



**TRI THUC VIET CO., LTD.**  
ASSURANCE - ADVISORY - TAX - SOFTWARE SERVICES



# DOING BUSINESS in Vietnam May, 2017

## BRANCHES AND OFFICES

### HEAD OFFICE

835A Binh Duong Avenue, Chanh My Ward,  
Thu Dau Mot City, Binh Duong Province

Tel : +84 274 - 3856 219  
Fax : +84 274 - 3856 218  
Email : [info@trithucviet.com.vn](mailto:info@trithucviet.com.vn)

### HO CHI MINH

Floor 3, No. 9 Phan Ke Binh, Da Kao Ward, District  
1, Ho Chi Minh City

Tel : +84 28 - 39118 830  
Fax : +84 28 - 39118 224  
Email : [hcm@trithucviet.com.vn](mailto:hcm@trithucviet.com.vn)

### HA NOI

6th Floor, Viet A Tower, No. 9 Duy Tan St,  
Dich Vong Hau Ward, Cau Giay Dist, Ha Noi

Tel : +84 24 - 2242 403  
Fax : +84 24 - 2242 402  
Email : [hanoi@trithucviet.com.vn](mailto:hanoi@trithucviet.com.vn)

### TAY NINH

No.09 Tinh Lo Str, An Hoa Ward, Trang Bang  
Dist, Tay Ninh Province

Tel : +84 276 - 2246 797  
Fax : +84 276 - 2246 798  
Email : [tayninh@trithucviet.com.vn](mailto:tayninh@trithucviet.com.vn)

### PHU YEN

No.108 Tran Phu Str, Ward 2, Tuy Hoa City, Phu  
Yen Province

Tel : +84 257 - 3810 179  
Fax : +84 257 - 3856 958  
Email : [phuyen@trithucviet.com.vn](mailto:phuyen@trithucviet.com.vn)

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A reference guide for investors entering Vietnam market for the first time or growing their existing business. Should you have any inquiries, please kindly free to contact us.

## 0 OVERVIEW OF VIETNAM

### 1. Geography

Vietnam is the easternmost country on the Indochina Peninsula in Southeast Asia. Vietnam is bordered by China to the north, Laos to the northwest, Cambodia to the southwest, Thailand across the Gulf of Thailand to the southwest, and the Philippines, Malaysia and Indonesia across the seaside to the east and southeast.

The S-shaped country has a north-to-south distance of 1,650 kilometers and is about 50 kilometers wide at the narrowest point.

The country is divided into the highlands and the Red River Delta in the north; and the Day Truong Son (Central Mountains), the coastal lowlands, and the Mekong Delta in the south.

Vietnam in the northern regions has a humid subtropical climate, with humidity averaging 84% throughout the year. However, because of differences in latitude and the marked variety of topographical relief, the climate tends to vary considerably from place to place. People from the North, the Central, and the South will experience different types of climate appropriately throughout the year. While the North has a cold winter because it is close to the Tropic of Cancer. The Central of Vietnam experiences the hot and dry winter from mid-January and mid-August while the South's climate remaining hot and humid throughout the year.





## 2. Culture

Vietnam culture was influenced by China, France and the United States as well as other countries in region. In recently, Vietnam has been invested more and more foreigner investors around the world, hence our food and cuisines are rich diversity. Besides, our traditional food, Vietnam has a lot of foreign food such as Korea, Japan, China, America, France and so on.

Vietnam has become increasingly popular as an expat destination in recent years and it is now recognized as a safe place for foreigners to live and work. The local culture and food are the two largest factors for many considering living in Vietnam. From north to south, a huge range of traditional dishes ensure you always have something new to eat. Expats are attracted by the nice weather, low cost of living, lively culture and the steady improvements in Vietnam's infrastructure. As a primarily Buddhist nation, Vietnam offers a beautiful contrast of cultural holidays and religious rituals.

Despite the advantages there are still some issues that expats complain about on a regular basis when living in Vietnam. Top of this list is the pollution and it is common to see Vietnam's residents, expats and locals alike, wearing masks in order to prevent the inhalation of dirty fumes. A further problem is the traffic conditions. The streets are regularly congested with high volumes of cars and bikes and Vietnam has one of the highest road fatality rates in the whole world.

## Business Etiquette and Protocol

- Handshakes are used upon meeting and departing. Handshakes only usually take place between members of the same sex. Some Vietnamese use a two-handed shake, with the left hand on top of the right wrist.
- Hierarchy and face manifest in different ways within business meetings. For example, the most senior person should always enter the room first.
- Relationships are critical to successful business partnerships. Always invest time in building a good relationship based on both personal and business lines. Any initial meeting should be solely used as a "getting to know you" meeting.
- Negotiations can be slow so it is important to bear in mind that decisions have to go through a lot of red tape and also group consultation. Be patient.
- Business gift giving is fairly common at the end of a meeting or during a meal in honor of your business associates. Gifts should be small but not expensive. Something with your company logo or something typical from your country both makes excellent gifts.



## 3. Human

### a. Population

- The current population of Vietnam is 95,306,538.
- Vietnam population is equivalent to 1.27% of the total world population.
- The population density in Vietnam is 308 per Km<sup>2</sup> (797 people per miles).
- The total land area is 310,060 Km<sup>2</sup> (119,715 sq. miles).
- 34.7 % of the population is urban (33,121,357 people in 2017).
- The median age in Vietnam is 30.8 years.

### b. Workforce

A young and large population is always a draw for foreign businesses, as it implies plenty of workers and potential consumers in the years ahead. Vietnam fits the bill on both counts. It has more than 90 million people and the median age is 30. Foreign companies are also encouraged by Vietnam's long-term investment in education, which is higher than in most countries at a similar development level. Its overall literacy rate (the proportion of people aged 15 or over who can read and write) is an impressive 94%.

### c. Cost of living

Cost of Living Range: \$700 to \$1,400 per month  
Average Local Salary: The average monthly salary of a worker in Vietnam is about \$148 per month; those in high paying jobs bring home around \$500 per month.

## 4. Economy

### a. Vietnam economy outlook

A large number of experts believe that Vietnam will be able to achieve its target economic growth of 6.7% in 2017. This is due to three main factors: a sustainable rise in FDI, local production recovery and improvements in domestic business environment. Vietnam in recent years has actively fostered integration by signing different free trade agreements with industrialized economies, which serves as an impetus for foreign investors to enter and develop in Vietnam. With sustained strong levels of FDI inflows, Vietnam's exports are expected to surge in 2017 and consequently contribute to the overall economic growth.

Other than gaining investment from the outside, Vietnamese government is also showing enormous effort in reforming the domestic market by equitizing the state-owned companies. For example, in 2016, the government decided to sell the entire stake in large state-owned enterprises such as Vinamilk, Sabeco, Habeco, etc. Following this effort, domestic business environment is expected to improve because these companies can now be managed more effectively while at the same time, the market becomes more competitive.

### b. Challenges

By the end of 2016, the inflation is successfully kept at below 5%. However, this figure is expected to be higher in 2017 due to economic pressures and the budget deficit. The government could potentially

increase the money supply causing the inflation to rise to 5-8%.

Despite enormous effort in integration, Vietnam's economy still depends largely on China. The Chinese economy is foreseen to decelerate in 2017 leading to a weaker Chinese Yuan. Thus, this will be likely to reduce the amount of exports from Vietnam while increase the amount of imports from China, which would restrain the overall economic growth of Vietnam.

Uncertainties in global economy also become a challenge for Vietnam. Political events such as Donald Trump became a new US president and Brexit are likely to affect the global growth and international trade. Other uncertainties derived from fluctuated prices of commodity and energy, unusual monetary policy from developed countries, natural disasters and so on.

## 5. Investment in Vietnam

### a. Outlook

In 1987, Vietnam issued its first Law on Foreign Direct Investment. Despite its relative short history, Vietnam has managed to attract a substantial number of FDI. In relative term, Vietnam has been quite successful as compared with other countries, ranking the third largest recipient in the ASEAN.

According to official statistics by the Government Statistics Office and the Ministry of Planning and Investment, all sixty three provinces in Vietnam

have received FDI. However, the distribution of FDI across provinces is very much even. The South East region (including Ho Chi Minh City and surrounding provinces) accounts for the largest share of FDI. In the North, Hanoi and neighboring provinces account for the second largest share of FDI, leaving a very small proportion for other regions. The concentration of FDI in Hanoi and Ho Chi Minh has been attributed to the increased cost of living and doing business in the two cities. This has led to a tendency that foreign investors are looking elsewhere for investment location. In addition, the local government in these provinces has now realized the importance of FDI and is actively attracting inward FDI in their respective regions/provinces.

The top ten foreign investors account for around 80 percent of total investment like Korea, Japan, China, Taiwan, Singapore, Hong Kong, British Virgin Islands, Netherlands, France, US and Malaysia

### b. Policy, law and business environment for FDI in Vietnam

Since 1987, Vietnam has maintained a policy of encouraging FDI. As highlighted in its long-term development strategy, one of the key elements for success is the continued ability to attract and utilize foreign inflow of capital including ODA and FDI. In many aspects such as protection of rights, preferential treatment and investment form, Vietnam's foreign direct investment policies, laws and regulations are quite liberal in comparison to other Asian countries. The liberal FDI policy has been reflected in a number of regulatory changes and development.

The latest Law on Investment was amended on 26 November 2014.

In addition to developing its own FDI regulation framework, Vietnam has signed bilateral investment treaties with other foreign countries like WTO, ASEAN Comprehensive Investment Agreement (ACIA), Free Trade Agreement (FTA), Trans-Pacific Partnership Agreement (TPP).

### c. Conclusion

With a growing population and middle class, Vietnam is a dynamic and growing country that is increasingly attractive to foreign businesses looking to expand their operations in Asia. Vietnam's government is very stable and committed to seeing the country grow. Consumer confidence is strong and improving. The country's workforce is seeing an annual increase of 1.5 million people, and its workers are young and, increasingly, highly skilled. The country has improving infrastructure and remains a low cost manufacturing hub that provides good financial incentives to foreign companies. An abundance of natural resources is also helping to fuel the manufacturing boom in the country. Additionally, general costs of doing business, such as rent and utilities, are among the lowest in Southeast Asia. Those make Vietnam stand out from the rest of Asia and the ideal for investment and development.

## FORMS OF BUSINESS IN VIETNAM

### I. JOINT-STOCK COMPANY

#### 1. Introduction

Joint Stock Company is form of business that its charter capital is divided into equal parts called shares. Shareholders may be individuals or organizations, minimum number of shareholders is 3 and no limit maximum. Shareholders are only responsibility for liability and other property obligations of the company for scope of capital contribution in the company.

Joint Stock Company is legal representative after being granted Business Registration Certificate.

Joint Stock Company is able to issue the shares, bonds, certificate investment fund and other shares to raise capital, there are an especial characteristics for Joint Stock Company.

#### 2. Shares

Joint Stock Company has have to the ordinary share. Owning the ordinary shares are ordinary shareholders.

Besides the ordinary share, Joint Stock Company can have the prefer share. Owing the prefer shares are the prefer shareholders. The prefer share includes as follows:

- Vote prefer share;
- Dividend prefer share;

- Reimburse prefer share;
- Other prefer share issued by company regulation.

#### 3. Selling and transferring shares

Board of Directors make decision the time, method and price of shares. Price of shares are not lower than the market price at the sales time or value in books at the latest time, exception for cases stipulated in Law.

The shares of the joint stock company are freely transferable in line with the Law.

#### 4. Dividends payment

Dividends may be paid in cash, the company's share, or other assets stipulated in in the company charter. Dividends payment for the prefer share shall in accordance with specific condition for each prefer share.

Dividends payment for the ordinary share is determined based on the net revenue and dividends payment to be deducted from the retained revenue of the Company.

Conditions of Listed Shares on Ho Chi Minh Stock Exchange (HOSE) and Hanoi Stock Exchange (HNX)

Standard regulations on listed shares on HOSE and HNX as defined in section 1-Chapter V of Decree No. 58/2012/NĐ-CP issued by the Prime Minister dated 20/07/2012.

Summary of conditions of listed shares on HOSE and HNX stipulated in Decree No. 59:

Target	HOSE	HNX
1. Legal capital	>= VND 120 billion in line with accounting book	>= VND 30 billion
2. Number of years under joint stock company	>= 2 years	>= 1 year
3. ROE	>=5%	>=5%
4. Business operation	2- year for profit; no overdue bad debt on 1 year and no accumulated loss up to the year of registration list; comply with the law on accounting and financial statements;	No overdue bad debt on 1 year and no accumulated loss up to the year of registration list; comply with the law on accounting and financial statements;
5. Public	Liabilities for members of Executive Board, supervisory board, Directors, major shareholders and related persons	No regulation
6. Shareholder's request	>= 300 shareholders (not major shareholders) hold at least 20% shares have right to vote	>= 100 shareholders (not major shareholders) hold at least 15% shares have right to vote
7. Requirement of holding shares	Shareholders are members of Executive Board, supervisory board, Directors, chief accountant holding 100% shares at least 6 months from the date of listing and 50% within 6 months following (no calculate the State share due to individual on behalf of holding)	Same HOSE
8. Document	Full and valid	Full and valid

## II. LIMITED-LIABILITY COMPANY

Limited-liability Company includes more two Members limited-liability company and one member limited-liability company.

### A. TWO MEMBERS LIMITED-LIABILITY COMPANY

#### 1. Two Members limited-liability Company's overview

The two Members limited-liability company form of business that its members are organization, individual, however; number of members is not over 50.

Member companies are only responsible for liabilities and other property obligations of the company for scope of capital contribution in the company. The member's capital is transferred in line with enterprise law in 2014.

The two members limited-liability company is legal representative after being granted Business Registration Certificate and unable to issue shares.

#### 2. Charter capital

The charter capital of two Members limited-liability Company as business registration is total value of capital contribution of members committed to the company.

The company can increase charter capital in line with following cases:

- Increase member's capital contribution
- Receive the new member's capital contribution

The Company can decrease charter capital as follows:

- Return a capital contribution to

the members according to rate of their capital contribution in the charter capital if the business operates continuously more than 02 years from the date of business registration.

- The Company acquired the member's capital contribution in stipulated in Law.
- The charter capital is not paid sufficiently and punctually in accordance with the provisions of the enterprise law in 2014.

#### 3. Condition of distribution of profits

The Company may implement distribution of profits for members when was profitable, completed its tax obligations and other financial obligations as prescribed by law and ensured sufficient payment for all liabilities and other property obligations to due after distributing profits.

## B. ONE MEMBER LIMITED-LIABILITY COMPANY

### 1. Overview

One member limited-liability company is owned by an organization or individual, those are responsible for liabilities and other property obligations of the company for scope of charter capital in the company. The owner is able to transfer whole or a part of charter capital for other organization or individual.

One member limited-liability company is legal representative after being granted Business Registration Certificate and unable to issue shares.

### 2. Charter capital

One member limited-liability company changes charter capital in line with cases as follows:

- If the company makes profit continuously for more than 02 years and ensures sufficiently payment for liabilities, it will Return a part of capital contribution in the company's charter capital
- Owner is not paid sufficiently and punctually in line with Article 74 at the enterprise law in 2014.
- One member limited-liability company increases charter capital by more investing or raising capital contribution of other persons.

### Private Company

Private company owned by individuals who are responsible for their entire assets and business activities.

Each individual only establishes one private company. Owner of private company are not simultaneously business owner, a member of partnership.

Private company is unable to issue any shares, is not legal representative.

Capital of private enterprise has done self-declaration by owner. Owners have the obligation to declare the exact total investment capital in which declared clearly, Vietnam Dong, freely convertible foreign currency, gold and other assets.

Private company is unable to contribute investment capital or purchase shares, the capital contribution in partnership, limited-liability company, joint stock company.

## Representative Office

Representative offices are dependent units of the company, are responsibility for representative authorization for the company benefits and protect it (Clause 2, Article 45 Enterprise Law in 2014).

Conclusion, representative offices do not directly business, not sign economic contracts under its stamp, but still signing contract in line with the authorization of Company.

## Branches

Branches are dependent units of the company, responsibility for implementing all or one part of the company function, even representative authorization function. The business line of the branches must be match the Company's business line (Clause 1, Article 45 Enterprise Law in 2014).

Branches have right to sign economic contracts on behalf of the branches and its stamp.

## III. DEREGISTRATION- BANKRUPTCY

### A. Deregistration

Deregistration that the company implements legal procedures for deregistration in order to terminate legal representative, right and obligations related to the Company.

1. Case and deregistration conditions as follows:

- a) Finish the duration of operation in the charter of the Company without the extension decision;

- b) According to owner's decision for private company, all member of partnership for partnership, members of board, owner of the company for the limited liability company, shareholder board for joint stock company;
- c) The company has not enough number of minimum staff in line with enterprise law in 2014 within 06 continuously months without transferal procedure forms of businesses;
- d) Withdraw the Business registration certificate.

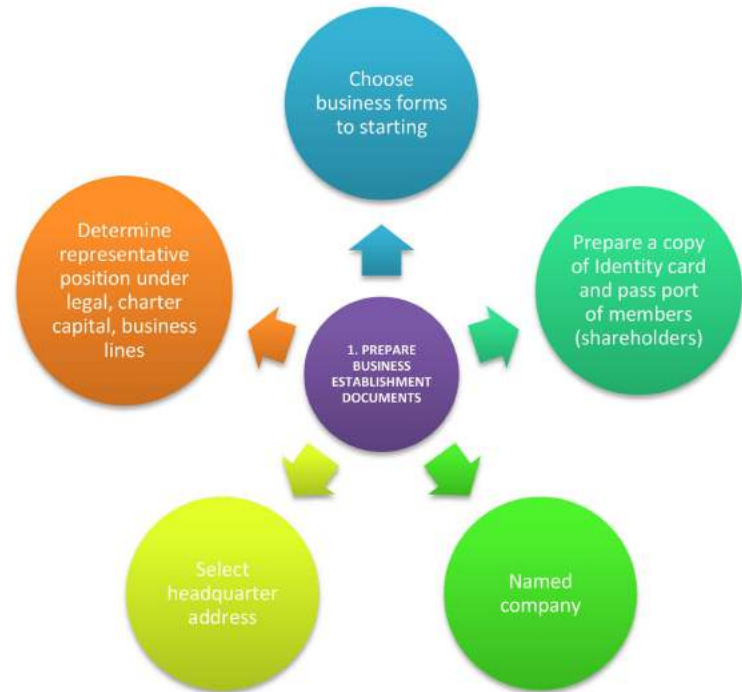
2. The company can only deregister when full payment for all liabilities and other property obligations; and the company are not dispute in progress in Court and arbitral authority.

### B. Bankruptcy

Bankruptcy that the company is unable to pay the liabilities and is announced bankruptcy by People's Court. The Company has not do the payment obligations within 03 months from the date of maturity.

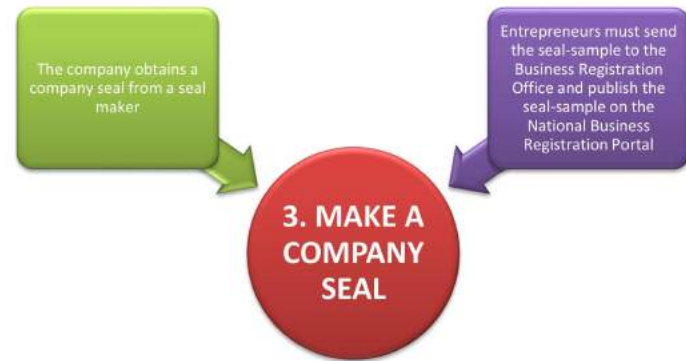
Conducting bankruptcy is tribunal president, people's procuratorate president, prosecutor, arbitrator, enterprise management, liquidation of assets; heads of the civil judgment execution, the executors of the bankruptcy settlement process (Bankruptcy Law in 2014).

## SET UP BUSINESS IN VIETNAM





The business registration department notices the investors within 35 days from the date of receiving the investment project. Time of getting the business registration certificates is 3 days.



Enterprises have the right to decide on the form, content, number of seals. A seal must specify the enterprise's name, the enterprise's ID number.



## 4. ESSENTIAL PROCEDURES AFTER BUSINESS ESTABLISHMENT

Register initial tax declaration

Register online tax declaration via digital signature

Publish the enterprise on the National Business Registration Portal

Open a bank account

Submit tax declaration and license tax

Submit VAT calculation methods

Buy pre-printed VAT invoices

Declare use of labor

Register employees with the Social Insurance

## Human Resources



The Labor Code in 2012, effective from 01 May 2013, further strengthens the legal framework for labor, the rights and obligations of employers and employee.

The law provides for matters relating to employment, labor contracts, apprenticeship, fostering and upgrading of professional skills, collective bargaining, wages, working hours, rest periods, Labor discipline and regulations for women employee, social insurance, trade unions and strikes.

Normal working hours must not exceed 08 hours in 1 day and 48 hours in 1 week. The number of overtime hours shall not exceed 200 hours in one year, in some cases overtime work shall not exceed 300 hours in one year.

A labor contract must be entered into between the employer and the employee in one of the following categories: indefinite-term labor contract, fixed-term labor contract (12 months to 36 months) and a seasonal employment contract or a specific job with a duration of less than 12 months.

The salary paid to the employee must not be less than the minimum wage, and the minimum wage is set from time to time.

Employee who are foreign nationals working in Vietnam must have a work permit issued by a competent Vietnamese state agency and the maximum duration of a work permit is two years.

Employers and laborers must participate in compulsory social insurance, compulsory health insurance and unemployment insurance, and enjoy the regimes prescribed by the legislation on social insurance and health insurance.

Laborers who satisfy the conditions for social insurance premium payment according to the provisions of social insurance law shall enjoy retirement pensions at the age of 60 and 55 respectively for men and women.

The average population of Vietnam in 2016 is 92.70 million people, an increase of 987.8 thousand people, equivalent to 1.08% increase compared to 2015. The proportion of employee in the training age in 2016 is estimated to reach 20.6%, higher than 19.9% of the previous year.

The labor force in working age is estimated at 47.7 million people, an increase of 275.9 thousand persons compared to the previous year. The unemployment rate in the working age group is 2.30%, of which urban areas are 3.18%; the rural area is 1.86%.

The productivity of the entire economy in 2016 at current prices is estimated at 84.5 million VND/labor. Although Vietnam's labor productivity has improved significantly over the years, it is still low compared to other countries in the region.



# T rading

Import-export activities between Vietnam and other countries are increasingly expanding; the major trading partners of Vietnam are countries such as China, Korea, Japan, United States and Eurozone and other countries, territories around the world.

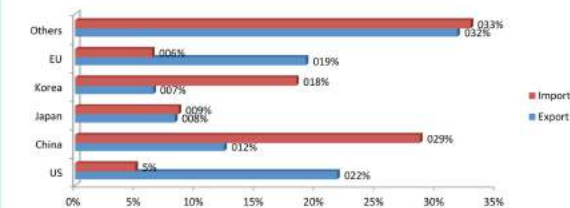
Export turnover in 2016 maintained a high growth rate, and exports continued to grow well, showing both the size and growth rate compared to the previous year. Exports in 2016 reached \$ 176.6 billion, an increase of 9% over 2015. Export growth has played an important role in improving the balance of payments, contributing to GDP growth, job creation, consuming goods for farmers. Processing industry accounted for the highest proportion (about 80.3%), followed by agricultural products, seafood (about 12.6%) and fuel and minerals (about 2%).

In 2016 Vietnam imported some main commodities such as agricultural products, aqua products accounted for 6.5% total import turnover of Vietnam, commodity group of fuel, minerals and coal: 927 US \$ 4.94 billion; Fertilizers, textile and garment accessories, footwear, steel, plastics, automobiles, machinery and consumer goods.

After Vietnam joined the WTO in 2007, the market has been liberalized in a number of areas, including the trading of goods. Foreign-invested enterprises have been granted import-export rights, however, in some sectors and fields there are still limitations.

## Trade Statistics

### Key traders (2016)



### Top manufacturing industries

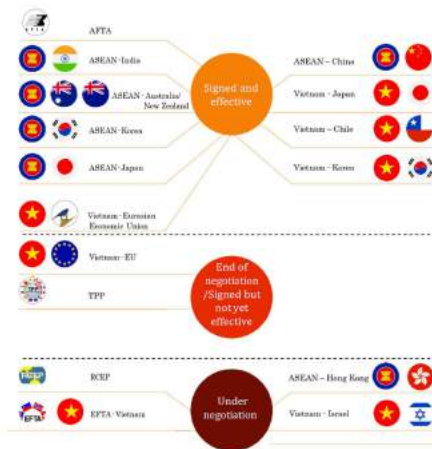
#### Key export commodities:



#### Key import commodities:



### FTAs





## Banking

The banking system in Vietnam includes: state-owned banks, state-owned commercial banks, domestic commercial banks, 100% foreign owned banks and foreign bank branches.

Foreign investors conducting business in Vietnam must open accounts at commercial banks to carry out production and business activities. These accounts can be Vietnamese dong accounts and/or foreign currency accounts.

Enterprises do not pay cash in transactions of capital contribution and purchase and sale or transfer of capital contributed to enterprises. Non-credit businesses do not use cash when borrowing and lending to each other.

Transactions with a payment value of VND 20 million or more must be paid via banks, the corresponding input VAT amount to be deducted.

The contribution of foreign investment capital in foreign direct investment enterprises must be effected through the transfer of capital into the direct investment capital account.

In principle, all transactions, payments, listings, advertisements, quotations, pricing, pricing in contracts, agreements and other similar forms (including conversion or adjustment of prices of goods, Service, contract value, agreement) must be made in Vietnamese Dong, except for the following transactions: payment for imported goods and services abroad, payment of certain loans and bonds and interests arising therefrom, transfer of profits, dividends and technology transfer, royalties, etc.

Foreign investors are entitled to transfer profits and income in Vietnam abroad and the remaining investment capital upon liquidation of investment projects.



## Taxation

Enterprises operating in Vietnam, based on business line, feature of business will be subject to some taxes in the following taxes:

- Corporate Income Tax
- Value Added Tax
- Personal Income Tax
- Import and Export Duties
- Special Consumption Tax
- Foreign Contractor Withholding Tax
- Real Estate Tax
- Natural Resources Tax
- Environmental Protection Tax
- Other Taxes

### I. CORPORATE INCOME TAX (CIT) Taxpayer

Taxpayer's corporate income tax is the manufacturing organization, trading in goods and services with taxable income including State enterprises, established, operated enterprises in line with Enterprise Law; the foreign-owned company; the enterprises operating in Vietnam not under foreign-invested Law in Vietnam; the other organizations that manufacture and trade in goods and services.

## Tax-exempt income

- The income of the enterprise from cultivation and aquaculture in especially difficult economic-social areas; Income from fishing activities.
- The income from the implementation of directly technical serving for agriculture.
- The income from operations divided capital contribution and share purchase, joint ventures, economic affiliation with domestic enterprises.
- The income from transfer of Certified Emission Reductions (CERs) for the first time Enterprise has certified emission reductions.
- The income from technology transfer belongs to the priority fields transferred to organizations and individuals in localities with especially difficult economic-social condition.

## Deductible and non-deductible expenses when determining taxable income

Deductible expenses when determining corporate income tax (reasonable expenses)

The enterprises will be deducted when meeting the following conditions:

- Actual expenses incurred related to the manufacturing operations, business of enterprises.
- Expenses have sufficient invoices and vouchers in accordance with the law.
- For each sales goods, services invoice with amount of over twenty million must have document of non-payment in cash.

Non-deductible expenses when determining corporate income tax (unreasonable expenses)

Non-deductible expenses when determining corporate income tax is ineligible for the deductible expenses for CIT.

- The depreciation equivalent with the historical cost in excess 1.6 billion VND/car for under 9 seats car (exception for automobile that passenger transportation business, tourism and hospitality; automobile used as a template for a test drive and automotive business).
- Salaries, wages and allowances payable to employees that enterprises have not yet paid by the deadline for submission of annual tax finalization dossier, unless enterprises have a provision fund to supplement the wage fund of the subsequent year. The annual provision level is decided by enterprises but must not exceed 17% of the implemented wage fund.
- Expenses for outfits in kind for labors without any invoices and documents; expenses for outfits in cash and in kind to labors which exceed 5 (five) million /person/year.
- The enterprise's expense for purchasing goods, services without invoices as well as the list attached payment documents for the seller, service providers as prescribed.
- Interest on loans from non-economic and non-credit organizations exceeding 150% the interest rate set by the State Bank of Vietnam;
- Payment for the interest equivalent to the registered legal capital insufficiently in accordance with the contribution progress in the enterprise's charter.

• Expenses for business management by foreign company distributes to the permanent in Vietnam exceeding amortization in line with period revenue.

• Expenses directly related to the issue, buy or sell shares.

• Unrealized foreign exchange losses due to the year-end revaluation of foreign currency items other than account payables.



## Tax rate

The standard CIT rate was reduced from 25% to 22% from 2014 and 20% from 2016. Projects previously entitled to a 20% CIT rate will enjoy a 17% CIT rate for their remaining period from 01 January 2016.

CIT rate for companies operating in prospecting, exploration and exploitation of mineral resources and other scarce resources ranges from 32% to 50% depending on location and specific conditions of each project.

CIT rate for platinum, gold, silver, tin, wolfram, antimony, precious stones, and rare earths (gold, silver) is from 40% to 50% depending on project location. The rare mine resources with 70% of transferred area in especially difficult economic-social areas belonging to location enjoyed CIT incentive at 40%.

CIT formula

$$\text{CIT payable} = (\text{Tax payable income} - \text{Extracted from Science and Technology Fund (if any)}) \times \text{CIT rate}$$

In which:

$$\text{Tax payable income} = \text{Taxable income} - (\text{exempted income} + \text{transferred losses})$$

$$\text{Taxable income} = (\text{revenue} - \text{deductible expenses}) + \text{other incomes}$$

## CIT incentive

Corporate income tax is the enterprise's obligation; simultaneously this is a revenue of the state budget. However, Vietnam is in process encouraging investors, especially foreign investors should enjoy CIT incentive as a way to the attractive investment.

## Tax rate incentive

Tax rate at 10% within 15 years with the following cases:

- Business has implemented new investment project in especially difficult economic-social areas, economic park, hi-tech park.

- Business has implemented new investment project in areas such as scientific research and technological development; high-tech applications in the list of high-priority technology development investment as prescribed manufacturing software products; producing composite materials, the type of light construction materials, rare materials; producing renewable energy, clean energy, energy from waste destruction; development of biotechnology; environmental protection.

Tax rate at 10% with the following cases:

- Business has implemented socialization activities in the field of education - training, vocational training, health, culture, sports and the environment;

- Business has implemented investment projects - social housing for sale or lease, lease purchase, for those prescribed.

Tax rate at 17% within 10 years with the following cases:

- Business has implemented new investment projects in the areas such as high-grade steel production; producing energy-saving products; manufacturing machinery and equipment serving for agriculture, forestry, fishery and salt; irrigation equipment manufacturing; production and refining of animal feed, poultry and aquatic products; developing traditional industries.

Application time for tax incentive of business is calculated continuously from the of profit-making first year from new investment projects; for high-tech enterprises from the date recognized as high-tech enterprises; for projects in high technology applications is calculated from the date of certification projects high-tech applications.

#### **Tax exemption and reduction period**

Some incentive for exemption period in Vietnam as follows:

- Exempt 4 years, reduce 50% tax payable in nine following years for the business's revenue from the new project implementation with preferential tax rate at 10% within 15 years.

- Exempt 2 years, reduce 50% tax payable in four following years for revenue of new investment project with preferential tax rate at 20% within 10 years and business's revenue from the implementing the new investment project in industrial park.

Tax exemption or reduction period calculated continuously from the first year of business taxable income from investment projects are eligible for tax incentives; the enterprises has not taxable income in the first three years, from the profit-making first year for the new investment project, the exemption and reduction period is calculated the fourth year of investment projects starting revenue.

- Enterprises with investment projects for development investment projects are operating in CIT incentive location in according to expand production scale, enhance capacity, innovative production

technologies and if it can meet some conditions as prescribed for expanding investment project, it will select the tax incentive under the being active project for the remaining time (if any) or be exempted, reduced the plus income due to the expanded investment. Tax exemption and reduction period for the plus income due to the expanded investment is equal to tax exemption and reduction period for the new investment project in the same area, the field of CIT incentive.

#### **Capital assignment**

\* Income from capital assignment of business is income from capital assignment a part or whole of the enterprise capital invested in one or more organizations, individuals (including case selling the company). Time of determination of income from capital assignment is the time of assignment of ownership of capital.

Tax calculation:

$$\text{Taxable income} = \text{Assignment price} - \text{Purchase price of capital assignment} - \text{Assignment expenses}$$

In which:

Assignment price is determined as the total actual value of received assignment under assignment contract.

- Purchase price of capital assignment is determined for each case as follows:

+ If the capital contribution assignment is enterprise establishment the value of accumulated capital contribution at the time of capital assignment on basis of books, documents, accounting documents and be invested by parties or joined business cooperation contracts, or audit results of independent audit firm for 100% foreign-owned.

+ If the capital due to acquisition, the purchase price is the cost at the purchase time. Purchase price is determined in line with contract for acquisition the capital assignment, payment documents.

-Assignment expenses is real expenses related to directly for assignment, having documents, legal invoices.

Assignment expenses include expenses for legal procedures; payable charges and fees, transactions fees, negotiation and signing of the assignment contract and other expenses having documents.

\* The enterprises have income from capital assignment, the income is determined as other income and declare taxable income when calculating CIT.

## **II. ALUE ADDED TAX**

### **Scope of applicant**

VAT applies to goods and services used for production, trading and consumption in Vietnam (including goods and services purchased from foreign organizations, individuals). A domestic business must charge VAT on the value of goods or services supplied.

In addition, VAT applies on imported goods. The importer must pay VAT to customs authorities at the same time they pay import duties. For imported services, VAT is levied via the FCWT mechanism.

### Cases are not subject to VAT

For these supplies, no output VAT has to be charged but input VAT paid on related purchases may be credited. These cases include:

- A business organization or businessperson in Vietnam purchases services from a foreign organization that does not have a permanent establishment in Vietnam, or from an overseas individual that is not a resident in Vietnam. These services include: repair of vehicles, machinery, equipment (including supplies and parts); advertising, marketing; trade promotion; brokering sale of goods and services to abroad; training, international postal;
- Transfer the investment project for manufacturing, trading;
- Business sells agricultural products for businesses of commercial phase yet processed into other products or just through normal preliminary processing;
- Capital contribution forms by assets;
- Agency commission revenue earned from agency activities sale of goods and services not subject to VAT;
- Lending, loan or repayment of machinery, equipment, supplies and commodities;
- Exported goods then re-imported into Vietnam in the foreign case return.



### Objects not subject to VAT

The number of goods and services are not subject to VAT under stipulated in including:

- Agriculture products;
- Goods/services provided by any business household or businessperson that earns an annual revenue of  $\leq$  VND 100 million;
- Land use right transfer (having guidance for specific cases);
- Trading securities include securities investment fund management;
- Capital assignment;
- Trading foreign currency; debt sale
- Health services; Education and vocational training;
- Imported gold in the form of bullions, pieces, and other forms that are not fashioned into jewelry or other items;
- Exported natural resources that are not processed into other products; such as crude oil, sand stone, rare earth, rare stones, etc.;
- Domestic equipment, machinery and supplies which cannot be manufactured and imported directly for scientific research, technological development;
- Fertilizer, feed for livestock, poultry, aquaculture and other animal feed, machinery and equipment serving exclusively for agricultural production.

### VAT rate

There are three VAT rate as follows:

**0%** this rate applies to goods and services for exporting and selling of non-tariff zones, export processing zones.

**5%** this rate is often applied to the fields and sectors related to the goods and essential services provision: water; unprocessed foods; medicines and medical equipment; food animal husbandry; some products and agricultural services; social housing.

**10%** this is referred as the standard rate applied to taxable goods/services but not subject to 0% or 5% tax rate.

### Method of calculation, declaration and payment of VAT

There are two methods, VAT declaration and VAT payable include deduction and direct method:

#### Method 1- Deduction method

This method applies to business establishments maintaining full book of accounts, invoices and documents in accordance with the relevant regulations, including:

- Business establishments are operating with sales of goods or service provision subject to VAT, revenue annually more 1 billion;
- Some cases of voluntary registration and declaration of VAT under the deduction method.

- Determination of VAT payable

$$\text{VAT payable} = \text{Output VAT} - \text{Input VAT}$$

### Method 2– Direct method

This method applies for:

- Business establishments are operating revenue annually subject to VAT is lower than VND 1 billion;
- Individual and household business;
- Foreign organizations and individuals business under the Investment Law or other organizations not to perform or not perform adequate accounting regime, invoices and vouchers as prescribed by law;
- Business establishments for gold, silver and gemstones.

- Determination of VAT payable

$$\text{VAT payable} = \text{value added of goods/services} \times \text{VAT rate}$$

The chosen VAT declaration method must be maintained for 2 years.

### Declare and pay taxes

All organizations and individuals producing or trading in goods and taxable services in Vietnam must be registered VAT number. In some cases, a branch must register and declare VAT separately.

Taxpayers must file VAT declarations monthly, not later than the 20th day of the next month or quarterly, not later than the 30th day of the next quarter (applicable to the company last year had revenue VND 50 billion / year or less).

## Tax refund

In some cases (the exporting enterprises have some input VAT deductible of exports have not been deducted exceeding VND 300 million), the tax refund may be made monthly/quarterly. The newly established enterprises are in the investment period e can request refund of VAT by year or when the number of input VAT is deducted accumulated over VND 300 million.

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 timeless than normal, subject to certain conditions.

## III. PERSONAL INCOME TAX (PIT)

### Taxable Object and Taxable Income

	Resident	Non-resident
Condition	Meeting one of following criteria: <ul style="list-style-type: none"> <li>Residing in Vietnam for 183 days or more in either the calendar year or the period of 12 consecutive months from the date of first arrival;</li> <li>Having a permanent residence in Vietnam (including a registered residence which is recorded on the permanent/temporary residence card in case of foreigners);</li> </ul>	Individuals not meeting the conditions.
Scope in taxable income	Income has inside and outside the territory of Vietnam, regardless payment place	Income in Vietnam, regardless payment place and receive

Taxable income and tax rate	Income from salaries, wages taxed under the progressive tax rate schedule. Other income is taxed under different tax rates.	Tax rate at 20% on income from salaries and wages related to Vietnam, and according to the different tax rates on income not salary or wages.																																						
	Employment income	Other incomes																																						
	<table border="1"> <thead> <tr> <th>Annual taxable income (million dong)</th> <th>Monthly taxable income (million dong)</th> <th>Tax rate (%)</th> </tr> </thead> <tbody> <tr> <td>0-60</td> <td>0-5</td> <td>5</td> </tr> <tr> <td>60-120</td> <td>5-10</td> <td>10</td> </tr> <tr> <td>120-216</td> <td>10-18</td> <td>15</td> </tr> <tr> <td>216-384</td> <td>18-32</td> <td>20</td> </tr> <tr> <td>384-624</td> <td>32-52</td> <td>25</td> </tr> <tr> <td>624-960</td> <td>52-80</td> <td>30</td> </tr> <tr> <td>More than 960</td> <td>More than 80</td> <td>35</td> </tr> </tbody> </table>	Annual taxable income (million dong)	Monthly taxable income (million dong)	Tax rate (%)	0-60	0-5	5	60-120	5-10	10	120-216	10-18	15	216-384	18-32	20	384-624	32-52	25	624-960	52-80	30	More than 960	More than 80	35	<table border="1"> <thead> <tr> <th>Taxable income</th> <th>Tax rate (%)</th> </tr> </thead> <tbody> <tr> <td>Income from capital investment</td> <td>5%</td> </tr> <tr> <td>Taxable income from capital assignment contribution</td> <td>0.1%</td> </tr> <tr> <td>Taxable income from securities assignment</td> <td>0.1%</td> </tr> <tr> <td>Taxable income from real estate transfer</td> <td>2%</td> </tr> <tr> <td>Taxable income from inheritances, gifts, prizes</td> <td>10%</td> </tr> <tr> <td>Income from concessions, franchise, copyright.</td> <td>5%</td> </tr> </tbody> </table>	Taxable income	Tax rate (%)	Income from capital investment	5%	Taxable income from capital assignment contribution	0.1%	Taxable income from securities assignment	0.1%	Taxable income from real estate transfer	2%	Taxable income from inheritances, gifts, prizes	10%	Income from concessions, franchise, copyright.	5%
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Tax period	<ul style="list-style-type: none"> <li>Yearly tax: apply for income from business and income from salaries, wages;</li> <li>Tax period upon each generation of income to other income.</li> </ul>	<ul style="list-style-type: none"> <li>Tax period upon each generation of income.</li> <li>Yearly tax: there is a fixed place of business.</li> </ul>																																						

## Exempted income

Employment income	Non-employment income
<ul style="list-style-type: none"> <li>Allowance for toxic, danger;</li> <li>One-off allowance for relocation to Vietnam for expatriates and from Vietnam for Vietnamese working overseas, Vietnamese has long-term residence abroad to Vietnam to work;</li> <li>Specific allowances trades;</li> <li>House rental by the business use employees paying for exceeding 15% of total taxable income (excluding house rental) in business;</li> <li>Payments for uniform/stationery costs (subject to a cap);</li> <li>Means for collective shuttle workers from home to workplace and vice versa;</li> <li>Mid-shift meals, lunch;</li> <li>Training;</li> <li>Salaries, wages nightshift, overtime is higher than the salary or wages to work daytime, working hours;</li> <li>Purchases of flights to return by the employer to pay households (or payment) for workers who are foreigners working in Vietnam, the employees who is Vietnamese worker in foreign countries allows each years;</li> <li>Fees to Secondary School in Vietnam for foreign people and foreign people in Vietnam to work overseas;</li> <li>Salaries, wages of crew members are Vietnam get by working for foreign carriers or carriers Vietnam international transport;</li> <li>Money received monthly pensions from voluntary pension fund; by social insurance funds to pay under the provisions of the Social Insurance Law;</li> <li>Money received by organizations and individuals to pay income expenditure curious crowd, blowing themselves and family workers;</li> <li>Some of the incomes, allowances and other benefits as prescribed.</li> </ul>	<ul style="list-style-type: none"> <li>Income from the transfer of real estate between directly family members;</li> <li>Income from inheritance or gift of real estate between directly family members;</li> <li>Income from the transfer of housing, the right to use residential land and assets attached to the land by individuals in cases where the transfer of only one housing, land use rights in Vietnam at the time transfer;</li> <li>Interest on deposits at credit institutions and branches of foreign banks, profits from life insurance contracts, interest government bonds;</li> <li>Income from compensation for life insurance contracts, non-life insurance, health insurance; compensation for labor accidents;</li> <li>Win in the casino is legal operation.</li> <li>The income of individuals are owners, individuals have the right to use the train and individuals working on ships from the supply of goods or services in direct service operations offshore fishing;</li> <li>Other income in line with regulations.</li> </ul>
There are a range of conditions and restrictions applicable to the above exemptions.	

## Tax reductions

### 1. Family deduction

- Personal allowance: VND 9 million/month; VND 108 million /year;
- Dependent allowance: VND 3.6 million/month/dependent.

2. The insurance premiums including social insurance, health insurance, unemployment insurance, professional liability insurance for certain professions to participate in compulsory insurance;

3. The contributions to the voluntary pension funds, insurance voluntary pension (no more than 1 million/month);

4. The charitable contributions, humanitarian, study encouragement approved.

### Tax deduction paid in oversea

Individual with income in oversea has calculated and paid CIT in line with foreign's regulations, it shall be deducted paid tax amount in oversea. Deducted tax amount do not exceed the payable tax amount calculated according to Vietnam's tariff allocation calculated on the income arising in foreign countries. Allocation rate is determined by the ratio of the income generated in foreign and total taxable income

## IV. CONTRIBUTIONS TO SOCIAL, HEALTH AND UNEMPLOYMENT INSURANCE

Contributions to social insurance, unemployment insurance only apply to Vietnamese individuals.

Contributions to health insurance apply to both Vietnamese individuals and foreigners signed the labor contract under Labor Law in Vietnam.

#### Rate of contributions to insurance:

Contributions to social, health and unemployment insurance as follows:

Insurances	Employers	Employees	Total
Social	18%	8%	26%
Health	3%	1.5%	4.5%
Unemployment	1%	1%	2%
<b>Total</b>			<b>32.5%</b>

From 01 January 2016 to 31 December 2017, the salary for social, health, unemployment is salaries and allowances in labor contract, but a maximum of 20 times minimum wage general- basic salary for social insurance, health insurance, and 20 times the minimum wage for unemployment insurance (minimum basic salary is VND 1.21 million existing common / month and the minimum wage in the current oscillation approximately VND 2.580.000 to VND 3.750.000 depending on the region - the minimum wage may change during the year).

From 1 July 2017 general minimum salaries are 1.300.000 VND/month.

From 1 June 2017, the rate of compulsory social insurance into fund of insurance labor accidents and occupational diseases for the employer will be

reduced from 1% to 0.5% over the base salary fund social insurance.

Beginning in 1 June 2017:

- The social insurance: employers will pay 17.5%, employees will pay 8%.

- Total insurances (social, health and unemployment insurance): the employers 21.5% + the employees 10.5%=32% on insured wages of workers.

And will add a new fund labor accidents insurance and occupational diseases employers who will play = 0.5% of the insured salary of the employees.

Contributions to compulsory insurance funds by the employers pay not a taxable benefit to the employee. Part of compulsory insurance contributions by the employee is deducted when calculating PIT.

## V. IMPORT AND EXPORT DUTIES

### Tax rate

Vietnam has different import and export tax rates for each commodity that is allowed to export or import across Vietnam.

Tax rates on exports are specified for each item in the Export Tariff. Only some commodities are subject to export tax, mainly natural resources such as sand, chalk, marble, granite, ore, crude oil, forest products, and metal scrap. Tax rates range from 0% to 40%.

Import duty rates are classified into 3 categories: standard rate, preferential rate and special preferential rate.

- Preferential rate is applicable to imported goods from countries that have Most Favoured Nation (MFN, also known as Normal Trade Relations) status with Vietnam.

- Special preferential rates are applicable to imported goods from countries that have special preferential trade agreements under the regime of free trade zones, Customs union or to facilitate cross border trade and other special cases.

- Standard tax rates shall be uniformly applied equal to 150% of the preferential tax rates of each goods item specified in the Preferential Import Tariff.

Import and export duty rates are frequently changed. Therefore, enterprises should update the latest rates.

### Tax calculation

Vietnam follows the WTO Valuation Agreement with certain variations. The taxable value of imported goods is typically based on the transaction value (i.e. the price paid or payable for the imported goods, and where appropriate, adjusted for certain taxable or non-taxable elements). Where the transaction value is not applied, alternative methodologies for the calculation of the customs value will be used like transaction value of the identical goods; transaction value of similar goods; deductible value; calculated value; A reasonable method, in accordance with the principles and general provisions of the Agreement.

The price subject to export tax is the FOB, the selling price of the goods at the loading port as stated in the contract, excluding freight and insurance charges.

### Taxable objects

Goods subject to export tax and import tax in the following cases:

- Goods exported and imported through border gates and borders of Vietnam;
- Goods are brought from the domestic market into the non-tariff area and vice versa;
- Other goods traded or exchanged are considered export or import goods.

### Non-taxable objects:

Goods are not liable to export tax or import tax in the following cases:

- Goods transported in transit or transited through Vietnamese border gates;
- Humanitarian aid goods, non-refundable aid goods to Vietnam and vice versa;
- Goods exported from non-tariff areas to foreign countries; Goods imported from abroad into the non-tariff area and used only in non-tariff areas; Goods brought from one non-tariff area to another;
- Goods are oil and gas items belonging to the State's natural resource tax when exported.

### Exemptions

Exported, imported goods in line with the following case are exempted from export and import duties.



- Imported goods temporarily for re-export or exported temporarily for re-import within certain time.
- Imported goods for processing for overseas parties are exempted from import duties and when exporting product to overseas parties being exempted from export duties. Exported goods to overseas for processing to Vietnam are exempted from export duties, when importing back is exempted from on the value of exported goods to foreign countries for processing under contracts;
- Machinery and equipment, means of transport and building materials (which cannot be produced) imported to form fixed assets of some projects;
- Raw materials, spare parts, accessories and other supplies, samples, machinery and equipment imported for export goods and products imported for use in the processing of goods;
- Machinery, equipment and specialized transport vehicles, raw materials (which cannot be produced), medical equipment and office equipment imported to serve the oil and gas activities;
- Imported goods for projects included in the list of areas to encourage investment and a number of other cases are exempt from import duties;

### Refunds

The paid import and export duties may be refunded in some cases, including the following cases:

- Exported – imported goods has paid for export-import duties without importing and exporting;

- Goods which paid import-export duties but but the actual less exporting or importing;
- Imported goods for production of export goods or export to non-tariff areas if they have to pay import tax shall be refunded corresponds to the percentage of products actually exported and not have to pay export duties on exported goods are eligible identified as made from raw materials imported whole.

### VI. SPECIAL CONSUMPTION TAX (SCT)

SCT is a form of excise tax that applies to the production or import of certain goods and the provision of certain services.

#### Calculation

$$\text{SCT} = \text{Taxable price} \times \text{Tax rate}$$

In which:

The price used to calculate SCT of goods or services is the selling price of goods or services provided without SST, environmental protection and VAT in each specific case in order to avoid tax fraud.

#### Tax deduction

Taxpayers producing SCT liable goods from SCT liable raw materials are entitled to claim a credit for the SCT amount paid on raw materials imported or purchased from domestic manufacturers.

If taxpayers pay SCT at both the import and sale stage, SCT amounts already paid at the import stage shall be deducted from SST payable at the stage of sale.

#### Tax rate

The law on SCT classifies objects subject to SCT into two groups:

1. Commodities – cigarettes, liquor, beer, automobiles having less than 24 seats, motorcycles, airplanes, boats, petrol, air-conditioners up to 90,000 BTU, playing cards, votive papers; and
2. Services: discotheques, massage, karaoke, casinos, gambling, lotteries, golf clubs and entertainment with betting.

The SCT rates are as follows:

STT	Products/Services	Tax rate (%)
<b>I</b>	<b>Goods</b>	
1	Cigar/ Cigarette	
	From 01 January 2016 to 31 December 2018	70
	From 01 January 2019	75
2	Spirit/ Wine	
	a) Wine over 20% alcohol	
	From 01 January 2016 to 31 December 2016	55
	From 01 January 2017 to 31 December 2017	60
	From 01 January 2018	65
	b) Wine under 20% alcohol	

	From 01 January 2016 to 31 December 2017	30
	From 01 January 2018	35
3	Beer	
	From 01 January 2016 to 31 December 2016	55
	From 01 January 2017 to 31 December 2017	60
	From 01 January 2018	65
4	Automobiles having less than 24 seats	5 - 150
5	Motorcycles for cylinder capacity above 125cm <sup>3</sup>	20
6	Airplanes	30
7	Boats	30
8	Petrol	7 - 10
9	Air-conditioner (Not more than 90.000 BTU)	10
10	Playing cards	40
11	Votive papers	70
<b>II</b>	<b>Service</b>	
1	Discotheques	40
2	Massage, karaoke	30
3	Casino, jactpot game	35
4	Entertainment with betting	30
5	Golf	20
6	Lotteries	15

## VII. FOREIGN CONTRACTOR WITHHOLDING TAX (FCWT)

Foreign contractor withholding tax is a tax imposed on individuals and organizations that generate income in Vietnam.

Normal income includes loan interest, copyright, service fee, insurance fee, transportation service, securities transfer, goods or services provided in Vietnam and some distribution agreement in Vietnam.

Foreign contractor withholding tax normally comprises VAT and CIT (for foreign enterprises) and PIT (for foreign individuals) with different tax rate.

### Payment to foreign contractors:

Foreign contractor withholding tax is applied to amounts paid from Vietnam side (including FDI Corporations) to foreign contractors which have not been established in Vietnam.

### Some normal income is not subject to tax:

- Any foreign entity that provides goods for Vietnamese entities without ancillary services in Vietnam (all responsibility, costs, and risk to the transport and delivery of goods at the foreign checkpoint).
- Any foreign entity that earns income from services provided and used outside Vietnam.
- Any foreign entity that provides any of the services below for Vietnamese entities, provided the services are provided overseas:
  - + Repair of means of transport (aircraft, aircraft engine, aircraft and ship parts), machinery and equipment (including undersea cables and transmission devices), with or without spare parts;
  - + Advertising and marketing (except for online advertising and online marketing);

- Any foreign entity using a bonded warehouse or inland clearance depot (ICD) as a warehouse serving international transport, transit of goods, or storage of goods to be processed by other companies.

Calculation:

$$\text{VAT} = \text{Income subject to VAT} * \text{rate} \%$$

$$\text{CIT} = \text{Income subject to CIT} * \text{rate} \% \text{ based on income level.}$$

There are 2 cases to determine taxable income:

Case 1:

Party A (Foreign contractor) provides goods – services (goods/services subject to withholding tax) to Party B – enterprises in Vietnam. If the contract stipulates that Party B is entitled to taxes arising in Vietnam, income subject to VAT and CIT will be:

$$\text{Income subject to VAT} = \frac{\text{VAT-exclusive-income}}{(1-\text{VAT rate})}$$

$$\text{Income subject to CIT} = \frac{\text{CIT-exclusive income}}{(1-\text{VAT rate})}$$

Case 2:

Party A (Foreign contractor) provides goods – services (goods/services subject to withholding tax) to Party B – enterprises in Vietnam. If the contract stipulates that Party A is entitled to taxes arising in Vietnam, income in this case is inclusive of VAT and CIT and do not have to convert.

### Payment to foreign contractors:

#### Method 1 – Credit-invoice method

Credit-invoice method can be applied if the requirements below are satisfied:

- The contractor/subcontractor has a permanent

establishment in Vietnam or is a resident of Vietnam;

- The period of business operation in Vietnam under the main contract or subcontract is 183 days or longer;

- The contractor/subcontractor applies Vietnam Accounting Regime.

Tax rate and calculation method comply with regulations of VAT, CIT and other guiding dispatch.

### Method 2 – Direct method

Direct method is applicable to foreign contractors that do not fully meet the conditions in method 1. The Vietnamese party pays taxes on behalf of foreign contractors and subcontractors. Accordingly, foreigners paying tax by the direct method are not required to register for VAT declaration and payment and do not have to submit CIT returns and VAT returns. Instead, VAT and CIT will be deducted by the Vietnamese party at rates determined on total taxable turnover. The percentages for calculating VAT and CIT applied to the different forms of business of the foreign contractor.

The VAT retained by the Vietnamese party is usually regarded as the deductible input VAT in the VAT return of the Vietnamese party.

VAT and CIT rate:

VAT:

No.	Trade	VAT rate
1	Services, rental of machinery and equipment, insurance; construction, installation exclusive of raw materials, machinery and equipment.	5
2	Production, transportation, services attached to goods; construction, installation inclusive of raw materials, machinery and equipment.	3
3	Other trades	2

CIT:

No.	Trade	CIT rate
1	Trading: distribution, supply of goods, raw materials, supplies machinery and equipment; distribution of goods, raw materials, supplies, machinery and equipment attached to services in Vietnam (including those provided in the form of domestic exports, except for goods processed under processing contracts with foreign entities); supply of goods under Incoterms	1
2	Lease of machinery and equipment, insurance, lease of oilrig.	5
	Particularly:	10
	- Restaurant, hotel, casino management services;	
	- Derivative financial services	2
3	Lease of aircraft, aircraft engines, parts of aircrafts and ships	
4	Construction, installation, whether or not inclusive of raw materials, machinery and equipment	2
5	Other business activities, transport (including sea transport and air transport)	2
6	Transfer of securities, certificates of deposit, ceding reinsurance abroad, reinsurance commission	0,1
7	Loan interest	5
8	Income from copyright	10

### Method 3 – Mixed method:

The mixed method allows foreign contractors to pay VAT with the credit-invoice method and pay CIT with the fixed rate method.

Mixed method can be applied if the requirements below are satisfied:

- The contractor/subcontractor has a permanent establishment in Vietnam or is a resident of Vietnam;
- The period of business operation in Vietnam under the main contract or subcontract is 183 days or longer;
- The contractor/subcontractor applies Vietnam Accounting Regime.



### Transfer Pricing

On 24 February 2017, Vietnamese Government issued Decree No. 20/2017/ND-CP and the Ministry of Finance has been drafting Circular guiding the implementation of Decree No. 20 which replaces Circular No. 66/2010/TT-BTC regulating tax management on enterprise with associated transactions. This Decree takes effect from 01 May 2017.

In Decree No. 20, the rate of ownership to determine associated relationship has been increased from 20% to 25%. In loan relationship, the minimum rate to determine associated transaction is 25% on capital contribution of borrower or guarantee instead of 20%. The relationship between two companies which consume or purchase over 50% of finished products or materials has not considered as associated transaction. This is a big change in the definition of association relationship of Decree 20 compared with Circular 66.

Decree 20 sets out the requirements for declaration of associated transaction prices at three levels: National Profile, Global Corporate Information Profile, the parent company's international profit report to collect more tax information from multinational companies.

Simultaneously, the Decree also allows taxpayers to be exempt from the TP documentation obligation in the following cases:

- Where a taxpayer has the total revenue generated in the tax year not exceeding VND50 billion, and the total value of its associated transactions not exceeding VND30 billion;

- Where a taxpayer has concluded Advanced Pricing Agreement (“APA”), and complies to submit the APA reports annually (APA);

- Where a taxpayer performs simple functions, has revenue less than VND200 billion, and achieves the following floor levels of earnings before interest and taxes (EBIT) over revenue ratios: Distribution function: 5%; Manufacturing function: 10%; and Processing function: 15%.

In addition, the decree also allows the tax authority the right to use an internal database to determine the tax related to the associated transaction price in case the taxpayer is deemed not complying with the regulations. This can lead to increase disagreement between taxpayers and tax authorities



### VIII. PROPERTY TAX

The rental of land use rights by foreign investors (if not contributed as capital) is usually known as land rental and the range of rates is wide depending upon the location, infrastructure and the industrial sector.

In addition, owners of houses and apartments have to pay land tax under the law on non-agricultural land use tax. The tax is charged on the specific land area used based on the prescribed price per square meter and progressive tax rates ranging from 0.03% to 0.15%.

### IX. NATURAL RESOURCES TAX

Payers of natural resource tax are organizations and individuals that extract natural resources for the purpose of limiting exploitation leading to the depletion of national natural resources. Tax period: by month.

The items subject to natural resource tax prescribed in this Circular include:

- Metallic minerals; Non-metallic minerals.
- Products of natural forests; Natural aquatic organisms, including marine animals and plants.

- Natural water, including: surface water and groundwater other than natural water used for agriculture, forestry, aquaculture, salt production, and seawater used for cooling machines.

- Natural bird's nests other than those collected from construction of houses to attract and raise natural swifts to collect their nest.

#### Tax rate and calculation:

The tax rates vary from 1% to 40% depending on the natural resource being exploited. Natural resource tax payable is the tax rate multiplied by taxable extraction quantity of natural resources and unit price. Various methods are available for the calculation of the taxable value of the resources, including cases where the commercial value of the resources cannot be determined.

Specific tariffs on crude oil, natural gas and coal gas are determined progressively in proportion to the average daily production.

#### X. ENVIRONMENT PROTECTION TAX

Environment protection tax is an indirect tax which is applicable to the production and importation of certain goods deemed detrimental to the environment, the most significant of which are petroleum and coal.

The taxable objects and tax rates are as follows::

No.	Goods	Unit	Tax rate (VND)
1	Petrol, diesel, grease	Litre/kg	900 – 3,000
2	Coal	Ton	10,000 – 20,000
3	HCFC	Kg	4,000
4	Plastic bags (*)	kg	40,000
5	Restricted use chemicals	Kg	500 – 1,000

\* Except for prepackages and plastic bags meeting environmentally friendly criteria.

#### XI. OTHER TAXES

Numerous other fees and taxes can apply in Vietnam, including business license tax and registration fees on the transfer of certain registration assets.

##### Business license tax

The license fee is the fee determined based on the business license of the organization and the individual, the group of individuals and the family of production and business.

The license fee level for activities of production and trading of goods and services specified for organizations and individuals, specifically:

Fee level	Organization		Individual, group of individuals and the family	
	Legal capital/investment capital	License fee	Income	License fee
	Over 10 billion dong	3,000,000 dong/year	Over 500 million dong/year	1,000,000 dong/year
	Under 10 billion dong	2,000,000 dong/year	Over 300 - 500 million dong/year	500,000 dong/year
	Branch, representative office, business location, other economic unit/ organization	1,000,000 dong/year	Over 100 - 300 million dong/year	300,000 dong/year
<b>Declaration</b>	<ul style="list-style-type: none"> <li>Declaring a time when the organization is new, not later than the last day of the month of business commencement.</li> </ul>		<ul style="list-style-type: none"> <li>Paying taxes by contracting method is not required to declare license fees;</li> <li>Real estate leasing provides a one-time license fee for each rental contract;</li> </ul>	
<b>Payment</b>	<ul style="list-style-type: none"> <li>Not later than 30 January annually</li> </ul>		<ul style="list-style-type: none"> <li>Not later than 30 January annually</li> </ul>	

#### Registration fees

Registration fee is the amount of money paid by the person whose assets belong to the list of properties subject to registration fee upon registration of ownership of the property, shall be determined according to the following formula

$$\text{Registration fee} = \text{Asset value (dong)} \times \text{Rate (\%)}$$

Registration fee rate (%) is applied as follows:

Object	Rate (%)
Land, house	0.5%
Hunting rifles, guns for training, sports competitions	2%
Ships, barges, canoes, tug boats, push boats, boats, yachts, airplanes	1%
Motorcycles (which are specific to some circumstances)	2%
Cars, trailers or semi-trailers pulled by automobiles, similar vehicles specified for the cases)	2%
Cover, frames and spare parts must be registered with the competent state agencies.	Maximum of 500 million VND/property / registration, except for passenger cars of 9 seats or less, aircraft, yachts



## **A**ccounting and Auditing

The development and wide integration of the economy requires basic innovation for Vietnam accounting and auditing. It asked publicly, clearly the system of accounting finance information and direct service to the decisions of the managers, investors. The accounting finance information must be prepared, published timely and reliably.

In recent years, Vietnam accounting system has made basic reforms. The legal forms for accounting have been built, continuously improved, developed via the issuing Law on Accounting 2015, the Circular guiding enterprise accounting in 2014, etc. According to the principles, practices and international standards in line with the character and development of Vietnam's economy.

Besides, the independent audit is a tool of economic management, the finance is rapid growth and create the significant position in the economy. From 02 independent audit firms were established initially (in 1991) to currently, the independent audit market is over 170 firms which are eligible to be granted audit business certificate together with thousands of auditors, accountant nationwide. The legal regulations have just formed such as Law on independent audit in 2011, system of 47 new auditing standards replacing the old auditing standards. Gradually, Vietnam has admitted, applied international auditing & accounting standards while the world has known and approved Vietnam auditing & accounting.

In general, accounting and auditing operation has been continuously improved in quality and determined as material service in economy. There are favorable conditions for Vietnam accounting and auditing sector integrating into accounting and auditing system of region and world.



# Introduction to TTV

We established in Binh Duong Province dated 13 August 2009, offering a full range of services such as Assurance, Consulting, Deals, Legal and Tax consulting. TTV has expanded 2 branches in Ho Chi Minh and Ha Noi City, and 2 offices in Tay Ninh Province and Phu Yen Province. Our team is over 70 staff continuously improving knowledge and learning experience both local and oversea, ensuring to provide a wide services, industries, clients. Through our good service to subsidiaries in Vietnam, Tri Thuc Viet is aware that our service also contributes to the success and reputation of global auditing companies.

In 21 March 2017, Tri Thuc Viet Company Limited has become Allinial Global's membership. Allinial Global is an association of legally independent accounting and consulting firms. The Association has had over 116 member firms from 35 countries ranked 5 around the world, ranked 3 in the United States until 2016.

Doing Business in Vietnam has been made for the purpose of information provision. We hope that you can find the meaningful guide with the key contents about business and investment in Vietnam, from initial establishment, implementation of appropriate legal and tax. It is useful for the finder seeking general information to do business in our country.

This guide is designed to provide information on a number of important contents to those considering investing or doing business in Vietnam. It has been prepared by Tri Thuc viet Company Limited, a member of Allinial Global.

Should you have any enquiries, please kindly free to contact our professional advisors at our offices.

# Contacts

## HEAD OFFICE

835A Binh Duong Avenue, Chanh My Ward,  
Thu Dau Mot City, Binh Duong Province

Tel : +84 - 274 - 3856 219

English: +84 - 914 699 768 - Ms. Anh

Chinese: +84 - 915 352 068 - Ms. Truc

Fax : +84 - 274 - 3856 218

Email : [info@rithucviet.com.vn](mailto:info@rithucviet.com.vn)

## BRANCHES AND OFFICES

### HA NOI

6th Floor, Viet A Tower, No. 9 Duy Tan St,  
Dich Vong Hau Ward, Cau Giay Dist, Ha Noi

Tel : +84 - 24 - 2242 403

Hotline: +84 - 914 712 074 - Ms Hien

Fax : +84 - 24 - 2242 402

Email : [hanoi@rithucviet.com.vn](mailto:hanoi@rithucviet.com.vn)

### HO CHI MINH

Floor 3, No. 9 Phan Ke Binh, Da Kao Ward,  
District 1, Ho Chi Minh City

Tel : +84 - 28 - 39118 830

Hotline: +84 - 919 260 579 - Ms Thi

Fax : +84 - 28 - 39118 224

Email : [hcm@rithucviet.com.vn](mailto:hcm@rithucviet.com.vn)

### PHU YEN

No.108 Tran Phu Str, Ward 2, Tuy Hoa City,  
Phu Yen Province

Tel : +84 - 257 - 3810 179

Hotline: +84 - 914 699 768 - Ms. Anh

Fax : +84 - 257 - 3856 958

Email : [phuyen@rithucviet.com.vn](mailto:phuyen@rithucviet.com.vn)

### TAY NINH

No.09 Tinh Lo Str, An Hoa Ward, Trang Bang  
Dist, Tay Ninh Province

Tel : +84 - 276 - 2246 797

Hotline: +84 - 914 699 768 - Ms. Anh

Fax : +84 - 276 - 2246 798

Email : [tayninh@rithucviet.com.vn](mailto:tayninh@rithucviet.com.vn)

