VIETNAM
POCKET TAX BOOK
2008

A SUMMARY OF VIETNAM TAXATION
The information in this booklet is based on current taxation regulations and practices including certain legislative proposals and measures as at **1 January 2008**.

This booklet is intended as a general guide.
Where specific transactions are being contemplated, definitive advice should be sought. A list of appropriate contacts is given opposite.

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TAXATION

General overview

Most foreign investments and foreign investors will be affected by the following taxes:

- Business income tax;
- Various withholding taxes;
- Capital assignment profits tax;
- Value added tax;
- Import duties;
- Personal income tax of Vietnamese and expatriate employees; and
- Social security and health insurance premiums for Vietnamese employees.

There are various other taxes that may affect certain investors, including:

- Special sales tax;
- Natural resources tax;
- Property taxes; and
- Export duties.

All these taxes are imposed at the national level. There are no local, state or provincial taxes.

BUSINESS INCOME TAX ("BIT")

Rates of tax

Taxpayers are subject to the tax rates imposed under the BIT Law. The standard rate of tax is 28%.

Oil and gas companies and companies involved in exploitation of precious minerals are subject to tax at rates ranging from 28% to 50% depending on the specific project.

Tax incentives

Preferential rates of 10%, 15% and 20% are available where certain criteria are met. The primary criteria for receiving preferential rates are the scope of activities and location of the investment. Preferential rates are available for a period of 15 years, 12 years and 10 years, starting from the commencement of operating activities. When the preferential rate expires, the BIT rate generally reverts to the standard rate.

Taxpayers may be eligible for tax holidays. The holidays take the form of a complete exemption from BIT for a certain period beginning immediately after the enterprise first makes profits, followed by a period where tax is charged at 50% of the applicable rate. Criteria for eligibility to these holidays and reductions are set out in the BIT regulations.

Additional tax reductions may also be available for, inter alia, investment expansion, engaging in R&D activities and employing disabled people among others.

Tax incentives previously awarded according to export related criteria have been repealed. The incentives will be removed with effect from 2011, but with immediate effect (i.e. from 2007) for investors operating in the textile industry.

Calculation of taxable income

Taxable income is the difference between total revenue, whether domestic or foreign sourced, and deductible expenses, plus other assessable income.

Taxpayers are required to prepare an annual BIT return which includes a section for making adjustments between accounting profits and taxable income.

Deductible expenses

A tax deduction is allowed for reasonable expenses. Expenses which are not relevant to revenue generation, not supported by suitable documentation or not in accordance with relevant regulations are non-deductible. Examples of non-deductible expenses include:

- Depreciation of fixed assets which is not in accordance with the prevailing regulations (currently Decision 206);
- Costs of raw materials, energy, and fuel which is not reasonable;
- Reserves for research and development not in accordance with regulations;
- Employee remuneration expenses which are not stated in the labour contract or collective labour agreements;
- Life insurance premiums for employees;
- Provisions for stock devaluation, bad debts, financial investment losses, warranty of products, goods or construction works which are not in accordance with regulations of the Ministry of Finance;
- Accrued expenses;
- Unrealised foreign exchange losses;
- Business management expenses allocated to permanent establishments in Vietnam by the foreign company which are not in accordance with the regulations;
- Penalties;
- Advertising, promotion (except certain items), conferences/parties, commissions, prompt payment discounts cost exceeding 10% of total other expenses.

For certain businesses such as insurance companies, securities trading, and lotteries, the Ministry of Finance provides specific guidance on deductible expenses for BIT purposes.

Losses

Taxpayers may carry forward their losses for five years. Carry-back of losses is not permitted. There is no provision for any form of consolidated filing or group loss relief.

Transfer pricing

Vietnam has detailed transfer pricing regulations which outline various situations, both domestically and internationally, where a transfer pricing issue will be considered to exist, and the mechanisms for determining the market "arm's length" transaction value, e.g. comparable uncontrolled price, cost plus, resale price, comparable profits and profit split.

There is a comprehensive definition of associated parties. The control threshold is lower than in many other countries (20%) and the definition also extends to certain significant supplier, customer and funding relationships between otherwise unrelated parties.

Compliance requirements include an annual declaration of related party transactions and transfer pricing methodologies used, which is required to be filed together with the annual BIT return, as well as contemporaneous documentation requirements.

Administration

Provisional quarterly BIT returns are filed based on actual revenue/ expenses arising in the quarter. The deadline for quarterly provisional BIT declaration and payment is the 30th day of the first month of the subsequent quarter.

Final BIT returns are filed annually. Annual BIT finalisation return must be filed and submitted not later than 90 days from the fiscal year ended. The outstanding tax payable must be paid at the same date the finalisation return is submitted.

The standard tax year is the calendar year. However, different tax accounting year-ends can be used if approval is obtained from the Ministry of Finance.

Tax audit inspection

Tax audits are carried out regularly and often cover a number of tax years. The general statute of limitations for imposing penalties is 5 years. The Tax authorities can collect under declared and unpaid tax at anytime. Prior to an audit, the tax authorities send the taxpayer a written notice of time and scope of audit inspection.

WITHHOLDING TAXES

Withholding taxes may apply to payments of interest, royalties, licence fees, foreign contractors' fees, and cross border lease charges. Each of these areas is examined separately below.

Dividends

No remittance tax is imposed on profits paid abroad.

Interest

An interest withholding tax of 10% applies to any loan agreements signed after 31 December 1998 (and to those signed prior to this date where subsequent changes to the agreement have occurred). However, offshore loans provided by certain Government or semi-Government institutions may obtain an exemption from interest withholding tax where a relevant Double Tax Agreement ("DTA") or Inter-Governmental Agreement applies.

Royalties, licence fees, etc.

A 10% royalty withholding tax applies in the case of payments made to a foreign party for transfers of technology, unless the transfers are contributed as equity. Transfers of technology are defined very broadly.

Payments for the leasing of machinery and equipment are considered royalties.

Payments to foreign contractors

A withholding tax on payments to foreign contractors applies where a Vietnamese contracting party (including foreign owned enterprises) contracts with a foreign party that does not have a licensed investment in Vietnam.

Withholding tax applies to payments derived in Vietnam for services provided in Vietnam and overseas.

Foreign contractors can choose between two methods for tax payment.

Method One – Deduction Method

Foreign contractors can apply to be conventional deduction method VAT payers if they adopt the Vietnamese Accounting System ("VAS"), or a system that is internationally recognised and acceptable to the authorities. If accounting records are adequate the foreign contractor will pay BIT on actual net profits; otherwise payment is made on a deemed basis.

Method Two – Direct Method

For direct (non-deduction method) method foreign contractors, VAT and BIT will be withheld by the contracting party at a deemed percentage of taxable turnover. Various rates are specified according to the nature of the services performed. The VAT withheld by the contracting party is generally an allowable input credit in the Vietnamese contracting party's VAT return.

In addition, to these two methods, a third hybrid method is possible which combines elements of both and may have significant VAT advantages for large projects.

The VAT and BIT rates are summarised below:

Industry	Effective VAT rate	Deemed BIT rate
Trading: distribution, supply of goods, materials, machinery and equipment in Vietnam.	1%	1%
Services	5%	5%
Construction, installation without supply of materials or machinery, equipment.	5%	2%
Construction, installation with supply of materials or machinery, equipment.	3%	2%
Transportation	1.25%	2%
Manufacturing, other business activities	2.5% or 1.25%	2%
Interest	Exempt	10%
Royalties	Exempt	10%

Cross border leases

A Vietnam-based lessee is required to withhold tax from operating lease payments to an offshore lessor. Payments for the lease of machinery, equipment and means of transportation are considered a royalty. The corresponding withholding tax rate is a deemed BIT rate of 10%. For the lease of ships, taxable turnover can be determined as either 50% or 20% of the lease payments depending on who (i.e. lessor or lessee) pays the various operational expenses.

Double Taxation Agreements (DTAs)

The above withholding taxes may be affected by relevant DTAs. For example, the deemed BIT on foreign contractors may be eliminated or reduced through a relevant DTA.

Vietnam currently has 47 agreements in force with numerous others at various stages of implementation and negotiation. The agreements in force include those with Australia, France, Germany, Japan, Korea, Malaysia, the Netherlands, Singapore, Thailand, and the United Kingdom, etc. Notably absent is a DTA with the United States of America. A summary of the provisions of some key agreements is given in Appendix I.

CAPITAL ASSIGNMENT PROFITS TAX

Gains on transfers of interests (as opposed to shares) in a foreign invested or Vietnamese enterprise are subject to 28% BIT. The taxable gain is determined as the excess of the sales proceeds less cost (or the initial value of contributed legal capital for the first transfer) less transfer expenses.

Where the transferor is a foreign organisation or foreign individual, the purchaser is required to withhold the tax due from the payment to the vendor, and account for this to the tax authorities.

Where the transferor is a domestic enterprise, they shall be responsible for declaring the gains from capital transfer in the following quarter provisional BIT return or separately filing a return 10 days from the day of receiving payment.

When foreign investment funds or foreign organisations having no legal status in Vietnam sell securities e.g. shares, BIT is payable on a deemed basis at 0.1% of the total value of the securities sold.

In respect of bonds, 0.1% BIT shall be calculated on the face value of the bond plus interest at the time the interest is received.

Where the investment is conducted through an investment fund in Vietnam, the tax regime differs.

VALUE ADDED TAX ("VAT")

General overview

Under a VAT system, output tax is collected from a customer by adding VAT to the amount charged. However a business also pays input tax to its suppliers on purchases that it makes. The business must pay the output tax to the State after deducting the input tax paid to its suppliers. The business therefore pays tax on the value that it adds in the supply chain. The tax is ultimately borne by the end consumer or businesses that make supplies exempt from VAT, because they cannot recover input tax paid.

Scope of application

VAT applies to goods and services used for production, trading and consumption in Vietnam (including goods and services purchased from abroad). In each case the business must charge VAT on the value of goods or services supplied.

In addition, VAT applies on the duty paid value of imported goods. The importer must pay VAT to customs at the same time that they pay import duties.

Exempt goods and services

There are many categories of VAT exemptions, including:

- Certain agricultural products, including those imported;
- Cross border leases of drilling rigs, aeroplanes, and ships of a type which cannot be produced in Vietnam;
- Transfer of land use rights;
- Credit services;
- Certain insurance services (including life and non-commercial insurance);
- Medical services;
- Teaching and training;
- Printing and publishing of newspapers, magazines, and certain types of books;
- Certain cultural, artistic, sport services/products;
- Passenger transport by public buses;
- Goods and services directly provided to international transport, transportation of international passengers and cargoes, goods sold in duty free shops, goods and services exchanged between organisations/individuals inside non-tariff zones (i.e. economic zones, export processing zones, customs bonded warehouses, etc.) or exported by these entities;
- Transfer of technology and software services, except exported software which is entitled to 0% rate;
- Gold imported in pieces which have not been processed into jewellery;
- Exported unprocessed mineral products such as crude oil, rock, sand, rare soil, rare stones, etc.
- Imports of machinery, equipment and special means of transport as part of a technological process which are for use as fixed assets of the importer and which cannot be made in Vietnam. In addition, the exemption applies to construction materials of a type not made in Vietnam, for use in constructing the fixed assets of the importer;
- Equipment, machinery, spare parts, specialised means of transportation and necessary materials used for prospecting, exploration and development of oil and gas fields (which cannot be produced in Vietnam);
- Goods imported in the following cases: international non-refundable aid, including from Official Development Aid, foreign donations to government bodies, to individuals (subject to limitations) and
- Goods and services of businesses with income below a minimum threshold.

Zero rated goods and services

If a business sells exempt goods or services, it cannot recover any input tax paid on its purchases. This contrasts with "zero rating", where the sales are within the VAT system (albeit at a VAT rate of zero), and hence input tax can be recovered. Where a business generates both taxable and exempt sales, it can only claim a deduction of input tax for the portion of inputs used in the taxable activity.

Rates of tax

There are three rates as follows:

0% This rate applies to exported goods including goods processed for export, goods sold to duty free shops, exported services and construction and installation carried out abroad or for export processing enterprises.

5% This rate applies generally to areas of the economy concerned with the provision of essential goods and services. This includes: clean water; fertiliser production; teaching aids; books; foodstuffs; medicine and medical equipment; husbandry feed; various agricultural products and services, technical/scientific services, coal, coke, peat; mechanical products (except household mechanical products); industrial concrete products; basic chemicals; printing; sugar and its by-products; loading and unloading services, transportation, and computers.

10% This "standard" rate applies to activities including: mineral products; power generation; electrical products; processed foods; paper; postal services; construction and installation; tourism, hotel and restaurant services; lotteries; shipping agents; brokerage services; trading in precious stones and metals; leasing and other activities not specified as subject to the 0% or 5%.

When a supply cannot be readily classified based on the tax tariff, VAT must be calculated based on the highest rate applicable for the particular range of goods which the business supplies.

Calculation of output tax

The output tax to be charged is calculated by multiplying the taxable price (net of tax) by the applicable VAT rate. With respect to imported goods, VAT is calculated on the import dutiable price plus import duty plus special sales tax (if applicable). For goods sold on an instalment basis, VAT is calculated on the total price, rather than the instalments actually received.

Reclaiming input tax

Input credits can be claimed in the month invoiced. For imports, input credits are based on the date of payment to the Customs office. Input credits cannot be claimed if they are more than 3 months old.

Input VAT withheld from payments to overseas suppliers (i.e. under the withholding tax system) can also be claimed.

Discounts and promotions

Price discounts generally reduce the value on which VAT applies. However, certain types of discounts may not be permitted as a reduction before the calculation of VAT, and various rules and conditions apply in order to obtain a deduction for different kinds of discounts and promotions.

From June 2007, goods and services used for advertising and promotion are subject to VAT based on the market price of those goods. The relevant VAT incurred is allowed as an input VAT credit.

Goods and services used internally

Goods and services used internally by a business are taxable at cost.

VAT calculation methods

The law specifies two different methods for calculating VAT payable:

1. *Tax deduction method*

   This is the conventional VAT system used in most other VAT jurisdictions. VAT payable is calculated as the output VAT charged to customers less the input tax suffered on purchases of goods and services. For input tax to be deductible, the taxpayer must obtain a proper VAT invoice from the supplier.

2. *Direct application on value added method*

   Under this method, the business must firstly calculate the "value added" in the period. The value added equals the sales price of the goods/services less the value of goods/services purchased. The appropriate VAT rate is then applied to this "value added" figure to arrive at the VAT liability for the period. For businesses with little or no accounting records, tax payable is estimated. Taxpayers using this method are not permitted to issue VAT invoices on their sales.

Method 1 applies to State-owned enterprises, foreign invested enterprises, branches of foreign companies and Vietnamese enterprises (e.g., limited companies, joint stock companies). Method 2 applies to Vietnamese household enterprises, and foreign companies with no locally licensed presence, which do not have in place the necessary accounting and invoicing procedures to implement Method 1.

Registration

All organisations and individuals producing or trading in taxable goods and services in Vietnam must register for VAT. In certain cases, branches of an enterprise must register separately and declare VAT on their own activities.

Filing and payment of taxes

Taxpayers must file VAT returns monthly, by the 20th day of the following month. Taxpayers paying tax under the deduction method are not required to lodge an annual VAT finalisation or reconciliation.

Refunds

Generally, where the taxpayer's input VAT for the period exceeds its output VAT, it will have to carry the excess forward for three months. It can then claim a refund from the tax authorities. In certain cases (e.g. exporters where excess input VAT credits exceed VND 200 million), a refund may be granted on a monthly basis. Newly established entities in a construction period and having no output VAT may claim VAT refunds on a quarterly or yearly basis depending on the amount of input VAT incurred.

SPECIAL SALES TAX (SST)

SST is a form of excise tax that applies to the production or import of certain goods and the provision of certain services. Goods and services that are subject to SST are also subject to VAT.

The Law on SST classifies objects subject to SST into two groups:

1. Commodities – 8 items: cigarettes, liquor, beer, automobiles having less than 24 seats, petrol, air-conditioners up to 90,000 BTU, playing cards, votive papers; and

2. Service activities - discotheque, massage, karaoke, casino, jackpot, golf clubs, entertainment with betting (previously, horse racing and motorbike racing) and lotteries.

The tax rates are as follows:

Products / services	Tax rates (%)
Cigar/Cigarette	65
Spirit/Wine	20 - 65
Beer	40 – 75
Automobiles	15 - 50
Petrol	10
Air-conditioners (not more than 90,000BTU)	15
Playing cards	40
Votive paper	70
Discotheques, massage, karaoke	30
Casinos, jackpot games, entertainment with betting	25
Golf	10
Lottery	15

NATURAL RESOURCES TAX

Natural resources tax is payable by industries exploiting Vietnam's natural resources such as petroleum, minerals, forests, fisheries and natural water.

The tax rates vary depending on the natural resource being exploited and are applied to the production output at a specified taxable value per unit. Various methods are available for the calculation of taxable value of the resources, including cases where the resources have no commercial value.

PROPERTY TAXES

The rental of land use rights by foreign investors (if not contributed to capital) is in effect a form of property tax. It is usually known as land rental and the range of rates is wide depending upon the location, infrastructure and the industrial sector in which the business is operating.

IMPORT AND EXPORT DUTIES

Rates

Import and export duty rates are subject to frequent changes and it is always prudent to check the latest position.

The import duty rates are classified into 3 categories: ordinary rates, preferential rates and special preferential rates. Preferential rates are applicable to imported goods from countries that have Most Favoured Nation (MFN, also known as Normal Trade Relations) status with Vietnam.

With the accession to WTO, the MFN rates are in accordance with the WTO commitments and are applicable to goods imported from other member countries of the WTO. Exceptions and waivers are available for regional agreements (i.e. CEPT/AFTA or agreements between AFTA and China, Korea, Australia and Japan).

Special preferential rates are applicable to imported goods from countries that have a special preferential agreement with Vietnam.

To be eligible for preferential rates or special preferential rates, the imported goods must be accompanied by an appropriate Certificate of Origin ("C/O"). Without such a C/O, or when goods are sourced from non-preferential treatment countries, the ordinary rate (being the MFN rate with a 50% surcharge) is imposed.

Import duties - calculations

In principle Vietnam follows the WTO Valuation Agreement with certain variations. The dutiable value of imported goods is the transaction value. Where this is not applied, alternative methodologies for the calculation of the customs value include:

- Method 2 – Value of Identical Goods
- Method 3 – Value of Similar Goods
- Method 4 – Deductive Value Calculation
- Method 5 – Computed Value Calculation
- Method 6 - Fall-back Method

SST applies to some products in addition to import duties. VAT will also be applied on all imported goods and services (unless exempt under the VAT regulations).

Import duties – exemptions

Import duty exemptions are provided for projects which are listed as encouraged sectors and goods imported in certain circumstances.

There are 18 categories of import duty exemption, including:

- Machinery & equipment, specialised means of transportation and construction materials (which cannot be produced in Vietnam) comprising the fixed assets of certain projects.

- Raw materials, spare parts, accessories, other supplies, samples, machinery and equipment imported for the processing of goods for export and finished products imported for use in the processed goods.

  Currently, export enterprises do not pay import duties on raw materials where the products are destined for export. However, where the enterprise does not, or is not expected to, export the finished product within 275 days the local Customs Department will charge temporary import duty on the raw materials. Penalties for late payment can apply. Where the enterprise actually exports the finished product, a refund will be provided in proportion to the raw materials contained in the exports.

- Machinery, equipment, specialised means of transportation, materials (which cannot be produced in Vietnam), health and office equipment imported to use for oil and gas activities.

- Exemptions are also available, inter alia, for Build-Operate-Transfer enterprises, including their sub-contractors and for direct production of software.

Export duties

Export duties are charged only on a few items, basically natural resources such as rice, minerals, forest products, fish and scrap metal etc. Rates range from 0% to 45%. The price for the computation of export duties is Free on Board /Delivered at frontier price, i.e. selling price of goods at the port of departure as stated in the contract, excluding freight and insurance costs.

PERSONAL INCOME TAX ("PIT")

Application

The following individuals are included in the scope of PIT:

- Vietnamese citizens living in Vietnam or working overseas who are in receipt of income;
- Other individuals residing in Vietnam indefinitely; and
- Foreigners working in Vietnam and in receipt of income including employees of business, cultural or social organisations, representative offices and branches of foreign companies and individuals working independently.

Effective from 1 January 2009, Vietnam's new PIT Law will apply and result in significant changes to the PIT system. Individuals will be taxable on both employment and non-employment income at new PIT rates.

Liability to personal income tax – resident foreigners

Foreigners residing in Vietnam for an aggregate of 183 days or more within a consecutive 12-month period from the first date of arrival, or in subsequent calendar years, will be treated as tax residents in Vietnam. These tax residents are subject to Vietnamese PIT on their worldwide taxable income, wherever it is paid, earned or charged, on a graduated tax rates basis. Further, where an individual is treated as a resident for a particular year, that individual is also generally regarded as a resident for the following year.

Resident foreigners are required to declare all their worldwide income, regardless of where the income is paid. Failure to declare and pay the correct tax may result in various penalties being imposed.

Liability to personal income tax – non resident foreigners

Foreigners who spend, in aggregate, less than 183 days (the arrival and departure days together count as one day) in a consecutive 12-month period following the first date of arrival, or in subsequent calendar years, are considered as non-tax residents in Vietnam. Non-residents are subject to PIT at a flat tax rate of 25% on their Vietnam-sourced income in the tax year. However, this will need to be also considered in light of the provisions of any DTA that might apply.

Taxable income

A distinction is made between regular and irregular income. Different tax rate scales apply.

<u>Regular income</u>

Taxable regular income includes:

- Salaries, wages, remuneration, bonuses and allowances received in cash or in kind;
- Income received from participation in a board of management;
- Income from copyrights for use of patents, brands, author's remuneration;
- Income earned by individuals who are not subject to BIT such as income from technological services, consultancy services, design services, training, sport activities, agent services, brokerage commission and other services; and
- Other income.

<u>Irregular income</u>

Irregular income includes:

- Income from transfer of technology, right to use industrial properties (such as trademark, know-how, scientific or technological methods or means, consulting services); and
- Income from lottery winnings in any form, including promotion winnings.

There is a temporary exemption from PIT for interest from bank deposits, savings accounts, loans, and profits from debentures, bonds and shares, income from investment in securities, gains from trading securities.

Stock schemes

Income derived from exercising stock options in the form of cashless exercise by employees working in Vietnam is taxable as regular income, regardless of whether the gains are remitted to Vietnam. The taxable value is the difference between the exercise price and the market price at the date of exercise. All expenses in relation to the transaction can be used to reduce the taxable value. This treatment is applied to both foreigners and Vietnamese nationals.

Any stock awards provided to employees shall be considered a bonus in kind and subject to PIT as regular income.

Non taxable income

Non taxable income includes:

- Hardship allowances for working in dangerous or remote conditions in accordance with Government regulations;
- Seniority allowances for personnel in the armed forces;
- Mobility allowances;
- Allowances for business trip subject to limits stipulated by the Ministry of Finance;
- Fixed meal, mid-shift meal, lunch (but not when paid as a cash allowance);
- One-off allowances for relocation expenses;
- Insurance compensation;
- Certain types of cash prizes from the state;
- Severance / retrenchment allowances paid in accordance with the labour code; and
- Statutory social insurance / health insurance contributions.

The quantum of such tax free cash payments is tied in with the regulations of the relevant government authorities.

Fringe benefits

The taxable value of employer-provided accommodation is the lower of the actual rental paid or 15% of the total gross taxable income, and electricity and water charges paid by the employer are taxable. The general rule for other fringe benefits is that all are taxable. However, there is an exception for training fees, school fees for expatriate children paid to schools in Vietnam (up to secondary school only) and annual leave air-fares for expatriates.

Foreign tax credits

Vietnamese citizens, persons residing indefinitely in Vietnam without Vietnamese citizenship and tax resident foreigners are entitled to a deduction against Vietnamese tax due for any overseas tax paid, provided proof of payment can be produced. However, the amount claimable cannot exceed the amount of tax imposed on such income under Vietnamese tax laws.

Administration

Tax on regular income is finalised annually, but tax has to be declared and paid provisionally on actual monthly income. Employers are required to withhold PIT, and file monthly returns by the 20th day of the following month. The amounts paid are reconciled to the total tax liability at year-end and any outstanding amounts are settled by way of an annual return. Excess payments are credited against future tax liabilities.The tax year is the calendar year and the employees' tax returns are to be filed within 90 days from 31 December or within 45 days of the termination of the contract. Where a foreigner leaves Vietnam permanently, tax finalisation is carried out up to the month of departure.

Irregular income is taxed separately on each transaction.

Personal income tax rates

Regular Income

FOR FOREIGNERS AND FOR VIETNAMESE CITIZENS WORKING OVERSEAS

Monthly income		
From	**To**	**Rate**
0	8,000,000	0%
8,000,001	20,000,000	10%
20,000,001	50,000,000	20%
50,000,001	80,000,000	30%
80,000,001	upwards	40%

The rate for non-resident foreigners is a flat 25%.

FOR VIETNAMESE CITIZENS AND OTHERS RESIDING PERMANENTLY IN VIETNAM

Monthly income		
From	**To**	**Rate**
0	5,000,000	0%
5,000,001	15,000,000	10%
15,000,001	25,000,000	20%
25,000,001	40,000,000	30%
40,000,001	upwards	40%

Withholding tax on payments to non-employees

There is a general requirement to withhold 10% PIT from payments of VND 500,000 or more to individuals who are not employees (e.g. independent contractors).

SOCIAL INSURANCE AND HEALTH INSURANCE

The Law on Social Insurance became effective on 1 January 2007.

The level of compulsory social insurance ("SI") contribution is 20% of total salary of which 15% is the employers' obligation and the remaining 5% is the employees' obligation.

The basic salary for SI contribution is the salary stated in the labour contract, but capped at a maximum of 20 months of the common minimum salary (the current minimum salary is VND 540,000 per month).

Additionally, employers are required to pay health insurance ("HI") premiums in respect of their Vietnamese employees. The rate is 3%, of which 1% is the responsibility of the employee and 2% of the employer. The salary basis for HI contribution is the contractual salary and is not subject to a cap.

Statutory social insurance and health insurance contributions borne by the employer do not constitute a taxable benefit to the employee, and those borne by employees are deductible for PIT purposes.

OTHER TAXES

Numerous other fees and taxes can apply in Vietnam, including capital, freight tax, business license tax and stamp duty/registration.

PENALTIES

There are detailed regulations setting out penalties for various tax offences. These range from relatively minor administrative penalties through to tax penalties amounting to various multiples of the additional tax assessed.

In practice, imposition of penalties has been arbitrary and inconsistent. However in recent periods, there has been a much tougher stance adopted by the tax authorities. Hence where tax is paid late, as a result for example of a tax audit investigation, there is significant likelihood of penalties being imposed.

ACCOUNTING AND AUDITING

Generally, all foreign-invested business entities must use the Vietnamese Accounting System ("VAS"), unless they can prove to the MoF that VAS is "inconvenient and impossible" to follow. If a company strictly follows the VAS, registration with the MoF is not required. However, if the VAS is modified, a written approval from the MoF is required before implementation.

Accounting records should generally be maintained in VND. A foreign-invested business entity may however make an application to the MoF for a foreign currency to be used for its accounting records and financial statements. Accounting records should be kept in Vietnamese, although a commonly-used foreign language can be used at the same time.

The annual financial statements of all foreign-invested business entities must be audited by an independent auditing company operating in Vietnam. At the end of the fiscal year, the entity must perform an inventory of all of its assets, and a copy of the report on the results of the count should be attached to the financial statements.

Annual financial statements must be audited and submitted within 90 days from the end of the year. These financial statements should be filed to the licensing body, MoF, local tax authority and Department of Statistics.

Vietnam has issued 26 accounting standards and 37 auditing standards which are basically modelled on the international standards with local modifications.

DOUBLE TAXATION AGREEMENTS

A summary of withholding tax rates is as follows:

Recipient	Interest %	Royalties %	Notes
Foreign corporations and individuals (under domestic law).	10	10	
Agreement:			
1. Algeria (*)	-	-	-
2. Australia	10	10	-
3. Bangladesh	15	15	1,2
4. Belarus	10	15	1, 2
5. Belgium	10	5/10/15	1, 2, 3
6. Brunei Darussalam (*)	-	-	-
7. Bulgaria	10	15	1, 2
8. Canada	10	7.5/10	3
9. China	10	10	2
10. Cuba	10	10	-
11. Czech Republic	10	10	2
12. Denmark	10	5/15	1, 2, 3
13. Egypt (*)	-	-	-
14. France	Nil	10	-
15. Finland	10	10	-
16. Germany	10	7.5/10	2, 3
17. Hungary	10	10	-
18. Iceland	10	10	2
19. India	10	10	2
20. Indonesia	15	15	1, 2
21. Italy	10	7.5/10	2, 3
22. Japan	10	10	2
23. Korea (South)	10	5/15	1, 2, 3
24. Korea (North) (*)	-	-	-
25. Laos	10	10	-
26. Luxembourg	10	10	-
27. Malaysia	10	10	2
28. Mongolia	10	10	2
29. Myanmar	10	10	2
30. Netherlands	10	5/10/15	1, 2, 3
31. Norway	10	10	2
32. Pakistan	15	15	1,2
33. Philippines	15	15	1
34. Poland	10	10/15	1, 3
35. Romania	10	15	1, 2
36. Russia	10	15	1
37. Seychelles	10	10	-
38. Singapore	10	5/15	1, 2, 3
39. Spain	10	10	2
40. Sri Lanka	10	15	1,2
41. Sweden	10	5/15	1,2,3
42. Switzerland	10	10	2
43. Taiwan	10	15	1
44. Thailand	10/15	15	1,2
45. Ukraine	10	10	2
46. United Kingdom	10	10	2
47. Uzbekistan	10	15	1,2

(*) not in force yet

Notes:

1. In some cases the limits set by the treaty are higher than the present withholding rate under domestic law. Therefore the domestic rates will apply.

2. Interest derived by certain government bodies is exempt from withholding tax.

3. Royalty withholding tax rates vary for certain types of royalties.

PRICEWATERHOUSECOOPERS SERVICES IN VIETNAM

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- International assignment services;
- Statutory audit;
- Regulatory compliance;
- Internal control reviews;
- Corporate governance best practices;
- IT effectiveness;
- Financial function effectiveness;
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