leading Dairy producer in Vietnam with annual revenue turnover in 2016 of about USD1.7bn
- SCIC will divest state capital in the nine remaining enterprises in 2017 including some leading companies such as **Bao Minh Insurance Corp (Insurance), Binh Minh Plastic JSC (Plastic manufacturing), FPT Corp (IT/Telecom)**

A bright look for Real Estate

2016 new FDI registered breakdown by sector in HCMC



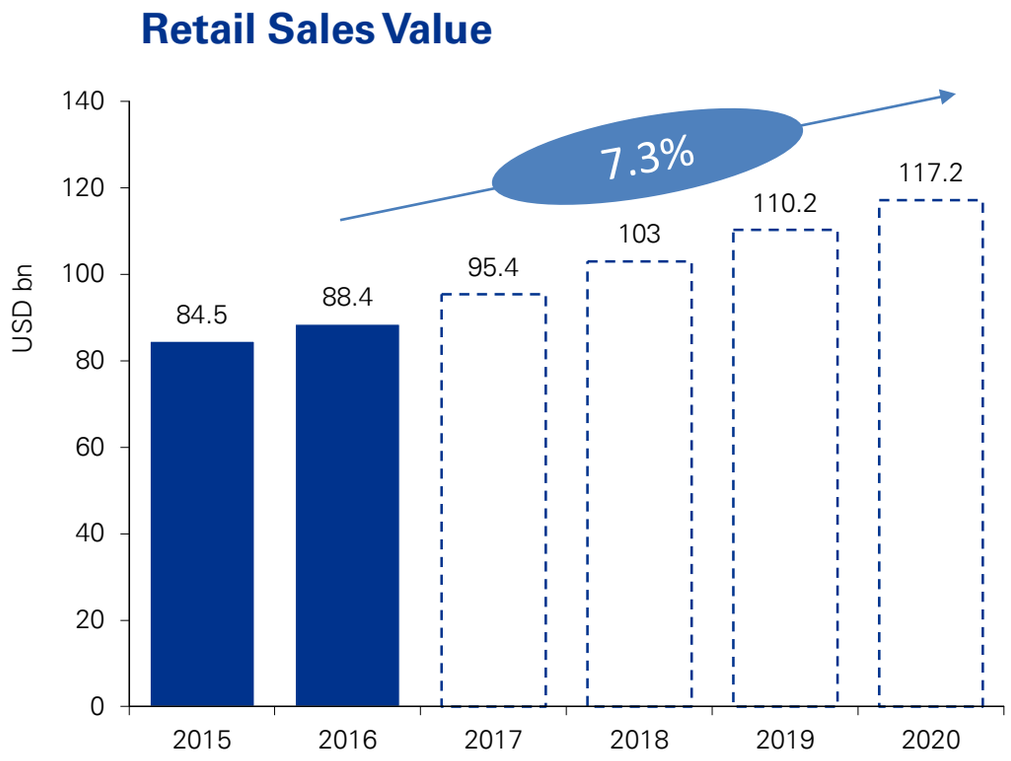
2016 new FDI registered breakdown by sector in Hanoi



- Total FDI value in Real estate sector in Vietnam has increased significantly during the period of **2011 – 2016 at CAGR of 22.7%** and has seen a recovery since market meltdown in 2011
- In Hanoi and HCMC, Real estate sector accounts for approximately 30% of new FDI registered in 2016
- Property sales data showed that both **Hanoi and Ho Chi Minh City recorded 9,250 and 8,750 transactions** respectively in 2015, representing a **doubling of sales over last year**
- Easing of **foreign ownership of property** also helps support the growth as foreign organizations (investment funds, banks, etc.) as well as individuals who possess a valid visa **are allowed to purchase and own residential properties in Vietnam**

Source: KPMG analysis based on MPI data

Retail is a new hotspot



- According to the Ministry of Industry and Trade, at the end of 2013 there were about 132 trade centers and 724 supermarkets nationwide. These figures are expected to reach 250 and 1,500 respectively by 2020
- **Lotte (South Korea)** plans to open 60 new supermarkets across Vietnam by 2020
- **Aeon, Japan's largest retailer,** is rapidly expanding operations in Vietnam with 3 complexes in major cities. Aeon purchased stake in Fivimart and Citimart (both Vietnamese) in early 2015, which both have nearly 50 supermarkets
- **US-based 7-Eleven**, the world's largest convenience retailer with 56,400 stores worldwide, will open its first store in 2017, rising to as many as 1,000 by 2020

Source: Economist Intelligence Unit

Vietnam
Tax overview and incentives

Tax in Vietnam

Corporate Income Tax

20%

CIT rate will be reduced from 22% to 20%, starting 1 Jan 2016.

15%

Income generated from producing/ processing agricultural and fishery products.

Incentive rate

0% **10%** **15%** **17%**

Subject to application and approval at the time of licensing

Personal Income Tax

0 million VND	5 million VND					80 million VND
5%	10%	15%	20%	25%	30%	35%

Corporate Income Tax ("CIT")

CIT - General Principles

▪ Similar principles

✓ **Scope: any income from business activities:**
- Self-declared by resident enterprises and taxable persons
- Withholding tax for non-resident foreign persons having VN sourced income
- Capital gains (properties, shares and business transfer)

✓ **Taxpayers: any person having business income, including**
- Locally registered: private business, companies;
- Foreign persons having PE or not having PE in Vietnam.

✓ **CIT calculation:**
- Taxable income = Taxable revenue – Deductible expenses + other income
- Deemed CIT rates on total revenue (for persons do not have reliable accounting records, e.g. foreign contractors)

✓ **CIT rates:**
- Standard CIT rate: 20% (50% for oil and gas upstream sector)
- Incentive CIT rates: 10%, 15%, 17% (32% for oil and gas upstream sector)

Summary of CIT Incentives

No.	Conditions (fields and location)	CIT Incentive
1	• Projects in specially difficult locations specified by Government; • Hi-tech; biotech, specific supporting industries; • Important infrastructure projects, socialized projects in education, sporting, health care. • Large manufacturing projects (investment capital of VND6,000billion; number of labor 3000. • Projects of manufacturing or processing agricultural products in difficult locations • Software production, environment protection	• Tax rate of 10% for 15 years or for whole life for special projects • CIT Exemption: 4 years • 50% CIT Reduction: 5year to 9 years
2.	Projects in difficult locations, manufacturing of agricultural machinery and equipment, high quality steel.	Tax rate of 17% for 10 years Exemption: 2 years Reduction: 4 years
3	Projects of manufacturing or processing agricultural products in normal locations	Tax rate of 15% for whole life
4	Investment projects in industrial zones	Exemption: 2 years Reduction: 4 years

CIT - General Principles

How to obtain CIT incentives

- **Application of incentive when registering the project:**
  - Projects satisfying location condition. Local licensing authorities will follow tax regulations to put in Investment Registration Certificate
  - Projects of large scale, important infrastructure, licensing authorities with approve incentive before issuing IRC. Licensing authorities will include in the IRC

- **Application for approval after getting IRC:**
  - Projects of high technology; producing supporting industry products
  - Submit to Ministry of Industry and Trade
  - Inspection may be required before approval

- **Enterprise can self-assess to apply**
  - Tax authorities will review the self-assessment when they carry out tax inspection

CIT - General Principles

- How the CIT incentives are applied

✓ **CIT incentive rate period shall commence when a company start having revenue from the incentive project/activity**

✓ **CIT exemption and reduction period shall commence from the first year having taxable income before loss carried forward. If a company makes loss for three years, the CIT exemption and reduction period will start from the 4th year**

✓ **At the same time, if a project qualifies for more than one type of CIT incentive, investor should choose to apply the best incentive.**

✓ **If a company having income from both incentive activities and non-incentive activities, apportionment is required.**

✓ **CIT incentive will apply differently with a new project or an expansion project**

✓ **CIT Incentives will not be applied if a company does not comply with Vietnamese accounting system**

✓ **CIT incentives will not apply to income form oversea investment**

✓ **CIT incentives not applied to income of capital transfer, property transfer, some other income**

Investing in Vietnam - Challenges

- Insufficient infrastructure
- Lack of medium – top management positions and highly specialised staff
- High dependence on imported raw materials
- Corruption and red tape
- Increased scrutiny of tax collection
- Immature auxiliary industry
- Weak service sector
- Unstable regulations

For more information, please contact:

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Upcoming Webinars

Privatizing State-Owned Enterprises, Implications for FDI

Speaker: **Ms. Do Thi Thu Ha**

Time: 2:00 – 3:00 pm (GMT+7 Hanoi)

Date: Thursday, May 18, 2017

Best Practices: Deals in Vietnam

Speaker: **Mr. John Ditty**

Time: 3:00 – 4:00 pm (GMT+7 Hanoi)

Date: Thursday, June 8, 2017