Enterprise Singapore

INVESTING INTO VIETNAM

BASIC TAX CONSIDERATIONS FOR BUSINESSES

This guide is prepared by Enterprise Singapore and our knowledge partner Ernst & Young.

Kindly note that the information in this Tax Guide is prepared as of February 2023 and for reference purpose only.

CONTENTS

AN INTRODUCTION

All taxes in Vietnam are imposed at the national level. There is no local, city or provincial taxes. For businesses operating in Vietnam, the three major taxes are:

- Business license fee,
- Corporate income tax, and
- Value-added tax

(A) ENTRY PHASE

BUSINESS LICENSE FEE

Businesses license fee has to be paid annually in order to operate a business in Vietnam, after the initial first year of establishment of the business. The business license fee is paid annually by 30 January.

The fee ranges from VND 1 million (SGD56)** to VND 3 million (SGD169)** per year depending on the size of charter capital stipulated in the Enterprise Registration Certificate.

SIZE OF REGISTERED CHARTER CAPITAL	ANNUAL BUSINESS LICENSE FEE
Over VND 10 billion (S$0.6 million)**	VND 3 million (S$169)**
Less than and equal to VND 10 billion (S$0.6 million)**	VND 2 million (S$113)**
Other	VND 1 million (S$56)**

TABLE 1: ANNUAL BUSINESS LICENSE FEE DEPENDING ON THE SIZE OF REGISTERED CHARTER CAPITAL

*** Based on exchange rate of approximately SGD1 = VND17.7k as of Jan 2023*

CURRENT CORPORATE TAX RATE

Business organisations in Vietnam are subject to corporate income tax at 20% on its taxable income. The rate of corporate income tax applicable to activities of exploration and exploitation of oil, gas and other precious natural resources ranges from 32% to 50%, depending on the project.

Taxable income includes the worldwide income of the business.

As an illustration, for a Singapore company which sets up a Vietnam company, the Vietnam company's Vietnamese sources income and foreign-sourced income (e.g. income earned by the Vietnam company from other countries, e.g. Thailand) are subject to Vietnamese corporate income tax at 20%.

TAX INCENTIVES

Tax incentives are generally available to new investment projects, depending on the locations, business activities and size of projects. Tax incentive package can range from reduced tax rate, tax exemption and reduction in corporate income tax (CIT) payable.

Location-based incentives

The Vietnamese government provides location-based incentives for regions based on the levels of development and investment. The government provides these incentives as a means of attracting capital and improving development in these areas. The areas that the government selects for incentives are consistently located near Vietnam's borders with China and Laos as well as the southern Mekong region.

Vietnam provides two tiers of incentives to investment projects depending on the level of development and needs in the area. Foreign investors can currently choose between locations that are "disadvantaged" (i.e. difficult socioeconomic conditions), and those that are "extremely disadvantaged" (i.e. especially difficult socioeconomic conditions)

Investments in both locations benefit from preferential corporate income tax as well as tax holidays with the level of incentive directly tied to the level of disadvantage within these regions. Investors must have sourced income from an investment in an area currently classified as disadvantaged or extremely disadvantaged for incentives to apply. The tax incentive package can range from reduced tax rate, tax exemption and reduction in corporate income tax (CIT) payable and largely depends on negotiation with the tax authority.

Below is a general listing of tax incentives available for certain industrial zones, areas with difficult and especially difficult socioeconomic conditions:

	INDUSTRAIL ZONES^ AREAS WITH DIFFICULT SOCIOECONOMIC CONDITIONS^^	AREAS WITH ESPECIALLY DIFFICULT SOCIOECONOMIC CONDITIONS ^^^
POSSIBLE INCENTIVES*	17% CIT – 10 years CIT exemption – 2 years 50% reduction on payable CIT – 4 years	10% CIT – 15 years CIT exemption – 4 years 50% reduction on payable CIT – 9 years

TABLE 2: LOCATION-BASED INCENTIVES

^ There are industrial zones spread out across the country in Northern (e.g. Hai Phong), Central (e.g. Da Nang) and Southern Regions (e.g. Binh Duong)
^^ Examples: Lao Cai city, Cam Ranh city, Buon Ma Thuot city, Pleiku city, Bao Loc city
^^^ Examples: Gia Lai, Ca Mau, Bac Kan, Ninh Thuan, Son La, Bac Lieu, Dak Nong, Lam Dong, Kon Tum, Kien Giang, Dak Lak, Hau Giang, Dien Bien, Ha Giang, Soc Trang, Cao Bang, Lao Cai, Lai Chau
**Generally, the tax incentive package is granted to new investment projects based on locations, activities and scale of projects on a case-by-case basis, subject to negotiation.*

Prioritised business, and project scale-based incentives

Vietnam also extends investment incentives to a number of industries and projects that it has identified to be of strategic importance for the country. In recent years, the focus has broadly promoted projects in high tech industries, large capital, or labor-intensive investments, and projects that are expected to have a tangible impact on social conditions (such as education or healthcare). Please see below.

CATEGORY	HIGH TECH	SOCIAL IMPORTANCE	LARGE SCALE
BUSINESS LINES/ PROJECTS	Information Technology Biotechnology New material technology Automation technology Supporting products for high technology Scientific research and development Software production	Education Vocational training Healthcare Culture Sports Environmental	Manufacturing projects with a minimum invested capital of VND6,000 billion (S$337 million)** <u>and</u> one of the following: a) Annual revenues of VND10,000 billion (S$562 million)** by the fourth year of operations; b) Employment of at least 3,000 workers Manufacturing projects with a minimum investment capital of VND 12,000 billion (S$675 million)** <u>and</u> using high technology
POSSIBLE INCENTIVES*	10% CIT – 15 years CIT exemption – 4 years 50% reduction on payable CIT – 9 years	10% for entire life of project CIT exemption – 4 years 50% reduction on payable CIT – 5 years	10% CIT – 15 years CIT exemption – 4 years 50% reduction on payable CIT – 9 years

TABLE 3: PRIORITISED BUSINESS ACTIVITIES, LARGE-SCALE PROJECTS ELIGIBLE FOR INVESTMENT INCENTIVES IN VIETMENT BY CATEGORY

**Generally, the tax incentive package is granted to new investment projects based on locations, activities and scale of projects on a case-by-case basis, subject to negotiation*
*** Based on exchange rate of approximately SGD1 = VND17.7k as of Jan 2023*

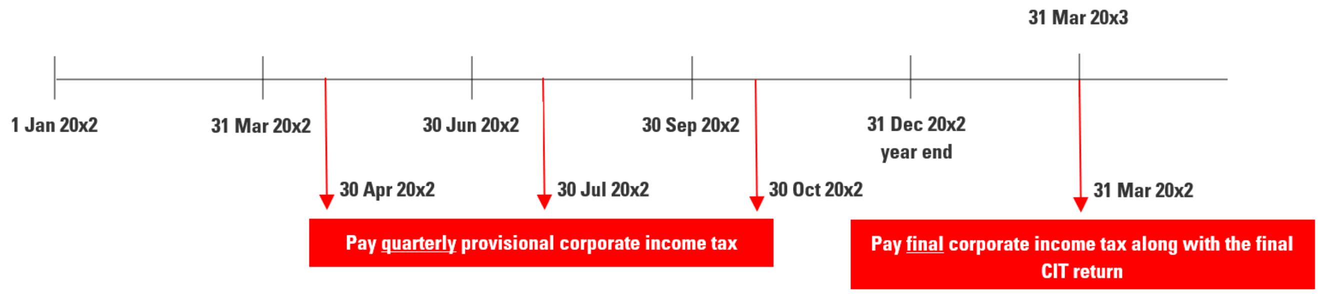
Government Decree 31/2021/ND-CP provides the latest guidance on where incentives are applied throughout the country and should be consulted closely by interested parties.

(B) OPERATING PHASE

TIMELINE FOR PAYMENT OF CORPORATE TAX

Some countries, such as Singapore, the corporate tax is paid on the income earned in the preceding year. However, in Vietnam, payment of corporate tax will be on the income earned in the current year. The payment will be as follows:-

- Corporate tax is paid quarterly, as a provisional corporate income tax (within 30 days from the close of each of the first three quarters of its calendar year or financial year end).
- The final corporate income tax is paid along with the final CIT return (i.e. due on the last day of the third month as of the ending date of a calendar year or financial year end).



TAXABLE INCOME

Taxable income is the turnover minus deductible expenses, exempted income and losses carried forward from prior years (if any), plus other taxable income.

Generally, an enterprise may deduct expenses if the expenses are actually incurred and related to the production and business activities of the enterprise.

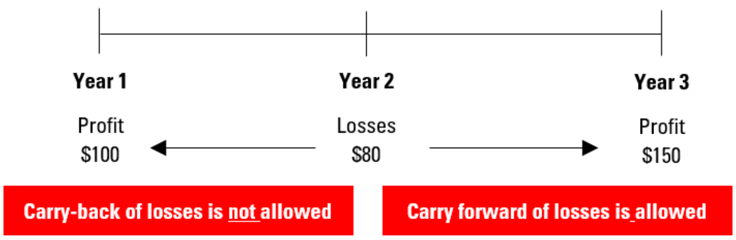
There are certain non-deductible expenses, such as administrative penalties, bonuses and life insurance expenses for employees that are not clearly stated in the labour contracts, and the collective labour contracts, etc.

Vietnam's tax legislation also prescribed a list of non-deductible expenses (e.g. staff welfare expenses exceeding a statutory cap).

RELIEF FOR LOSSES

Enterprises that incur losses may carry forward the losses to the following five years and claim such losses as deductions from taxable income. Losses must be wholly carried forward to consecutive years (including the year of a tax holiday).

Carryback of losses are not allowed.



(C) CROSS-BORDER TRANSACTIONS

TRANSFER PRICING

The Vietnamese transfer-pricing regulations apply the arm's-length principle to determine transfer prices of business transactions undertaken between related parties and is broadly consistent with the arm's-length concept as set out in the Organisation for Economic Co-operation and Development's Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (OECD Transfer Pricing Guidelines).

The applicable transfer-pricing methods under Vietnamese transfer-pricing regulations closely resemble the methods provided by the OECD Transfer Pricing Guidelines and include the following:

- Comparable uncontrolled price method
- Resale price method
- Cost plus method
- Profit split method
- Comparable net profit method

The Vietnamese regulations contain detailed transfer-pricing documentation requirements. The documentation must be prepared before the submission of the annual income tax return to substantiate the arm's-length prices and submitted on the tax authority's request in a timely manner.

WITHHOLDING TAX

Withholding tax is levied on payment to persons outside of Vietnam. The following withholding tax rates apply for the respective payments under domestic law but the withholding tax rates may be reduced under the Avoidance of Double Taxation Agreement (DTA) or tax treaties that Vietnam enters into with other jurisdictions:

Domestic tax law

	DIVIDEND	INTEREST	ROYALTIES
CORPORATE INCOME TAX WITHHOLDING	Nil (paid to corporate shareholder) 5% (paid to individual investor)*	5%	10%
VALUE ADDED TAX WITHHOLDING	Nil	Exempt	Exempt or 5%^

TABLE 4: DOMESTIC TAX LAW

** Reparation of dividends to individual investors may be subject to 5% personal income tax depending on the amount of investment*

^ Payment for computer software licenses, transfer of technology and transfer of intellectual property rights to foreign contractors are exempt from withholding value added tax. Other royalties payment may attract withholding value added tax

DTAs/ Tax Treaties

Vietnam has ~80 tax treaties. Withholding tax rates under the tax treaties would apply only if it is lower than the domestic tax rates. Withholding tax rates under Singapore-Vietnam tax treaty is 10% (for interest) and 5%/10% (for royalties).

FOREIGN TAX CREDEIT

Foreign tax credit is available in respect of corporate income tax paid in a country outside of Vietnam on the income earned from overseas investment (including tax levied on the dividend). The credit shall not exceed the corporate income tax amount payable in Vietnam

As an illustration, a Vietnam company earned foreign-sourced income (e.g. income earned by the Vietnam company from other countries, e.g. Thailand) of $100 and paid foreign tax of $20. The foreign tax of $20 is available as a credit against the corporate income tax amount payable in Vietnam.

(D) EXIT PHASE

Business which is being dissolved is required to submit final tax declaration returns and clear all tax liabilities no later than 45 days from the date of resolution on dissolution.

For exit strategy via the disposal of share capital, gains derived from sales of shares in enterprises are subject to tax at a rate of 20%. Foreign investors transferring securities (e.g. shares of public companies) are subject to tax on a deemed basis at a rate of 0.1% on total sale proceeds (irrespective of whether the transfer is profitable).

(E) OTHERS: VALUE-ADDED TAX (VAT)

Enterprises and organizations that trade and import goods and services into Vietnam are required to register for VAT immediately once they have received their business license. No registration threshold.

In general, taxpayer must submit monthly VAT returns and settle tax payments (on or before the 20th day of the following month). The VAT rates in Vietnam are as follows:

TYPES	VAT%
EXPORTED GOODS/SERVICES	0%
ESSENTIAL GOODS AND SERVICES (E.G. WATER SUPPLY, AGRICULTURAL GOODS, MEDICAL GOODS, TEACHING AIDS)	5%
ALL OTHER GOODS AND SERVICESS	10%

DISCLAIMER

The above information is prepared for general reference only. As the prevailing tax law and practice could be subject to change, please refer to your own advisors for specific advice or let us know if you require further assistance.

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