



# Vietnam Tax Profile

**Produced in conjunction with the  
KPMG Asia Pacific Tax Centre**

August 2018

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# 1 Corporate Income Tax

## 1.1 General Information

### Tax Rate

Corporate Income Tax.

From 1 January 2016, the standard corporate tax rate is 20%.

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% to 50%).

### 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.

### Basis of Taxation

Corporate Income Tax is calculated based on the income of the entity (i.e. revenue minus expenses).

### 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.

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.

In certain cases (for example, foreign entities not registered for tax in Vietnam transfer shares in listed companies), capital assignment tax is imposed at the rate of 0.1% on the transfer price.

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% to 10% depending on the asset transferred.

### Capital Duty (Non-Tax Planning)

Not applicable

## CFC Rules

Vietnam does not have specific “CFC” rules.

## Thin Capitalization

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

## Interest Deductibility Restrictions

There are a number of restriction of CIT deductibility of interest expenses, specifically as following:

- Interest expenses corresponding to shortage of charter capital are not deductible.
- Interest paid on debt in excess of the debt level specified in the Investment Registration Certificate is not deductible.
- Interest is subject to transfer pricing regulations. Interest deemed excessive by the authorities may not be deductible.
- Where the taxpayer has related party transaction, deductible interest expenses, including those derived from related party loans and third party loans, are capped at 20% of Net Operating Profit Before Interest, Taxes and Depreciation.

Deductible interest on loans from individuals are subject to a cap of 150% interbank exchange rate announced by the State Bank of Vietnam.

## Amalgamations of Companies

Not applicable

## Earnings Stripping

There has been no regulations to govern earning stripping in Vietnam. However, the deductibility of interest expenses are subject to certain restriction as mentioned above.

## 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 Ministry of Finance, General Department of Taxation and local tax departments are applicable to specific organizations/individuals whom the letters are addressed to. Other tax payers can use official letters as a reference.

## 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.

## 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.

## 1.2 Determination of taxable income and deductible expenses

### 1.2.1 *Income*

#### General

All incomes of the enterprise from the provision of goods, services and other incomes are taxable for Corporate Income Tax purpose, except for those clearly stipulated as “tax exempt income” (for example, dividend income).

#### Branch Income

The determination of branch income is similar to that of the enterprise.

If the branch is an independent branch, it will declare CIT on its income separately with that of the head office/other branches.

If the branch is a dependent branch, the income of the Branch will be combined with that of the head office for CIT declaration.

#### Capital Gains

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. The purchase price and transfer expenses are generally deducted from the transfer price in order to calculate the taxable capital gain.

For foreign investors having income from direct or indirect assignments of shares in Vietnam, the income shall be subject to tax, regardless of where the transactions take place.

#### Dividend Income

Distributions repatriated abroad by foreign invested enterprises are not subject to withholding tax. A foreign investor can 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 not subject to further tax.

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).

#### Interest Income

Interest income is generally subject to standard tax rate except for specific cases (for example interest income from current accounts, interest income generated from incentive areas).

#### Other Significant Items

None.

### 1.2.2 *Expenses*

#### General

Expenses which are (i) relevant to the business activities of the enterprise, and (ii) supported by proper supporting documents are deductible for tax purposes.

#### Minimum Taxation Requirements for the Deductibility of Losses

The tax losses shall be carried forward fully and consecutively within 5 years from the occurrence date of the loss. Losses incurred by a business activity can be offset against gain from other business activities, except for real estate. Losses carried forward to following years must be utilized in order (i.e. the losses



from incentive activities must be offset against gain from incentive activities first. The remaining will be carried out to other non-incentive activities).

### Capital Losses

Realized capital losses are deductible. Unrealized capital losses (write down in value) are not deductible.

### Carry Forward

Tax losses of business establishments may be carried forward fully and consecutively to offset against profits of subsequent years for a maximum of five years.

### Carry Back

Carry back of losses is not permitted.

### Bad Debts

Provision for bad debts is allowable and deductible under Vietnam tax laws provided that it is made in accordance with the current regulations on provisions. The provision shall be made based on the aging report of the debts. Lending agreement between parties, original invoices and contracts, and confirmation from the debt owner must be available for tax deductibility.

### Change of Control Rules

Not applicable in Vietnam.

### Depreciation/Capital allowance

The depreciation for tax purpose is stipulated in details in the applicable regulations, which also include the range of useful life for asset depreciation. Depreciation exceeding the rates specified in accordance with the prevailing regulations shall not be deductible for tax purpose.

### Double Deductions

Double deduction of one expense item is not allowed in Vietnam

### Interest Expenses

*As Interest deductibility restrictions session above.*

### Inventories

Provision for obsolete inventories is allowable and deductible under Vietnam tax laws, provided that the Net Realizable Value of the inventories can be identifiable and the provision is calculated based on the Net Realizable Value.

### Other Significant Items

Service fees paid to related parties that do not meet certain conditions are not deductible. Taxpayers must have evidences proving services are relevant and actually performed with market pricing.

There are separate guidance on deductible expenses for certain business such as insurance companies, securities trading and lotteries.

Research and development fund is also allowed for tax deductible purpose, subject to various conditions

## 1.3 Tax Compliance

### Compliance Requirements

Assessment system: Self-assessment.

There are three types of filing, as follows:

- Annual return filing (submitted no later than 90 days from the end of the fiscal year)
- Ad hoc (transaction based) returns (i.e. the 10th day following the date of incurrance of tax liability). Ad hoc returns are applicable for certain transactions such as transfer of shares, transfer of real estates, etc.
- 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)

### Mandatory Electronic Filing

Electronic tax filing is mandatory to business entities located in areas having IT infrastructure (i.e. most of cities/provinces in Vietnam). In practice, in some specific cases that the taxpayer cannot submit online, manual submission is also accepted.

### Requirement to Prepare Tax Computation / Return in Functional Currency

Tax returns for submission must be in Vietnam dong

### Documents to File with Tax Return

Audited financial statements are generally required (applicable for foreign invested enterprises, listed enterprises, etc.). Other supporting documents shall be required when the tax authorities carry out tax audit.

### Language to File Return, Computation and Supporting Documentation(s)

Language in tax return and supporting documents for tax purposes must be in Vietnamese. Where the documents are in foreign language, the taxpayers must briefly translate into Vietnamese and take self-responsibility for the accuracy of the translation.

### Filing Extension Availability and Details

Not applicable

### Payment of Estimated Tax

As *Payment of Tax session* below.

### Interim Tax Returns

Not applicable

### Payment of Tax

Quarterly provisional payment is required. If the provisional quarterly 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 (0.03% per day), counting from the deadline for payment of the fourth quarter corporate income tax liability.

Outstanding tax payable must be paid at the same time of tax return filing.

### Penalties for Non-Compliance

Administrative penalty will be applied on non-compliance.



### **Penalties and/or Interest for Underpayment of Taxes**

Late payment interest at 0.03%/late day.

Administrative penalty of 20% of the under-declared amount.

Tax evasion is subject to an administrative penalty from 1 to 3 times of the evaded tax amount shall be imposed.

### **Statute of Limitation**

The statute of limitation for imposing tax and late interest payment is 10 years, for penalties is up to 5 years, from the date when the tax authorities identify the violation backwards.

## 1.4 Financial Statements/Accounting

### Details of Local Accountant Requirements

All enterprises in Vietnam are required to adopt the Vietnamese Accounting Standards and System (VAS) as statutory financial reporting framework.

Annual financial statements of Foreign Invested Enterprises (FIEs), credit institutions, financial institutions, insurance companies and public companies, securities issuers, securities business organizations and state owned enterprises must be audited and filed with the following competent offices within 90 days following the last day of each fiscal year:

- The city or provisional tax office
- The Ministry of Finance or the provincial Department of Finance
- The licensing authority in the case of FIEs
- The General Statistics Office (GSO); and
- For enterprise located in the Export Processing Zone (EPZ) or Industrial Zone (IZ), the EPZ or IZ Management Board.

### Fiscal Year

Fiscal year can be selected by the reporting entity to be any 12 month period ending on 31 March, 30 June, 30 September or 31 December.

### Periodicity of Local Books to be Closed

Annually for most entities. Listed entities are required to prepare interim financial statement quarterly.

### Financial Statements Language

Vietnamese

### Documentation to be presented with the Financial Statements

Annual report is required for public companies and listed entities.

### Retention Period for Statutory Financial Statements / Working papers

5 – 10 years or perpetually retention depending on the type of document.

### Requirements to Retain Physical Copies Locally/Electronically Stored Data to Reside on In-country Server

Accounting vouchers and records that are stored electronically are not required to be printed out unless requested by the authorities. These are required to be retained at the entity's premises or its warehouse.

### Requirements to Prepare Financial Statements in Local Currency

Accounting records and financial statements are required to be in Vietnam Dong. Other foreign currency can be used only if stipulated requirements are met.

### What GAAP must the Financial Statements be Prepared Under?

Vietnamese Accounting Standards comprise of 26 individual standards that were developed based on IFRS in early 2000s with certain modifications. These are supplemented by the Vietnamese Accounting System issued by the Ministry of Finance which provide detailed bookkeeping guidance. At the time of this report, IFRS has evolved significantly. As a result, the existing Vietnamese Accounting Standards differ significantly to the current version of IFRS.



## Prescribed Format and Details for Financial Statements

Prescribed format of financial statements are provided in the Vietnamese Accounting System. The financial statements include balance sheet, income statement, cash flow statement and explanatory notes including a summary of accounting policies. The format may vary for specific regulated industries such as financial services.

### Filing Due Date

90 days from the reporting date for annual financial statements.

### Filing Format of Financial Statements

Printed format, except for entities that are required to publish information on stock market who must publish information in electronic format on website or on stock exchange.

### Filing Extension Availability and Details

Not available.

### Penalties for Non-Compliance

Non-compliance relating to preparation and filing the Financial Statements is subject to penalties from 5million VND up to 100million VND. These non-compliance include late or no submission, incorrect content and format in accordance with the accounting regulations.

## 1.5 Incentives

### 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% 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 within 5 years and must be substantiated by proper invoices and supporting documentation.

### 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.

### Other Incentives

Preferential tax rates to 10%, together with tax exemption and tax reduction periods can be obtained for encouraged projects, sectors, including:

- Encouraged sectors including: healthcare, education, high-tech, infrastructure development, supporting industries and software, agriculture;
- Encouraged special economic zones or areas with especially difficult socio-economic conditions.
- Mega projects.
- Etc.

## 1.6 International Taxation

### Double Taxation Relief

Relief from double taxation is available in the form of the foreign tax credit which can reduce the amount of Vietnamese tax payable by a company with a Vietnamese tax liability. Further more, most double tax treaties of VN apply the tax sparing method to eliminate double taxation.

To be eligible for the foreign tax credit, a taxpayer must have actually paid foreign tax, and must have included the income or gain on which they paid this tax in their assessable Vietnamese income. The foreign tax creditable in any case does not exceed the tax amount payable on the assessable Vietnamese income in accordance to Vietnamese tax law. In order to claim a foreign tax credit, extensive documents are required for submission.

### Foreign-Exchange Controls

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.

### International Withholding Tax Rates

**Dividends** - Dividends paid to foreign corporate investors are not subject to withholding tax or remittance tax. Dividends paid to individual investors are subject to withholding tax of 5%.

**Royalties** - Royalties paid to a foreign party for transfer of technology and intellectual property rights and software licenses are subject to withholding tax of 10% Corporate Income Tax and Value Added Tax exempt. Other royalties (for example transfer of the right to use trademark) are subject to 10% Corporate Income Tax and 5% Value Added Tax.

Where a tax treaty provides for a lower Corporate Income Tax rate and conditions are met, the tax treaty rate should apply.

**Interest** - Withholding tax of 5% 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. Interest paid on bonds (except tax exempted bonds) and certificates of deposit issued to foreign entities is subject to withholding tax of 5%.

**Foreign Contractor tax** - 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.

## Withholding Tax Rates under the Income Tax Treaties

### Vietnam – Treaty Withholding Rates Table

	Dividends		Interest	Royalties
	Individuals, companies <sup>1</sup>	Qualifying companies		
	(%)	(%)		
<b>Domestic Rates</b>				
<b>Companies:</b>	0	0	5	10
<b>Individuals:</b>	5	N/A	5	10
<b>Treaty Rates</b>				
<b>Algeria <sup>2</sup></b>	15		15 <sup>3</sup>	15
<b>Austria</b>	5 / 10 / 15		10 <sup>3</sup>	10
<b>Australia</b>	15 (AU) / 10 (VN)		10	
<b>Azerbaijan</b>	10		10 <sup>3</sup>	10
<b>Bangladesh</b>	15		10 <sup>3</sup>	10
<b>Belgium</b>	5 / 10 / 15		10 <sup>3</sup>	15
<b>Belarus</b>	15		10 <sup>3</sup>	5/10/15 <sup>4</sup>
<b>Brunei</b>	10		10 <sup>3</sup>	15
<b>Bulgaria</b>	15		10 <sup>3</sup>	10
<b>Cambodia <sup>2</sup></b>	10		10 <sup>3</sup>	15
<b>Canada</b>	5 / 10 / 15		10 <sup>3</sup>	10
<b>China (PR)</b>	10		10 <sup>3</sup>	10
<b>Cuba</b>	5 / 10 / 15		10 <sup>3</sup>	10
<b>Czech Republic</b>	10		10 <sup>3</sup>	10
<b>Denmark</b>	5 / 10 / 15		10 <sup>3</sup>	10
<b>Egypt <sup>2</sup></b>	15		15	5 / 15 <sup>4</sup>
<b>Estonia <sup>2</sup></b>	5 / 10		10 <sup>3</sup>	15
<b>France</b>	10 / 15 (FR) 7 / 10 / 15 (VN)		-	10
<b>Finland</b>	5 / 10 / 15		10 <sup>3</sup>	10
<b>Germany</b>	5 / 10 / 15		10 <sup>3</sup>	10

Treaty Rates	Individuals, companies (%)	Qualifying companies (%)	Interest (%)	Royalties (%)
Hong Kong	10		10 <sup>3</sup>	10
Hungary	10		10	7 / 10 <sup>4</sup>
Iceland	10 / 15		10 <sup>3</sup>	10
India	10		10 <sup>3</sup>	10
Indonesia	15		15	10
Iran	10		10 <sup>3</sup>	15
Ireland	5 / 7		10 <sup>3</sup>	10
Israel	10		10 <sup>3</sup>	5 / 10 / 15 <sup>4</sup>
Italy	5 / 10 / 15		10 <sup>3</sup>	5 / 15 <sup>4</sup>
Japan	10		10 <sup>2</sup>	10
Kazakhstan <sup>2</sup>	5 / 15		10 <sup>3</sup>	10
Korea (South)	10		10 <sup>3</sup>	5 / 15 <sup>4</sup>
Korea (North)	10		10 <sup>3</sup>	10
Kuwait	10 / 15		15 <sup>3</sup>	20
Laos	10		10	10
Luxembourg	5 / 10 / 15		10	10
Macedonia <sup>2</sup>	5 / 10 / 15		10	10
Malaysia	10		10 <sup>3</sup>	10
Malta <sup>2</sup>	5 / 15 (VN) Domestic (MT)		10 <sup>3</sup>	5 / 10 / 15 <sup>4</sup>
Mongolia	10		10 <sup>3</sup>	10
Morocco	10		10 <sup>3</sup>	10
Mozambique	10		10	10
Myanmar	10		10 <sup>3</sup>	10
Netherlands	5 / 10 / 15		10 <sup>3</sup>	5/10/15 <sup>4</sup>
Norway	5 / 10 / 15		10 <sup>3</sup>	10
New Zealand	5 / 15		10	10
Oman	5 / 10 / 15		10 <sup>3</sup>	10
Panama	5 / 7 / 12.5		10 <sup>3</sup>	10
Palestine	10		10	10

Treaty Rates	Individuals, companies (%)	Qualifying companies (%)	Interest (%)	Royalties (%)
<b>Pakistan</b>	15		10 <sup>3</sup>	15
<b>Poland</b>	10 / 15		10	10/15 <sup>4</sup>
<b>Portugal</b>	5 / 10 / 15		10 <sup>3</sup>	10
<b>Philippines</b>	10 / 15		15 <sup>3</sup>	15
<b>Qatar</b>	5 / 12.5		10 <sup>3</sup>	5 / 10 <sup>4</sup>
<b>Romania</b>	15		10 <sup>3</sup>	15
<b>Russia</b>	10 / 15		10	15
<b>San Marino <sup>2</sup></b>	10 / 15		10 / 15	10 / 15 <sup>4</sup>
<b>Saudi Arabia</b>	5 / 12.5		10 <sup>2</sup>	7.5 / 10 <sup>4</sup>
<b>Serbia <sup>2</sup></b>	10 / 15		10	10
<b>Seychelles</b>	10		10	10
<b>Singapore</b>	5 / 7 / 12.5		10 <sup>3</sup>	5 / 10 <sup>4</sup>
<b>Slovakia</b>	5 / 10		10 <sup>3</sup>	5/10/15 <sup>4</sup>
<b>Spain</b>	7 / 10 / 15		10 <sup>3</sup>	10
<b>Sri Lanka</b>	10		10 <sup>3</sup>	15
<b>Sweden</b>	5 / 10 / 15		10 <sup>3</sup>	5/15 <sup>4</sup>
<b>Switzerland</b>	7 / 10 / 15		10 <sup>3</sup>	10
<b>Taiwan</b>	15		10	15
<b>Thailand</b>	15		10 / 15 <sup>3</sup>	15
<b>Turkey <sup>2</sup></b>	5 / 10 / 15		10 <sup>3</sup>	10
<b>Tunisia</b>	10		10 <sup>3</sup>	10
<b>UAE</b>	5 / 15		10 <sup>3</sup>	10
<b>United Kingdom</b>	5 / 7 / 15		10 <sup>3</sup>	10
<b>Ukraine</b>	10		10 <sup>3</sup>	10
<b>Uzbekistan</b>	15		10 <sup>3</sup>	15
<b>Uruguay <sup>2</sup></b>	5 / 10		10	10
<b>United States <sup>2</sup></b>	5 / 15		10 <sup>3</sup>	5/10 <sup>4</sup>
<b>Venezuela</b>	5 / 10		10 <sup>3</sup>	10

Notes:

1. According to domestic law, dividends paid to foreign corporate investors are not subject to withholding tax, dividends paid to individual investors are subject to withholding tax of 5%. The rates from the DTAs with Vietnam are higher, therefore those under the domestic law will be applied instead.
2. The DTA is not yet in effect.
3. Interest from certain government bodies is exempt from withholding tax.
4. Different treaty rates apply depending on the conditions specified in a treaty, however in certain cases an alternative rate, or nil rate, may apply depending on whether certain criterias are met. In this regard, the table should be used as a guide and not relied upon in isolation.

Source: DTA publication by the General Department of Taxation of Vietnam

### Other Agreements

None

### Under Negotiation or Re-negotiation

Tax treaties with Netherlands and Korea is under re-negotiation. Vietnam is in process of negotiation with the following countries: Mexico, Cameroon, Hellenic Republic, Lithuania, Lebanese Republic, Congo, Georgia, Kyrgyzstan, Guinea, Cyprus.

### Income Tax Treaties for the Avoidance of Double Taxation (Negotiated, not yet in force at time of publication)

Algeria	Kazakhstan	Serbia
Cambodia	Macedonia	Turkey
Egypt	Malta	Uruguay
Estonia	San Marino	United States of America

### Tax Treaties with Limited Application

Tax treaty with the United States includes Article on Limitation on benefits.

In practice of DTA implementation in Vietnam, the domestic law adopt the principle of substance over form to allow the tax authority having aggressive view during their review of DTA application in certain cases.

### Agreements for the Exchange of Information

Not applicable.

### Indirect Offshore Disposal Rules

The current domestic law does not have specific rule on indirect offshore disposal. However, recently there has been progress of applying capital gains tax on not only the transfer of a Vietnamese entity, but also the transfer of an overseas parent company (direct or indirect transfer).

## 2 Transfer Pricing

### Requirements

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.

Guidance on Advanced Pricing Agreements (APAs) is available

### Country-by-Country Reporting

The Country-by-country Report is required in the following cases:

- Vietnamese taxpayer is the ultimate parent company of a Group in Vietnam which has global consolidated revenue in the tax period of eighteen (18) thousand billion Vietnamese dong (approximately 750 million Euro) or more; or
- where the overseas ultimate parent company of the taxpayer in Vietnam is required to submit a CbC Report in its country of residence, the Vietnamese subsidiary is required to maintain and submit a copy of such CbC Report upon written request by local tax authorities. Otherwise, the Vietnamese subsidiary is required to submit written explanation to the local tax authorities.

### Master and Local Files Reporting

Vietnamese taxpayers with related party transactions subject to the scope of current transfer pricing regulations are obligated to prepare and maintain Local File and Master File.

*Timeline:*

- TP documentation package is required to be available in Vietnamese before the taxpayers lodge their annual corporate income tax (CIT) return, and retained and submitted upon request of tax authority.
- During the Consultation Procedure prior to the audit, taxpayers are required to submit transfer pricing documentation package to the local tax authorities within no longer than 30 working days upon written request of the tax authority. Where reasonable reason is provided, the submission deadline is extended only once to no longer than additional 15 working days upon the expiry date
- In TP audit, taxpayers are requested to submit TP documentation package no longer than 15 working days upon receipt of request from tax authorities.

*Safe harbor for TP documentation (to meet one of the following conditions)*

- (i) Threshold of revenue and value of related party transactions ("RPTs"):
  - The taxpayer's annual revenue does not exceed VND50 billion; AND
  - The total value of the related-party transactions does not exceed VND30 billion

- (ii) Taxpayer having Advance Pricing Agreement (APA) has submitted annual APA report in accordance with the APA regulations. For those related party transactions which are not covered by the APA, taxpayers are obliged to comply with the aforesaid transfer pricing documentation requirements;
- (iii) Threshold of profit margin for taxpayers who perform routine functions and does not generate revenue or incur expense from exploitation and use of intangibles:
  - The taxpayer's annual revenue does not exceed VND200 billion; AND

The ratio of net operating profit before interest and CIT to net sales revenue (i.e. operating margin) exceeds: 5% for distributors; 10% for manufacturers; and 15% for toll manufacturers.

### Common Reporting Standard

The reporting requirements (for Local File, Master File and Country-by-Country Reporting) are the same as OECD's BEPS Action 13

# 3 Indirect Tax

## Indirect Tax

Value Added Tax (VAT)

### Standard Rate

10%

### Reduced Rates

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; export products being natural resources which are not processed into other products.

5% – 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 output VAT but is generally allowed to claim the input VAT associated with such transactions. These transactions include, but are not limited to, payments of compensations, bonuses; disposal of assets owned by non VAT-registered owners; capital contributions in the form of assets; receipts from insurance claims against a third party; receipts on behalf of a third party; etc.

## Registration

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.

### Voluntary Registration

Yes

### Voluntary Registration for Overseas Companies

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 (if companies with annual revenue less than VND 50billion)

### VAT recoverability

Some items cannot be recovered including, but not limited to: input VAT on purchases for producing VAT-exempt goods or services; input VAT on invalid invoices; input VAT of export transactions that do not satisfy regulated requirements; input VAT on purchases which are treated as non-related business expenses under Corporate Income Tax regulations.

### Overseas Company Recoverability of VAT



Not allowed

### Typical Time Taken to Obtain VAT Refund

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.

### Specific Invoice Content Requirements

Invoices should be in Vietnamese and must contain name of invoice type, symbols of invoice, invoice number pattern; names of copies of invoice; serial number of invoice; details of seller and buyer; details of goods/services; signatures of buyer and seller; etc.

### Advance Rulings

Formal advance rulings can be obtained.

### Further information

For more detailed indirect tax information, refer to:

[KPMG's 2017 Asia Pacific Indirect Tax Country Guide](#)

# 4 Personal Taxation

## Top Rate

### Personal income tax

For tax residents, there is a unified progressive tax rates applicable to (worldwide) employment income, with a top tax rate of 35%. Business income is subject to Value Added Tax and Personal Income Tax with deemed tax rates on revenue. Deemed tax rates differ depending on business activities.

For tax non-residents, a flat tax rate of 20% is applicable to Vietnam-sourced employment income. For non-residents Vietnam-sourced business income is taxed at 1%, 2%, or 5% 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 labour 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 21.5% for employers and 10.5% for employees, based on contracted salary.

## International Social Security Agreements

Vietnam has not entered into any international social security agreements or treaties.

## Visa Requirements

Foreigners must obtain visa for entry and working in Vietnam. Long-term working foreigners can obtain Temporary Resident Card for maximum two years and can be extended based on working period.

Work Permit is required for foreigners working in Vietnam for more than 30 days or accumulated more than 90 days per year, except for special cases entitled to Work Permit exemption.

## Further Information

For more detailed personal taxation information, refer to:

[KPMG's Thinking Beyond Borders](#)

# 5 Other Taxes

## 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% and 10%.

## 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.

The tax rates are ranged from 0.03% to 0.15% charged on the specific land use.

## Inheritance / Gift Duty

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

## Foreign contractor tax (FCT)

FCT 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).

There are different methods for FCT declaration and payment in Vietnam: (i) the deemed withholding method; (ii) the VAS declaration method (i.e. declaration of VAT under the credit method and declaration of CIT based on revenue/expense method, taxpayer is required to register and maintain VAS records); and (iii) the hybrid method (declaration of VAT under credit method, CIT on deemed basics).

Foreign contractors are taxed through a withholding mechanism, FCT comprises two components of CIT and VAT for foreign organisations, or PIT for foreign individuals. FCT rates vary depending on the nature of supplies and the FCT declaration methods.

## Natural resource tax (NRT)

NRT 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 1% to 40% 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, certain chemicals, plastic bags (excluding those for packaging or environmentally friendly).

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.

### Other taxes

Not applicable.

# 6 Trade & Customs

## 6.1 Customs

### Customs Duty

Import duty is charged to imported goods with classification of 3 categories: ordinary rates, preferential rates, special preferential rates.

Preferential rates are applicable to imported goods from countries that have Most Favourable Nation (“MFN”) status with Vietnam and in accordance with Vietnam’s WTO commitments. It is applicable to goods imported from other countries of the WTO.

Special preferential rates are applicable to imported goods from countries that have special preferential agreements with Vietnam, such as Free Trade Agreements as mentioned in the below section. In order to enjoy the preferential rates and special preferential rates, the Certificate of Origin for the imported goods must be provided.

Imported goods will be also subject to VAT at import stage, except some exempt cases. Certain import goods may be also subject to Special Sales Tax, Environment Protection Tax.

Export duty is charged only on a few items mainly from natural resources. Rates varies from 0% to 40%.

Import and export duty rates are subject to frequent changes over the year

### Excise Duty

#### *Special sales tax (SST)*

SST is 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 casinos, massage, discotheque, golf, lotteries.

SST rates range from 7% to 150%. Exported goods are not subject to SST.

## 6.2 Free Trade Agreements (FTA)

### In Force

#### *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 FTAs:*

- Vietnam-Chile Free Trade Agreement (VCFTA)

- Vietnam-Japan Economic Partnership Agreement (VJEPA)
- Vietnam-Korea Free Trade Agreement (VKFTA)
- Vietnam-Eurasian Economic Union Free Trade Agreement (VEEUFTA)

ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam) 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)

#### **Concluded/Signed (pending domestic ratification)**

- Vietnam-Europe Free Trade Agreement (EVFTA)
- Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP)
- Regional Comprehensive Economic Partnership (RCEP) including: ASEAN-China-Japan-India-Korea-Australia-New Zealand

#### **In Negotiation**

- ASEAN-EU
- Vietnam-EFTA

# 7 Tax Authority

## Tax Authority

At central level 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. Tax audit becomes frequent and much more aggressive by the tax authority, due to their pressure of tax revenue and the changes in tax policy.

A typical tax audit commences with a site visit, questionnaire, or letter requesting provision of supplementary analysis or information.

## Appeals

Upon the receipt of a tax audit conclusion, a company is entitled to appeal against the tax authority with any tax dispute issue, 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.

## Current Topics for Focus by Tax Authorities

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

- Transfer pricing
- Corporate income tax (tax incentive application, M&A deal, capital assignment)
- Value added tax (VAT refund)
- 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.



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