



Tax Alert

April 2020

Letters of Credit (L/C) is subject to Value Added Tax (“VAT”)

The provision of credit (i.e. lending) in Vietnam is VAT exempt (without input credit) for under current VAT regulations. However, the treatment of letters of credit for VAT purpose has been an area of ongoing uncertainty.

A letter of credit is a document that guarantees the buyer’s payment to a seller. The question therefore is whether the issue of a letter of credit by a credit institution is in the nature of lending (and exempt from VAT) or the provision of a payment service (and subject to VAT).

On 22 April 2020, the General Department of Taxation (“GDT”) issued Official Letter No. 1606/TCT-DNL to provincial tax departments confirming that the letter of credit service is subject to VAT according to the Law on VAT and the Law on Credit Institution.

The rationale for such conclusion by the GDT is that based on the Law on Credit Institution No. 47/2010/QH12 dated 16 June 2010 (effective from 01 January 2011), the provision of a letter of credit is not defined as a lending arrangement but a kind of payment service. Therefore, fees paid to credit institutions for the provision of such letter of credit services should be subject to VAT at the rate of 10%.

As a result, the GDT has now requested provincial tax departments to collect VAT in accordance with this technical position.

The GDT Official Letter 1606 is vague on the retrospective application of this technical position, however since it cites the Law on Credit Institutions (which takes effect from 01 January 2011), it is likely that provincial tax departments will attempt to collect VAT on the provision of letter of credit services from 01 January 2011. In practice, provincial tax authorities are now adopting this tax position to collect VAT retroactively for some banks.

Credit institutions should therefore consider the application of Official Letter 1606, particularly where there were some official letters issued by some provincial tax authorities in the past which have stated that fees paid for letter of credit services are not subject to VAT.

If you would like further information on this matter, please contact your local KPMG team.

Contact us

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