A guide to

DOING BUSINESS IN VIETNAM 2016

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Contents

Acronyms/ Abbreviations

(In order of appearance)

Acronym	Meaning
HCMC	Ho Chi Minh City
WTO	World Trade Organisation
GDP	Gross Domestic Product
PPP	Parity Purchasing Power
FDI	Foreign Direct Investment
IMF	International Monetery Fund
GSO	Vietnam's General Statistics Office
CPI	Consumer Price Index
ASEAN	Association of South East Asia Nations
OECD	Organisation for Economic Cooperation and Development
FIA	Vietnam's Foreign Investment Agency
YoY	Year-over-year
CAGR	Compounded Average Growth Rate
M&A	Mergers and Acquisitions
PE	Permanent Establishment
HR	Human Resource
R&D	Research and Development
CFC	Controlled Foreign Corporation

Country overview

COUNTRY PROFILE

Geography & administration

- Strategic location in South East Asia
- 331,212 km² in area
- 3,444 km coastline
- 58 provinces and 5 State-run municipalities

Demographics

- 91.6 mil population (2015): 32% urban, 68% rural
- Workforce: 48.2 mil (age 18 – 55/60)
- Young population, with 60% under 35
- Average longevity: 73.3 years old (male 70.7; female 76.1)
- Largest cities: HCMC (10m pop), Hanoi (7.5m), Haiphong (2m), Can Tho (1.2m), Da Nang (1m)

Politics

- Socialist, single-party leadership of the Communist Party
- Decision made by consensus
- Economic reform initiated in 1986 and implemented since late 1980s
- WTO membership since 11 Jan 2007.

Macroeconomics – Extensive indicators

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All figures below are 2015 estimates and in USD (if values):

- GDP (current prices): 191.4 bn
- GDP growth: 6.7% (2014: 6.0%)
- GDP per capita (current prices): 2,088 (2014: 2,049)
- GDP per capita (PPP): 6,024 (2014: 5,650)

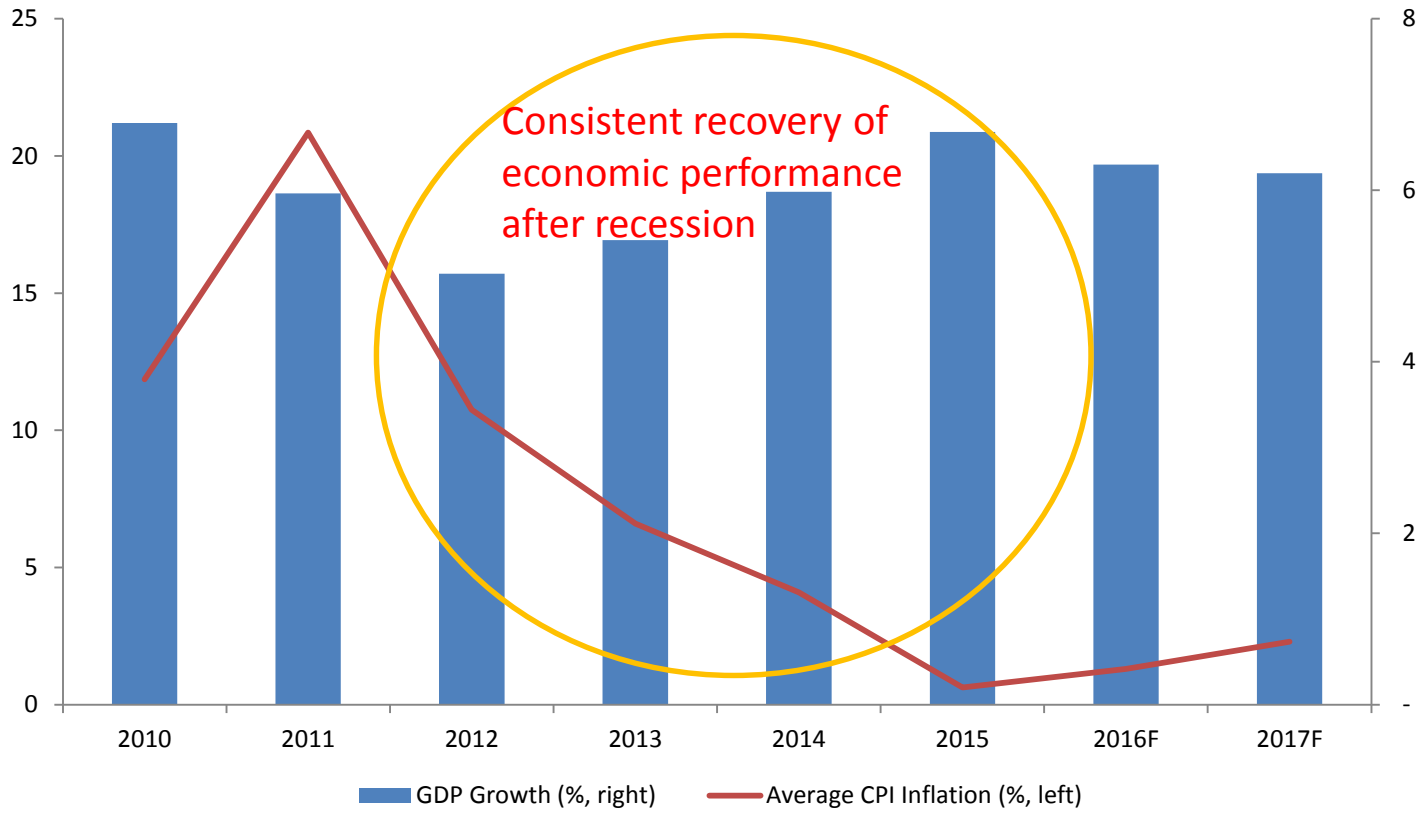
- Investment as % of GDP: 27.6% (2014: 26.8%)
- Gross National Savings as % of GDP: 31.8% (2014: 29%)
- Government Expenditure as % of GDP: 28% (2014: 30.4%)

- Inflation (yearly average): 0.6% (2014: 4.1%)
- Unemployment rate: 2.4% (2014: 2.0%)

- Current Account Balance: 2.76 bn (2014: 9.33)
- Exports of goods: 162.4 bn (up 8.1%)
- Imports of goods: 165.03 bn (up 12%)
- FDI (registered): 15.6 bn
- FDI (disbursed): 14.5 bn

Source: IMF, GSO

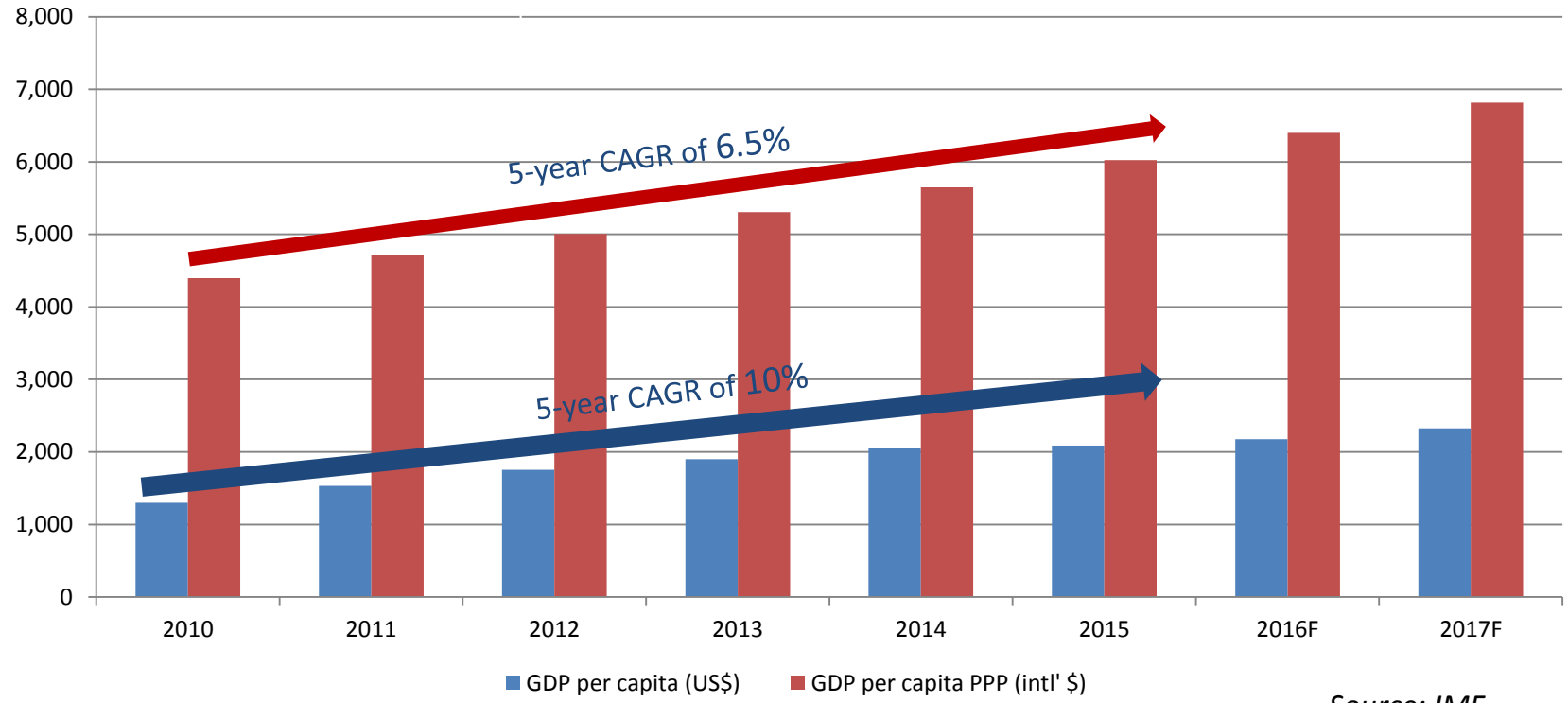
Macroeconomics – Economic performance and outlook



Source: IMF

Vietnam's economy is expected to continue growing at a solid pace supported by robust export growth, buoyant private consumption and higher FDI inflows. Prolonged adverse weather conditions, however, pose a downside risk to growth in coming years. International economists (IMF) expect the economy to grow 6.5% this year (compared to 6.7% in 2015) and 6.6% in 2017.

Macroeconomics – GDP per capita



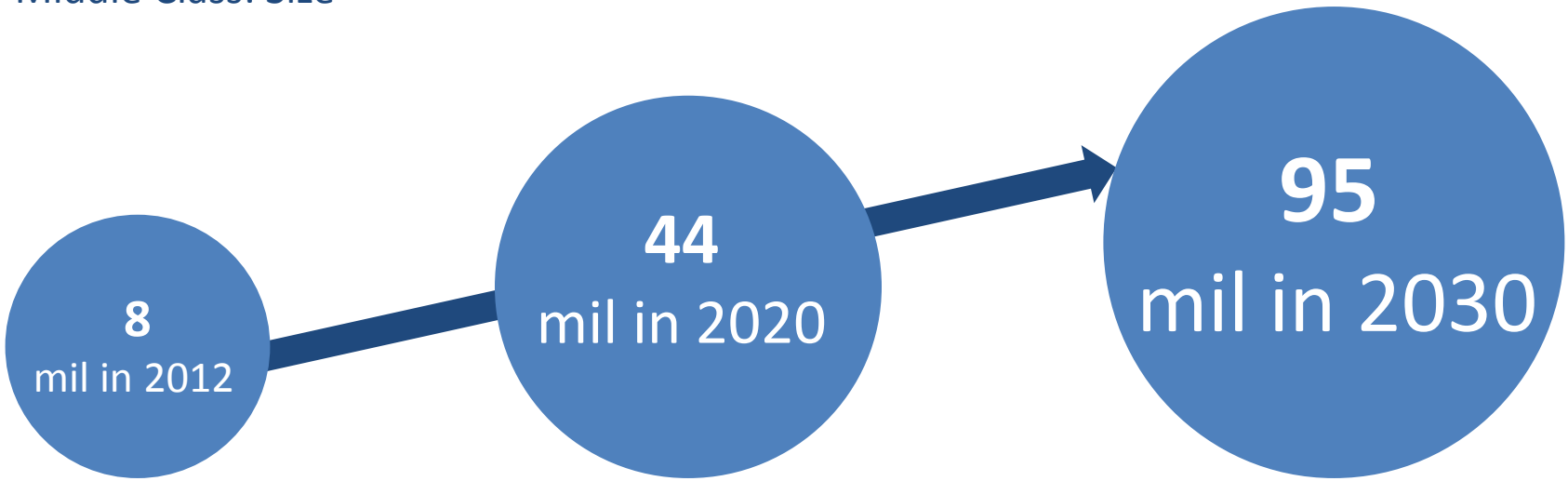
Source: IMF

Despite GDP per capita's consistent growth over the years, it is still quite low compared to ASEAN-6 and especially world's developed economies. This is mostly attributed to the national economy's low added value and modest productivity.

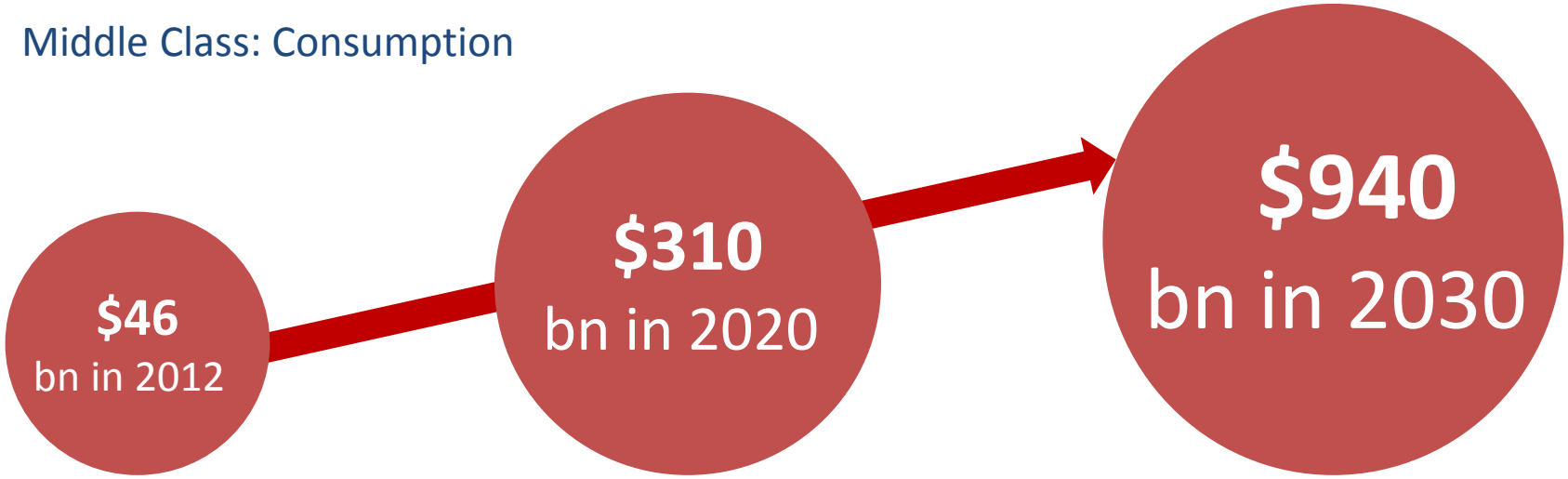
Consumer Economics

COUNTRY PROFILE

Middle Class: Size

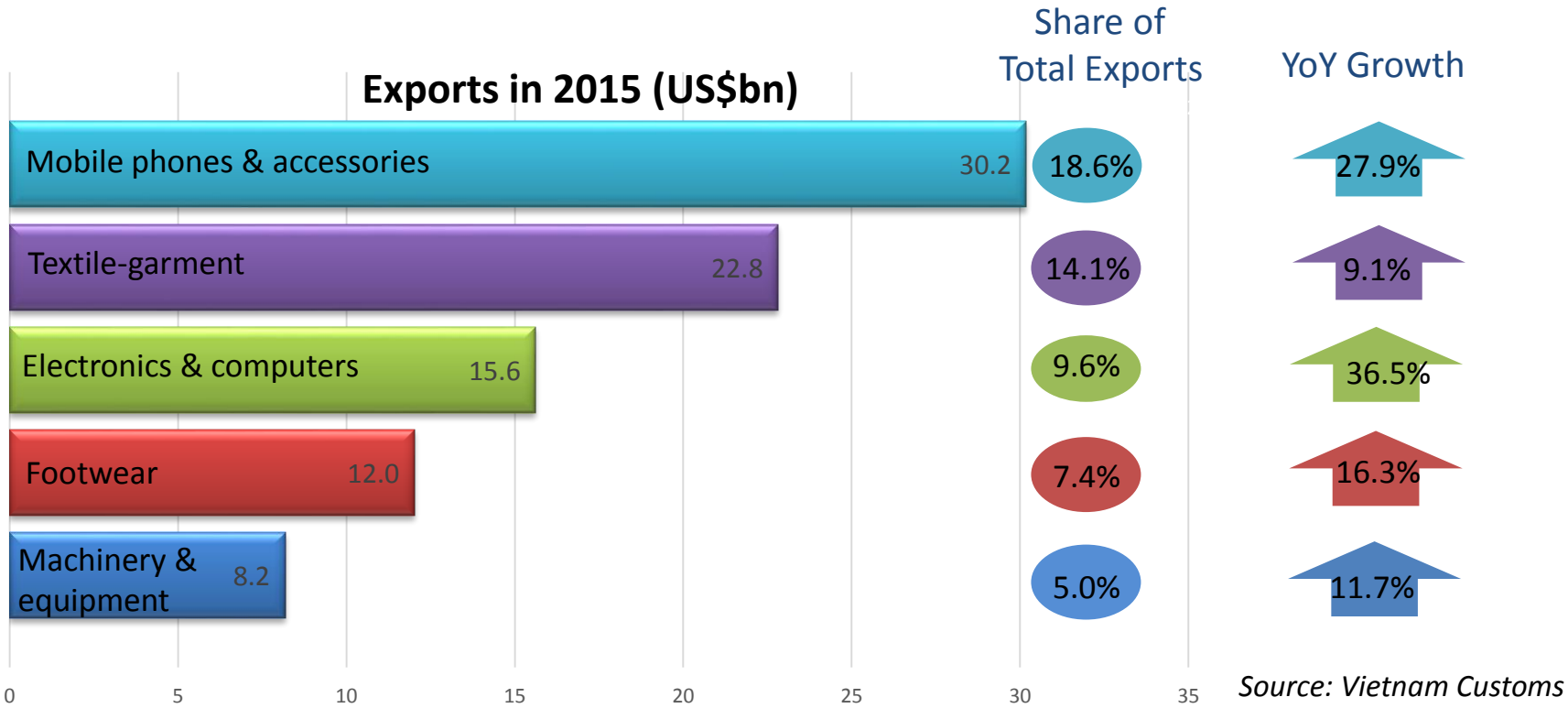


Middle Class: Consumption



Source: OECD Development Center (Middle Class is defined as households with daily expenditures between US$10 and $100 per person)

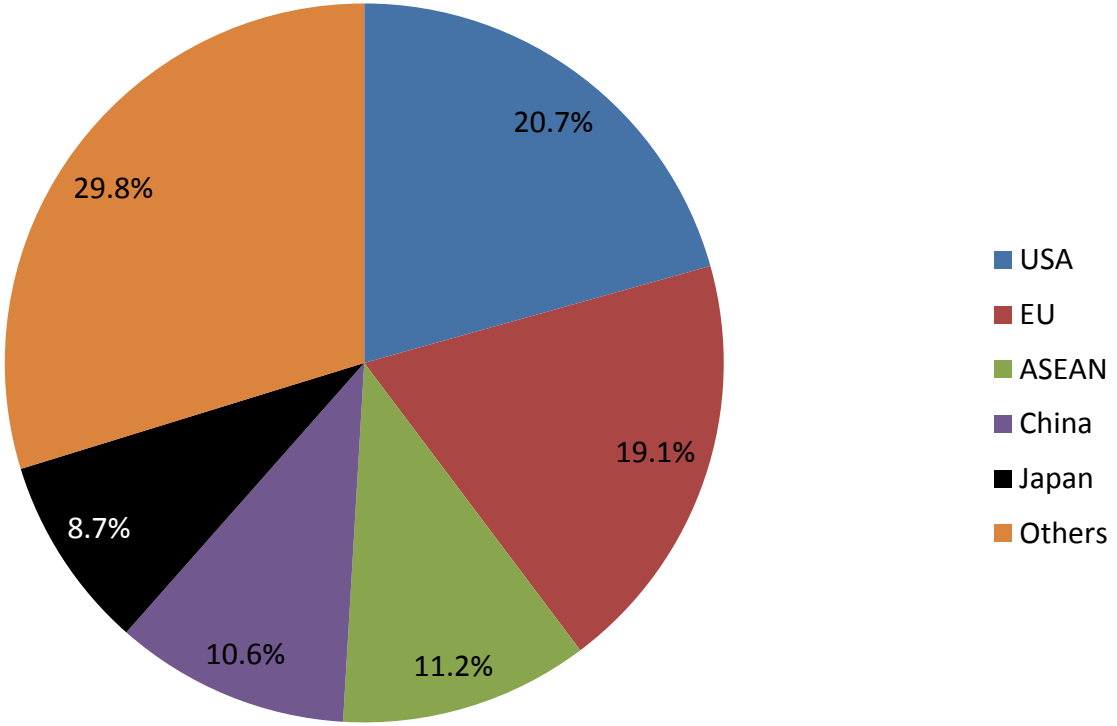
Exports (1) – Top 5 Export Goods



Source: Vietnam Customs

- **Mobile phone & accessories, computers** & **electronics** firmly proved their positions as new competencies of Vietnam's industrial production, with impressive annual growth rates (between 25-35%); plus, machinery, equipment & spare parts emerged as a very new trend of export strength.
- **Textile-garment, footwear, seafood, furniture,** and **coffee** continue to be Vietnam's traditional, core competencies, although some of these have dropped out of the top 5 for a few years in a row.

Exports (2) – Top Export Markets



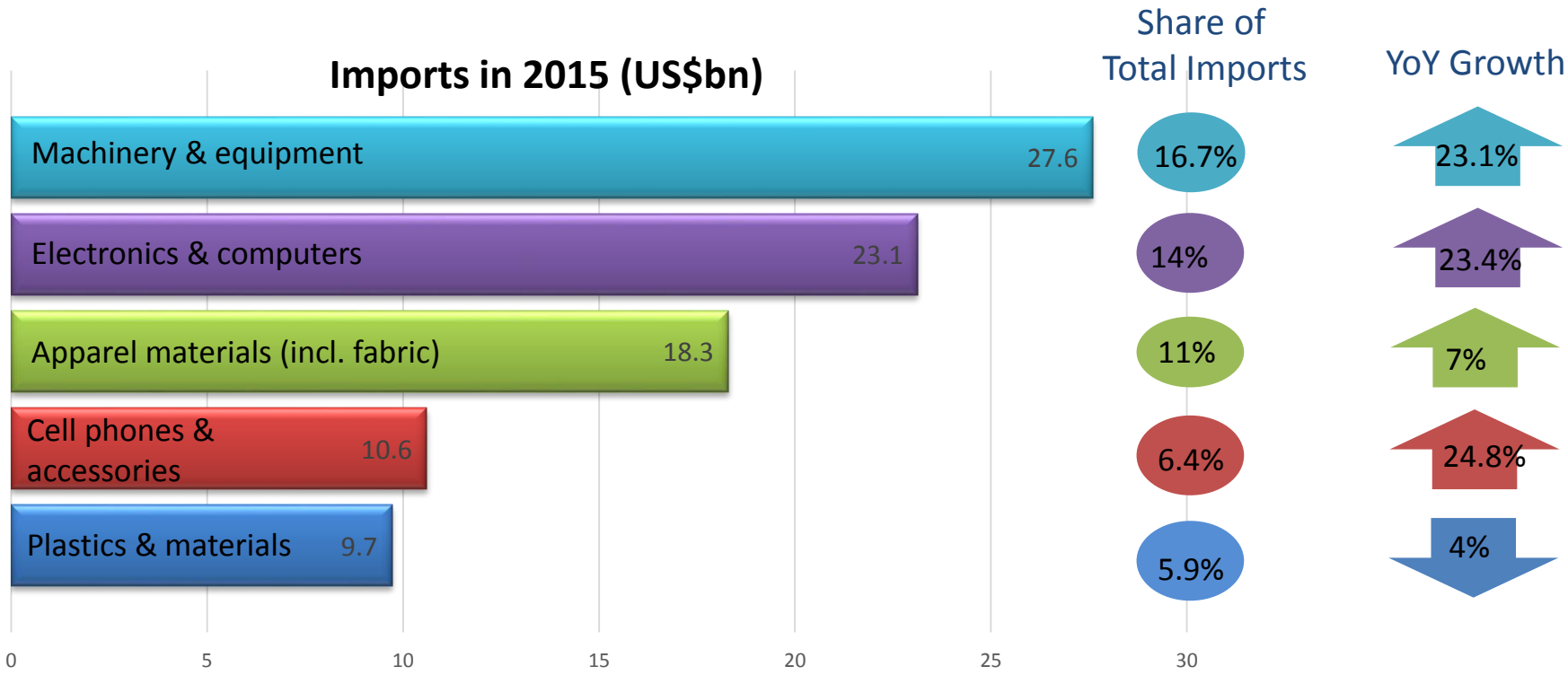
Portfolio markets of Vietnam's exports

Source: Vietnam Customs

In 2015, USA and EU continued to be the largest export markets, with growths of 16.9% and 10.9%, respectively, from previous year.

For the first time in years, exports to ASEAN and Japan witnessed drops, almost at the same pace (3.7-3.8%), despite the concluded free trade agreements.

Imports (1) – Top Import Goods

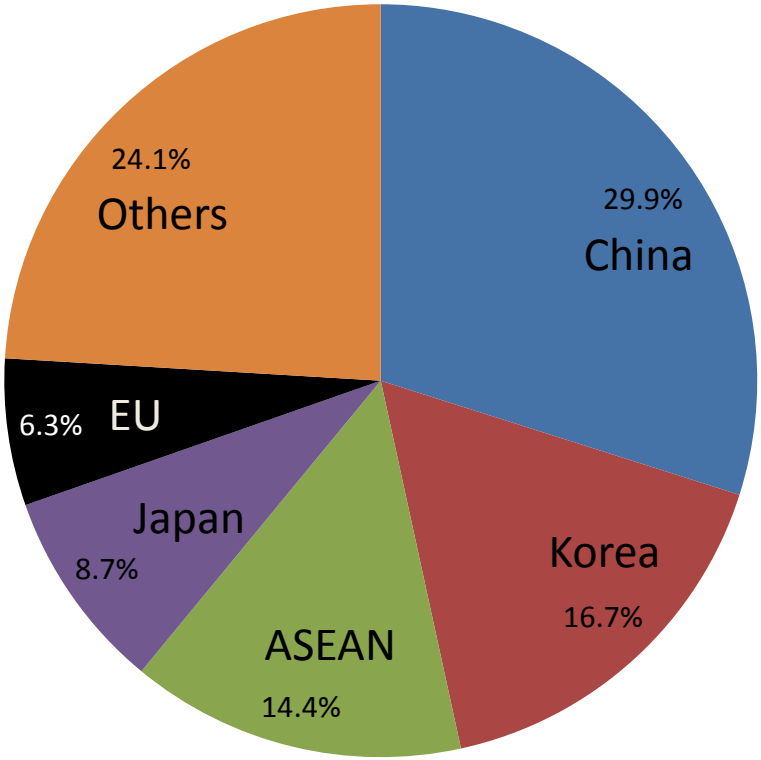


Source: Vietnam Customs

Technology-intensive goods have remained Vietnam's major imports, which is attributed to the country's low technology base. But this is also contributed by the people's lifestyle – high openness to new tech products notably portable electronic devices.

Textile materials notably fabric have also been (in years) the product category that the country is in strong need for garment production, notably for exports. This also indicates Vietnam's inadequate capability of producing textile materials.

Imports (2) – Top Supply Countries



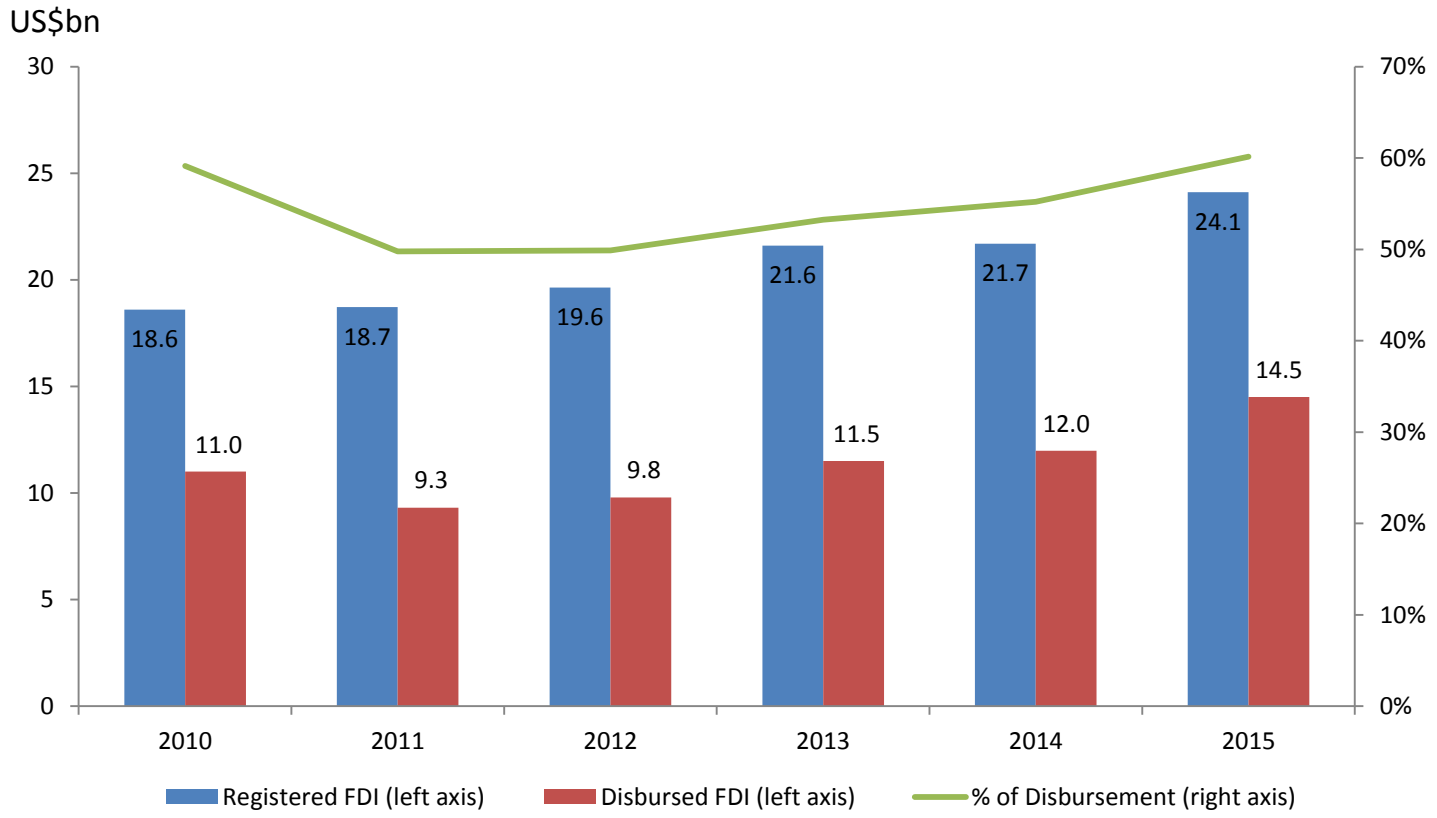
Shares of Vietnam's imports

Source: Vietnam Customs

China has continued to be the largest supplier, holding almost USD50bn of Vietnam's imports in 2015 (or 30%), increasing by 13.3% from previous year.

In 2015, Korea surpassed ASEAN to be the second exporter to Vietnam, followed by Japan and EU.

Foreign Direct Investment – A snapshot

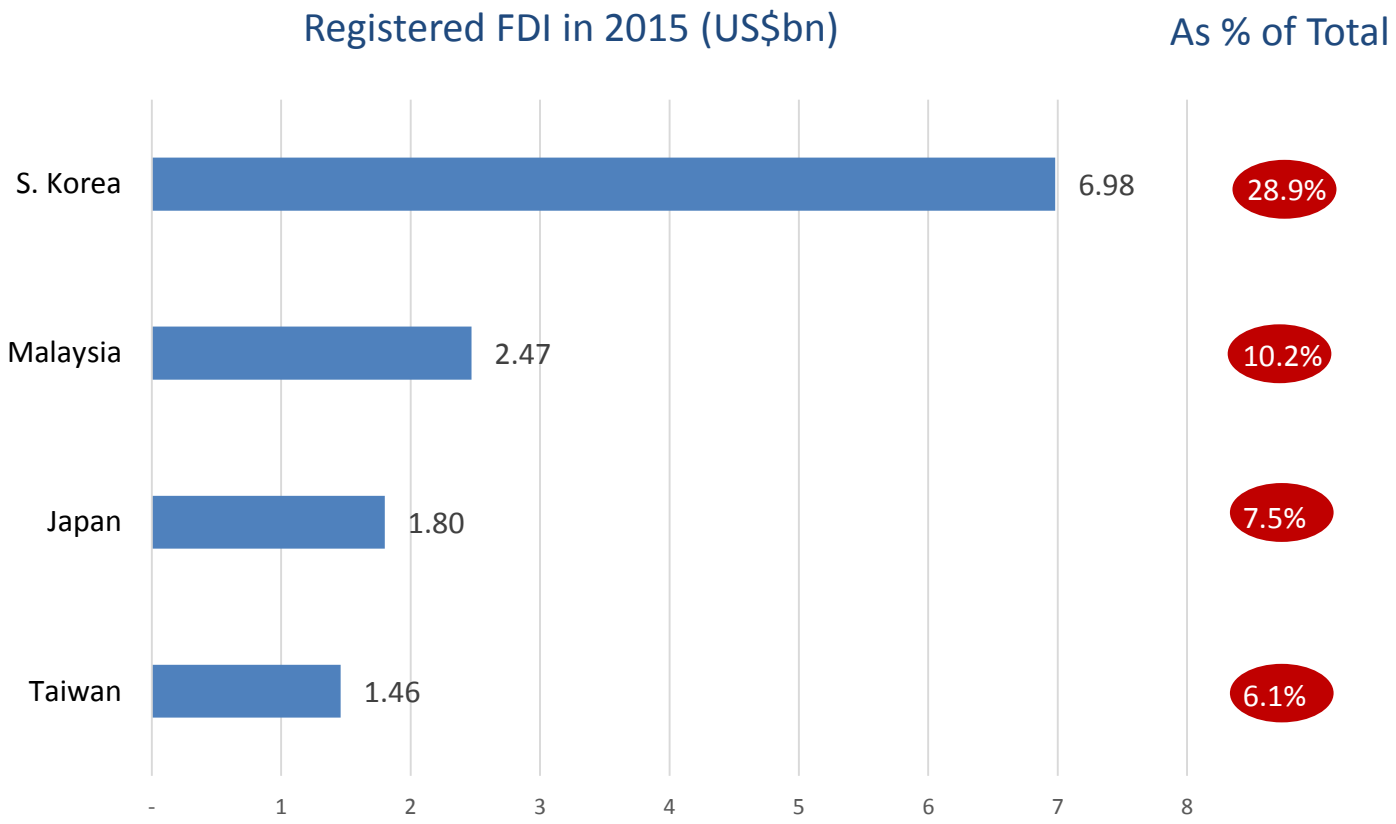


Source: FIA

Despite certain fluctuation in registered FDI, it has been on an upward trend, showing a recovery in terms of investors' financial capability and sentiment.

FDI disbursement has consistently and steadily increased since 2011. The percentage of disbursement has improved significantly from less than 50% in 2011 to 60% in 2015.

FDI – Major Providers in 2015



Source: FIA

Asia has remained top FDI providers. Recently, South Korea has overturned Japan to become the largest FDI provider. This was mainly attributed to Japan's weakening economy and currency devaluation. Malaysia is a new top FDI originator.

Select High Growth Industries

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Retail

One of the world's fastest growing retail markets, with 5-year CAGR of 17.6% despite economic slowdown. Retail sales rose 9.5% in 2015 to reach **$109.8bn** (CPI 0.6%). Modern trade (MT) is growing extremely fast, though mostly in major urban areas, in various forms – hypermarkets, supermarkets, convenience stores, shopping malls. MT currently makes up 30% of total retail sales is expected to reach 40% in the next 5 years.

IT Services

The sector offers i) great value of diversity (basic testing, systems maintenance to development of software, contemporary web, mobile, social; cloud applications; ii) cost advantage (world #1, ranked by AT Kearney); iii) geographic advantage (near Japan and Korea); iv) government incentives (tax benefits, HR education, software parks development). Industry value reached above **$3bn in 2015**. Among top 10 software exporters.

Food & Beverage

Numerous sustainable growth drivers: expanding population, increasing urbanization, growing demand for quality food, strong export needs. The industry was estimated at roughly **US$50bn in 2015**. Products that have experienced growth in production: chilled, frozen, dried, processed food, baby food, ready meals, noodles have experienced growth in production. Expenditure per capital is to rise steadily.

Pharmaceuticals

Expanding population coupled with increasing life expectancy, higher levels of health awareness, and increased access to medicines across the country (via government program to achieve universal health coverage by 2015), should provide a roaring engine for the pharmaceutical sector's acceleration. Private health expenditures remain high at 57% of country's total health spending (~**US$12.4bn in 2014**)

Ease of Doing Business

Criterion	2016 Rank	2015 Rank	Change in Range
Starting a Business	119	125	↑ 6
Dealing with Construction Permits	12	12	No change
Getting Electricity	108	130	↑ 22
Registering Property	58	58	No change
Getting Credit	28	36	↑ 8
Protecting Investors	122	121	↓ 1
Paying Taxes	168	172	↑ 4
Trading Across Borders	99	98	↓ 1
Enforcing Contracts	74	74	No change
Resolving Insolvency	123	125	↑ 2
Aggregate rank (Doing Business)	90	93	↑ 3

The above rankings are performed every year by World Bank based on in-depth analyses of 189 world economies. Vietnam's extensive reforms coupled with stronger determination in implementation have paid off, with 3-point better ranking in 2016. Progress has been seen in important criteria: starting a business, getting credit, paying tax, etc.

Opportunities for Foreign Investors

- **ASEAN Economic Community** (AEC) was formed on 31 Dec 2015, with Vietnam being one of the members. The principles of AEC provide for fundamental freedoms relevant for international business, to ensure a single market and production base, a competitive economic region, a region of equitable economic development and full integration to the world economy.
- **EU-Vietnam Free Trade Agreement** was reached in principle on 4 Aug 2015. This agreement will nearly remove all tariffs on goods traded between Vietnam and EU, expected to be implemented from 2016 (precise timeline still unknown).
- **Trans-Pacific Partnership (TPP)** was concluded on 4 Oct 2015 by trade ministers from twelve Asia-Pacific countries. TPP is a regional trade agreement of broad scope and comprehensive coverage that combines trade and investment liberalization among its members with high-standard rules and disciplines in areas like state-owned enterprises, labor, and intellectual property rights.

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Market Entry Options

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MARKET ENTRY & BUSINESS ESTABLISHMENT

Foreigners (individuals and firms) may choose to enter the Vietnamese market in one of the following ways:

- **Wholly foreign-owned company** with various legal forms (see next slide).
- **Joint ventures with local partners**: with varying stakes of ownership, depending on level of market access (i.e. under WTO commitments), their own need for control and other strategic reasons. Such venture can be created in different legal forms (see next slide).
- **M&A**: By acquiring or merging into an existing domestic company (of varied ownership types), a foreign investor can save a lot of time for market entry and penetration. Prevailing laws have allowed foreigners to acquire up 100% shares in a firm, including a listed company, in many business sectors.
- Others: purely **commercial alliances** (distributorship, agency, franchise, etc.), contractual relationships (BT, BOT, BTO, BCC), or other early-stage market entry options that do not create a new legal entity (representative office, branch office).

Legal Forms of Business

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MARKET ENTRY & BUSINESS ESTABLISHMENT

No legal entity	Legal entity
Representative office (RO): The simplest form to be present in Vietnam, with least requirements and procedures to set up; yet NOT allowed to conduct full operation (that generates revenue and profit). May cause corporate tax exposure (PE issue) under certain conditions. Branch office (BO): Not an independent legal person but is allowed to conduct full operation and taxed as an independent legal person (separate from its HQ). Mostly fit for banks. Both RO and BO are licensed by provincial Department of Industry & Trade. Business Cooperation Contract (BCC): Investors sign contracts with state agencies to collaborate in a business on a production sharing or profit sharing basis. Mainly fit for oil & gas projects. Build-Transfer (BT), Build-Operate-Transfer (BOT), Build-Transfer-Operate (BTO): Investors sign these contracts with state agencies to execute mostly infrastructure projects (various sub-sectors).	Limited Liability Company (LLC): Most common form of business where owners are liable for obligations within the level of contributed capital; divided into 2 types: single-member and multi-member (no more than 50); cannot issue shares. Joint Stock Company (JSC): A common form of business among larger companies. Like with LLCs, owners are liable for obligations within the level of contributed capital. Must have at least 3 shareholders. The only form that can issue shares, privately or publicly. Fit for large corporations with needs for extended shareholder base. Partnership: not so common in Vietnam; fit for professional firms (legal, accounting); categorized into limited and unlimited partnerships.

Incentive Business Sectors

MARKET ENTRY & BUSINESS ESTABLISHMENT

Hi-Tech or Innovation

- Producing new materials or new energy, and high-tech products;
- Biological technology;
- Sectors utilizing advanced and environmentally-friendly technologies;
- R&D activities.

Agribusiness

- Farming
- Processing agricultural, forestry and aquatic products;
- Producing hybrids, new plant varieties and/or animal breeds;

Others

- Information technology
- Mechanical engineering
- Infrastructure development
- Education and training, physical training
- Heath care
- Labor-intensive sectors

Foreign-invested companies with 51% or more foreign ownership

- Such foreign-invested companies are required to apply for an Investment Registration Certificate (IRC) first.
- For mega investment projects which require government control, the foreign investor must obtain an investment policy from the competent state authority before applying for an IRC.
- Upon receipt of an IRC, the foreign investor can establish a foreign invested enterprise by going through the procedure of business registration to obtain a Business Registration Certificate (BRC).
- Timelines for licensing:
  - IRC: 10 business days;
  - Investment policy (mega projects): timelines vary greatly depending on the approving authority, which typically take months;
  - BRC: 03 business days.

Foreign-invested companies with less than 51% foreign ownership

Treated as a locally-owned company which is subject to BRC only (03 business days). Market openness restrictions will not apply. In practice, however, it can take a lot longer than 3 days, due to the statute of foreign ownership, though minority.

Post-Licensing Procedures

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MARKET ENTRY & BUSINESS ESTABLISHMENT

- Notify to the public via a daily newspaper in 3 consecutive issues within 30 days from the date of BRC;
- Have the company seal made and register it with the provincial police department.
- Open a capital deposit bank account at a bank for capital contribution and a current account; notify the current account to the local tax authority.
- File first business license tax return and make payment thereof.
- Subscribe for statutory Social Insurance (which also includes medical insurance and unemployment insurance) upon hiring any local staff and make payments thereof.
- Before recruitment of expatriates, apply for their work Permits at the local authority (Department of Labor, Invalids and Social Affairs - DOLISA). Medical insurance is also obligatory for expatriate staff employed.

Accounting/ Financial Reporting

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MARKET ENTRY & BUSINESS ESTABLISHMENT

- All enterprises operating in Vietnam (including branches and rep offices) are to register with the local tax authorities and adopt Vietnamese Accounting Standards (VAS), which are increasingly aligned with International Financial Reporting Standards (IFRS).
- Financial year is typically Jan 1 – Dec 31; however enterprises are encouraged to adopt a different financial year that better fits their business nature.
- Within three months from the close of each financial year, foreign-invested companies need to have annual financial statements audited and submitted to Department of Taxation, Department of Planning and Investment, and General Statistics Office.

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Major applicable taxes

- Corporate Income Tax (CIT)
- Value Added Tax (VAT)
- Foreign Contractor Tax (FCT) or also known as Withholding Tax
- Personal Income Tax (PIT)
- Other taxes: Special Sales Tax, Stamp Duty, Inheritance/Gift Tax, Business License Tax, Non-agricultural Land Use Tax, Natural Resource Tax, Environmental Protection Tax and Fee.

Tax administration

- Tax administration is controlled by General Department of Taxation, under Ministry of Finance. At each province/municipality, it is performed by Provincial Department of Taxation. Below it, there is District Department of Taxation.
- Foreign-invested and large-sized local companies will be administered by Provincial Taxation Dept. instead of District Taxation Dept.

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TAXATION

Tax rates

- Standard Tax Rate: 20%.
- Preferential tax rates can be obtained for small businesses and encouraged projects (See more Tax Incentives on Slide 28).
- Certain industries may be levied higher tax rates (e.g. oil and gas operations and natural resources industry – 32% to 50%).

Application

CIT applies to all domestic and foreign entities that operate in Vietnam – i.e. companies incorporated under Vietnamese laws and those which are incorporated under foreign law and carry on a business in Vietnam through a branch office or rep office.

Compliance requirements

- Assessment system: Generally self-assessment.
- 3 types of filing:
  - ✓ Annual return (i.e. the 90th day following the end of the calendar year or fiscal year)
  - ✓ 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)

CIT – Important notes

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- Quarterly return was recently removed and replaced by quarterly self-assessment of CIT liability, followed by quarterly temporary payment thereof (i.e. by the 30th day following the end of each quarter).
- Tax losses can be carried forward fully and consecutively and offset against the profits of subsequent years for up to 5 years. Carry back of tax losses is not allowed.
- Concept of tax grouping/ consolidation is not addressed in the prevailing regulations; offsetting profits and losses between companies within a corporate group is not permitted.
- Gains from transfer of shares are taxed at the prevailing standard CIT tax rate. Currently there is no registration fee on the transfer of shares.
- Gains from transfer of assets should be subject to CIT standard rate. In addition, where a registerable asset (such as houses, land, ships, cruisers and boats, automobiles, motorcycles, aircrafts etc.) is transferred, the new owner must pay registration fees whose rates vary from 0.5 %-20% depending on the asset transferred.
- CFC rules are not in place. Yet, 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 at standard CIT rate, even when it enjoys tax reduction or exemption under the law of the foreign country.
- Where foreign income has been subject to any foreign corporate tax, the Vietnamese enterprise in principle may claim a foreign tax credit up to the equivalent of tax payable under Vietnamese corporate tax law.

CIT – Important notes (2)

- There are currently no specific tax-driven thin capitalization rules. However, certain restrictions to that effect can be found in the regulations on foreign loans and corporate income tax (permitted borrowing capacity and excessive interest rates).
- There are no specific anti-avoidance rules in Vietnam. However, the tax authorities have the power to carry out tax audits of any taxpayer to determine tax obligations within a period of 10 years. After this time limit, they can no longer levy any fine or penalties; yet they can still collect any unpaid or understated amounts.
- Formal rulings are allowed and relatively common in Vietnam. Official letters issued by National and Provincial Tax Departments are applied to all relevant taxpayers or specific organization/ individual and can be used as reference.

CIT – Tax incentives

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TAXATION

10% rate is applied for

- business income from implementing new projects:
  - ✓ based in areas with extremely disadvantaged socio-economic conditions, economic zones, hi-tech zones, IT-focused parks;
  - ✓ of research and development (R&D), hi-tech;
  - ✓ developing water plants, power plants, water supply & treatment systems; bridges, roads, railways, airports, sea ports, river ports, terminals and similar works;
  - ✓ producing softwares, composite materials, light materials, rare materials, recyclable energy, clean energy, energy from recycled waste; developing bio-tech;
  - ✓ of environmental protection;
  - ✓ new mega manufacturing projects (criteria including investment capital & revenue/ staff)
  - ✓ others with specific eligibility criteria.
- hi-tech enterprises, agricultural enterprises applying hi-tech.

15% rate is applied for business income from agriculture and seafood processing in areas not based in disadvantaged and extremely disadvantaged socio-economic zones.

17% rate is applied for

- business income from implementing new projects
  - ✓ areas with disadvantaged socio-economic conditions;
  - ✓ producing superior steel, energy-saving products, agricultural equipment & machinery, irrigation equipment; animal, poultry and fish feed; developing traditional sectors.
- people's credit funds and microfinance institutions.

CIT – Transfer Pricing (TP)

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- Has become one of the tax authorities' priorities in relation to tax administration in recent years. Latest regulation places emphasis on the need for taxpayers to adhere to TP guidelines and clearly defines related party transactions that are subject to TP rules, TP methods and compliance requirements.
- Tax authorities are given power to make TP adjustments with respect to non-arm's length related party transactions and taxpayers' failure to comply with TP 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 TP documentation.
- Government has recently issued guidance on Advanced Pricing Agreements (APAs).

Value Added Tax (VAT) – Rates and registration

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TAXATION

Tax rates and exemptions

- Standard rate: 10%
- Essential goods such as agricultural produce, fishes: 5% (concessionary rate)
- Export goods and services: 0%
- Certain items are VAT exempted: certain agricultural products; water supply and drainage; salt; transfer of land use rights; life insurance, financial, medical, public postal, telecommunications, public hygiene services; construction work related to cultural work; education and vocational training; radio and television broadcasting; publication; public transportation; goods that cannot be produced in Vietnam, specialized arms; imported goods for humanitarian purposes; technology transfers; gold bars; unprocessed minerals and natural resources, goods in transit via Vietnam territory.

Registration

- Required for all organizations and individuals producing and trading taxable goods and services in Vietnam and importing taxable goods or purchasing taxable services from overseas.
- Penalties for failure to register or late registration will apply.
- An overseas company subject to VAT on the income arising from Vietnam (as part of Foreign Contractor Tax) may (i) register a tax ID and declare VAT on its own (certain conditions including permanent establishment must be met to adopt this VAT declaration method) or (ii) choose to pay VAT under deemed VAT withholding method.

VAT – Returns filing and other regulations

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Monthly/ Quarterly Returns

- VAT returns are to be filed on a monthly basis, by the 20th day of the following month.
- For start-ups and smaller-size firms whose annual revenue of the nearest year is VND20bn (~US$890k) or less, VAT returns are to be filed on a quarterly basis, by the 30th day following the end of each quarter).
- For overseas companies paying VAT under deemed VAT withholding method, VAT shall be declared and withheld by the Vietnamese contracting party within 10 days from the date of making the payment.

Invoices and Payment Vouchers

- Entities may use pre-printed invoices, self-printed invoices or electronic invoices to declare their VAT liability.
- The invoice, contract, payment voucher and the related must be consistent; payment voucher must state clearly the payment for the reference contract. Otherwise, it may not be creditable for VAT purpose.

VAT – Refund claims

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Yearly basis

- If an enterprise's input VAT exceeds its output VAT during consecutively 12 months, it can claim a refund from the authorities.
- Newly established entities in the pre-operation phase or businesses with accumulated VAT credits exceeding VND300 million may claim VAT refunds on a yearly basis.

Monthly/quarterly basis

- Exporters whose excess input VAT credits exceed VND300 million (USD14,670) can claim a refund on a monthly/ quarterly basis.
- Newly established entities and certain investment projects which are in the pre-operation stage may be entitled to refunds for VAT paid on imported fixed assets based on shorter timelines (quarterly/ monthly), subject to certain conditions.

Foreign Contractor Tax – Fundamentals

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Concept/ Application

- Applies to certain Vietnam-derived payments (either domestic or outbound) to foreign parties without a licensed presence in Vietnam, including: interest, royalties, service fees, leases, insurance, transportation, transfers of securities and goods supplied in Vietnam or associated with services rendered in Vietnam.
- Normally comprises a combination of CIT and VAT at varying rates, but can also include PIT for payments to foreign individuals.
- Double tax avoidance (DTA): 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).

Exclusions

FCT does NOT apply to:

- pure supply of goods (i.e. where title passes at or before the border gate of Vietnam, and there are no associated services performed in Vietnam), services performed and consumed outside Vietnam, and various other services performed wholly outside Vietnam (e.g. certain repairs, training, advertising, promotion, etc.).
- dividends paid to non-resident corporate investors; profit distributions or dividends repatriated abroad by foreign-invested enterprises (provided they have fulfilled all tax and financial obligations toward the Vietnam Government).

FCT – Applicable tax rates

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Type of business activities		Deemed VAT-FCT rate	Deemed CIT-FCT rate
1. Trade	(i) Distribution, suppy of goods	1%/ exempt	1%
	(ii) Distribution, supply of goods associated with services rendered in Vietnam (including on-spot export and import)		
	(iii) Supply of goods under Incoterms where sellers bear risks relating to goods in Vietnam		
2. Services	Services (except those listed below)	5%	5%
	Services together with supply of goods (unseperatable)	3%	2%
	Restaurant, hotel and casino management services	5%	10%
3. Construction	Construction, installation without supply of materials, machinery or equipment	5%	2%
	Construction, installation with supply of materials, machinery or equipment	3%	2%
4. Leasing	Leasing of machinery and equipment	5%	5%
	Leasing of aircraft, vessels (including components)	Exempt	2%
5. Banking	Interest from loans	Exempt	5%
	Financial derivatives	Exempt	2%
6. Transportation	Domestic transportation (including seaway, airway)	3%	2%
	International transportation	0%	2%
7. Insurance	Insurance (except certain exempted sub-categories)	5%	5%
	Re-insurance, commission for re-insurance	Exempt	0.1%
8. Oil & Gas	Supply of goods and/or services for oil & gas exploration and development	10% (standard)/ 5%/ exempt	5%
	Leasing drilling rigs	Exempt	5%
9. Licensing	Royalties/ license fees (from such activities as software licensing, technology transfer, transfer of IP rights)	Exempt	10%
10. Capital transfer	Transfer of securities, CDs	Exempt	0.1%
11. Others	Manufacturing, other business activities	3%	2%

FCT – Methods of tax payment

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TAXATION

1. Deduction method

Foreign contractor registers for VAT purposes and filing CIT and VAT returns in the same way as a local entity (VAT deductibility and CIT at 22% on its net profits). Eligibility criteria for the method:

- Has a PE or is tax resident in Vietnam;
- Operates in Vietnam under a project that lasts more than 182 days; and
- Adopts fully the Vietnam Accounting System (VAS).

Other requirements upon applying the method:

- Vietnamese customer is to notify the tax office of the foreign contractor paying tax under the deduction method within 20 working days from the date of signing contract.
- If foreign contractor carries out many projects in Vietnam, and qualifies for the deduction method for one project, the contractor is to also apply deduction method for its other projects.

2. Direct method (Withholding method)

This method applies to foreign contractors who do not register for VAT purposes nor file CIT or VAT returns. Instead CIT and VAT will be withheld by the Vietnamese contracting party at prescribed rates applied to gross turnover (as per table on Slide 34). The VAT withheld by the Vietnamese contracting party is generally deductible for their VAT return.

3. Hybrid method (Combined method)

This method allows foreign contractors to register for VAT and accordingly pay VAT based on the deduction method (i.e. output VAT less input VAT), but with CIT being applied at the direct method rates on gross turnover. Eligibility criteria for this method: same as for deduction method (except that the adoption of VAS may be to a less extent).

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Tax status: resident vs. non-resident

Any foreign individual shall be considered a PIT resident if he/ she meets one of the following conditions:

- Being present in Vietnam for a period of 183 days or more within either a calendar year or for 12 consecutive months from the first arriving date;
- Having a permanent residence in Vietnam (including a registered residence which is recorded on the permanent/temporary residence card in case of foreigners);
- Having a leased house in Vietnam with a term of 183 days or more in a tax year and unable to prove tax residence in another country.

A person not meeting any of the above criteria is considered a tax non-resident.

Taxable income

Major types of taxable income include: employment income, business/trading income, income from capital investments/ capital transfers, income from property transfers, winnings or prizes, royalties/ income from franchising, income from inheritances and receipts of gifts.

PIT – Tax rates for employment income

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Tax residents

A unified progressive tax rates applicable to (worldwide) employment income. Tax rates range from 5% to 35% (with 7 levels – See below).

Annual employment income of tax resident (VND mil)		PIT rate
From	To	
0+	60	5%
60+	120	10%
120+	216	15%
216+	384	20%
384+	624	25%
624+	960	30%
960+	-	35%

Tax non-residents

A flat tax rate of 20% applicable to Vietnam-sourced employment income.

PIT – Tax rates for non-employment income

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Tax rates and determination vary greatly in methodology and number as typically shown below, generally regardless of tax status (resident/non-resident):

No.	Type of PITable incomes	PIT rate
1	**Business/trading income**	
	i) Goods distribution/supply	0.5% of gross proceeds
	ii) Operating lease, insurance brokerage, lottery brokerage, network marketing	5% of gross proceeds
	iii) Services (other than the above), construction exclusive of building materials	2% of gross proceeds
	iv) Manufacturing, transportation, services associated with goods, construction inclusive of building materials	1.5% of gross proceeds
	v) Other business activities	1% of gross proceeds
2	**Dividends**	5% of amounts received
3	**Capital assignment**	
	i) Transfer of paid-in capital in LLCs	20% on net gains (resident), 0.1% on gross proceeds (non-resident)
	ii) Sale of stocks (listed/ unlisted)	0.1% on net gains
4	**Real estate transfer**	2% on gross proceeds
5	**Royalties/ License fees**	10% on amount over VND10 mil
6	**Winnings/ Prizes/ Inheritance/ Gifts**	

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TAXATION

Tax declaration and payment

- *Employment income*: Responsibility rests with the employer who shall file tax returns and make payments on a monthly or quarterly basis (depending on size).
- *Non-employment income*: The income earner is required to declare and pay PIT deriving from each type of taxable income, on a regular basis (within days after such income is received).
- *Expatriate employees* are also required to carry out a PIT finalization on termination of their Vietnamese assignments before leaving Vietnam. Refunds due to excess tax payments are only available to those who have a tax ID number.

Tax deductions

- Contributions to mandatory social, health and unemployment insurance schemes; local voluntary pension schemes (subject to a cap);
- Personal and family relief: Personal relief of VND9 mil/month, and family relief of VND3.6 mil/month/dependent. The dependent allowance is not automatically granted; the taxpayer needs to register qualifying dependents and provide supporting documents to the tax authority;
- Contributions to certain approved charities.

Tax credit

For tax residents who have overseas income, any PIT paid in a foreign country is creditable against tax paid in Vietnam subject to certain tax administration procedures.

Other taxes (1)

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TAXATION

Special sales tax (SST)

- A form of excise tax, with tax rates ranging between 10-70% of goods' value.
- Applies to production or import of certain goods including cigarettes, cigars, spirits, beer, cars, assorted types of petrol, air conditioners and the provision of certain services including dance halls, massage parlors, casinos, golf clubs and lotteries.
- Exported goods are not subject to SST.

Stamp duty (also "Registration Fee")

- Rates range between 0.5-20% of the object's value.
- Applies on the required registration of ownership of certain assets, including buildings/ land, transportation vehicles and guns.

Inheritance/gift tax

- Unified rate of 10% of the object's value.
- Applies to income from inheritance or gifts in excess of VND10 mil (~US$450).
- Exception for inheritances or gifts of real estate between specified family members or next-of-kin.

Business license tax

- A fixed fee imposed on business organizations according to the registered capital in the business registration license or the investment license, ranging from VND1mil (US$45) to VND3 million (~US$135) per year.
- Payable upon registration of business for tax purpose and subsequently on annual basis.

Other taxes (2)

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Non-agricultural land-use tax

- Applies to residential land in rural/urban areas and non-agricultural land used for business purposes.
- Calculation is based on the land area, land price and tax rate.

Natural resource tax

- Imposed on exploitation/ 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 others.
- Applicable tax rates vary depending on the specific classification of natural resources and/or production output.

Environment protection tax (EPT) and fee (EPF)

- EPT: Introduced in 2012 to impose tax on goods that may cause damage to the environment, such as gasoline, oil and grease, coal and certain chemicals.
- EPF: Also launched in 2012, aimed at businesses engaging in mining natural resources including crude oil, natural gas, coal gas, metallic/ non-metallic minerals.
- Rates of EPT and EPF vary depending on the type of mineral.

Double Taxation Avoidance – Bilateral tax treaties

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In force

Azerbaijan	Canada	Hong Kong	Japan	Malaysia	Pakistan	Saudi Arabia	Taiwan
Australia	China	Hungary	Korea, North	Mongolia	Philippines	Serbia	Thailand
Austria	Cuba	Iceland	Korea, South	Morocco	Patestine	Seychelles	Tunisia
Bangladesh	Czech	India	Kuwait	Myanmar	Poland	Singapore	Ukraine
Belarus	Denmark	Indonesia	Laos	Netherlands	Qatar	Slovakia	UAE
Belgium	Finland	Ireland	Luxembourg	New Zealand	Romania	Spain	UK
Brunei	France	Israel		Norway	Russia	Sri Lanka	Uzbekistan
Bulgaria	Germany	Italy		Oman		Sweden	Venezuela
						Switzerland	

Concluded but yet in force

Algeria	Egypt	Mozambique	Kyrgyzstan	Macedonia	Portugal	San Marino	USA
	East Uruguay	Iran		Mozambique		Turkey	

Under negotiation

Argentina	Combodia	Estonia	Latvia	Mauritius	Panama	South Africa
	Costa Rica		Lithuania			Sudan
	Croatia					

TAXATION

DTA – Application & judgment

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Foreign companies (FCs), individuals working in Vietnam holding the nationality of the countries entered into the Tax Treaties with Vietnam can apply for either FCT exemption for the part of CIT only or the PIT provided that these FCs/ individuals satisfy certain conditions at the Tax Treaty, such as: (i) the FCs do not create or have a PE, (ii) the individuals do not become tax resident and receive the income from the PE in Vietnam.

DTA entitlements will be denied where the main purpose of the arrangements is to obtain beneficial treatment under the terms of the DTA (treaty shopping) or where the recipient of the income is not the beneficial owner. A substance over form analysis is required for the beneficial ownership, whereby the following factors are to be considered:

- Whether the recipient is obligated to distribute more than 50% of the income to an entity in a third country within 12 months;
- Whether the recipient has little or no substantive business activities;
- Whether the recipient has little or no control over or risk in relation to the income received;
- Back to back arrangements;
- Whether the recipient is resident in a country with a low tax rate;
- Whether the recipient is an intermediary or agent.

Audit and Tax Services

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DCPA SERVICE OFFERINGS

Audit & Assurance

- Statutory Audit of Financial Statements
- Special Purpose Audit of Financial Statements
- IFRS Audit
- Compliance Audit
- Due Diligence Review
- Limited Review
- Other Agreed-upon Procedures (AUP)
- Audit of Construction Projects
- Internal Control Review and Assessment
- Internal Audit

Tax advisory

- Tax Compliance
- Tax Heath Check
- VAT Refund Claim
- Tax Dispute Resolution
- International/ Corporate/ Expatriate Tax Planning
- Market Entry Tax Structuring
- Tax Due Diligence

Market Entry and Corporate Finance Services

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DCPA SERVICE OFFINGS

Market entry & related corporate advisory

- Market Study and Analysis
- Market Entry Strategies and Advisory
- Cross-border Business Matching
- Site Identification and Evaluation
- Corporate Structuring & Establishment (Business Licensing)
- Commercial Due Diligence
- Other International Business Assistance

Transaction/ Financial advisory

- Strategic, Operational and Financial Review
- Capital Raising (Debt/ Equity/Quasi-equity)
- Valuation
- Due Diligence
- Transaction Support (Ad-hoc/ Tailor-made)
- M&A Advisory (Full Scope)

Accounting and Business Support Services

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DCPA SERVICE OFFINGS

Accounting & Business Support

- Basic Book-keeping
- Monthly/quarterly and Annual Financial Reporting
- Accounting Review
- Invoicing, Billing and Data Entry
- Payroll and Employment Support
- Expatriate Employee/Executive Support (incl. Working Permit)
- Corporate Secretarial (including License Application & Revision)
- Miscellaneous Support

Please contact us to get support regarding your Vietnam inquiries

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THANK YOU!