

Doing Business in Vietnam

2023





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Foreword

Vietnam's economy registered a strong recovery in 2022 after two years of COVID-19 infection. The achievement was driven by the robust rebound of demand and production as well as the country's proactive response to emerging threats in the aftermath of the pandemic: the spike in global inflation and intensified global divide. With a GDP growth rate of 8.02% last year, Vietnam was recognized as one of the bright spots in the gloomy global economic picture. However, headwinds developed in the last quarter of 2022 and have persisted during the first half of 2023, adversely impacting economic activities and slowing GDP growth. The economic outlook is generally still positive with international organisations continuing to place high expectations on Vietnam's breakthrough in the second half of the year, maintaining its position as a rising star in the ASEAN region.

Vietnam continues to make a mark on the global map as an attractive and safe destination for foreign investment. Vietnam's advantages include its favourable geographical location, young, educated, and affordable labour forces as well as political stability. This year, we believe that with the combination of efforts and experiences of international and domestic forces, Vietnam can overcome challenges and continue boosting economic growth while keeping inflation under control, ensuring a sound environment for investors.

As Vietnam is increasingly becoming a favoured destination for foreign investment, Grant Thornton Vietnam prepared 'Doing Business in Vietnam 2023' to assist investors to have an overview of the country's business environment. We hope this guide will help you learn and understand further about doing business in Vietnam.

NOTE: This guide herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is still accurate as of the date this guide is received or will continue to be accurate in the future. When specific problems occur in practice, it will often be necessary to refer to the laws and regulations of Vietnam and to obtain appropriate professional advice. Should you require additional professional guidance, we are more than willing to provide consultancy and ascertain where we can be of assistance.



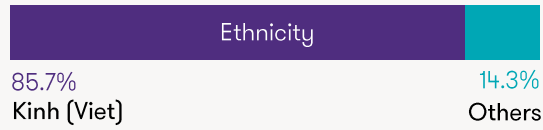
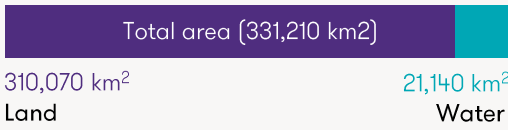
Nguyen Chi Trung
CEO and Managing Partner



Country Profile

Key Statistics and Facts

Vietnam has a young population, stable political system, stable currency, significant Foreign Direct Investment ("FDI") inflows, a strong manufacturing sector and commitment to sustainable growth.



Location

On the Indochina peninsula in Southeast Asia, bordering China to the North, Laos and Cambodia to the West, and the East Sea to the East



Climate

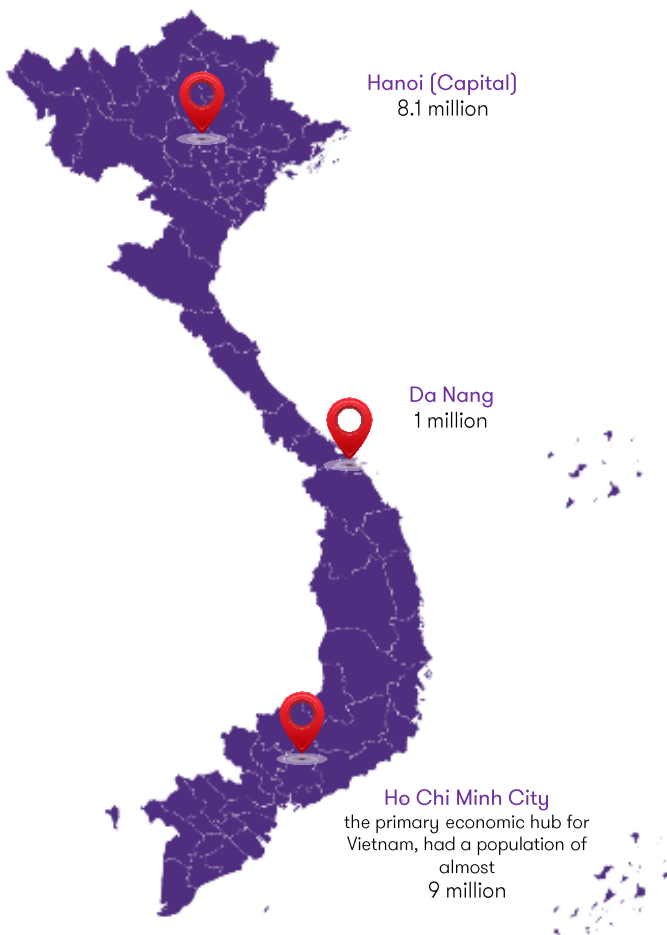
Tropical in South, Monsoonal in North with hot rainy season (May to September), and warm, dry season (October to March)



Time zone

GMT+07

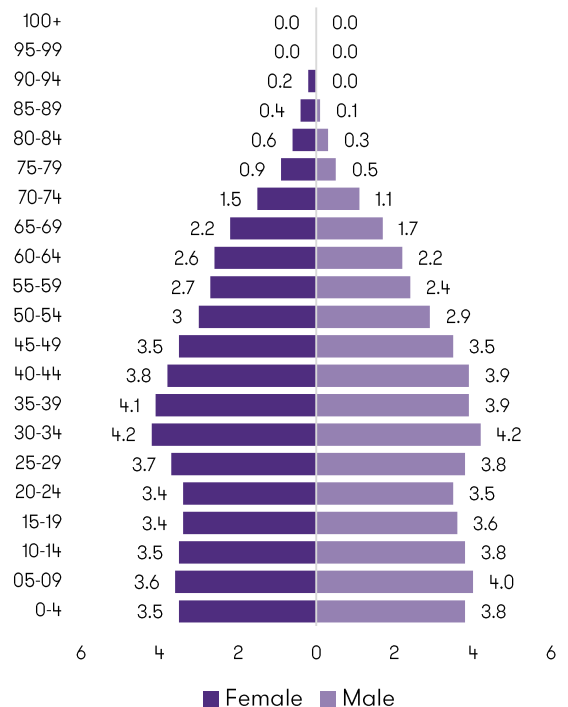
Major urban area – Population estimation



Population estimation

Approximately 100 million

Vietnam ranks 15th in the world and 3rd in Southeast Asia in terms of total population.



[Source: World Population Review, PopulationPyramid.net – 2023]



Form of Government

Socialist State



Head of the Communist Party

General Secretary
Nguyen Phu Trong



Head of State

President
Vo Van Thuong



Head of Government

Prime Minister
Pham Minh Chinh



Unicameral National Assembly

Chairman Vuong Dinh Hue
500 seats



Supreme People's Court

Chief Justice Nguyen Hoa Binh
4 Deputy Chief Justices and 10 judges



Income Status
Lower-middle income



GDP Growth (2022)
8.02%



GDP Growth of Key Economic Sectors

- Agriculture, Forestry and Fisheries
+ 3.36%
- Industry and Construction
+ 7.78%
- Service
+ 9.99%



Trade Surplus (2022)
USD 11.20 billion

- Exports: USD 371.85 billion (+10.6%)
- Imports: USD 360.65 billion (+8.4%)

Key export markets



US



China



EU



ASEAN

Key import markets



China



Republic
of Korea



ASEAN



Japan

Key exports

- Mobile phones and parts (USD 59.3 billion)
- Computers, electronic products, and parts (USD 55.2 billion)
- Machinery, equipment, and accessory (USD 45.7 billion)
- Textiles and garments (USD 37.5 billion)
- Footwear (USD 23.9 billion)
- Wood and wood products (USD 15.9 billion)
- Vehicles and spare parts (USD 12.0 billion)
- Seafood (USD 10.9 billion)
- Iron and steel (USD 7.9 billion)

Key imports

- Computers, electronic products, and parts (USD 82.1 billion)
- Machinery, equipment, and accessory (USD 45.4 billion)
- Mobile phones and parts (USD 21.2 billion)
- Fabrics (USD 14.8 billion)
- Plastic materials (USD 12.5 billion)
- Steel (USD 12.1 billion)
- Other metals (USD 9.3 billion)
- Petroleum (USD 9.2 billion)
- Chemicals (USD 9.1 billion)

(Source: General Statistics Office, Ministry of Industry and Trade)

Labour and employment

In 2022, as reported by the General Statistics Office, the labour market of Vietnam saw several positive trends. Firstly, the labour force at the end of 2022 comprises 52.1 million people, an increase of nearly 1.4 million people from the previous year. The number of employed individuals was 51 million, up 2 million from 2021. Improvements have also been witnessed in unemployment indicators. The general unemployment rate of the labour force at working age in 2022 is 2.32%, down 0.88 percentage points compared to the previous year. The unemployment rate of young people from 15 to 24 years old in Vietnam reduced by 0.83% to 7.72% while the underemployment rate in the working-age population reduced by 0.89% to 2.21%.



52.1M

people of working age

Despite the positive trends, unfavourable developments in the world economy resulted in new challenges arising at the end of 2022. In the fourth quarter of 2022, a number of sectors, especially garment, footwear, and wood manufacturing, encountered production difficulties as global demand reduced, leading to significant job cuts. Experts in Vietnam forecast that the labour market in the first half of 2023 would continue to face hardships. The labour market report in the first quarter of 2023 by the Ministry of Labour, Invalids, and Social Affairs shows that difficulties remained in the manufacturing sector as unemployment occurred mainly in occupations such as tailors, embroiderers, and assemblers. In the report, it is also forecast that jobs in garment, footwear, and wood manufacturing will continue reducing in the second quarter. Nevertheless, the shortage of orders at manufacturing firms is expected to improve in late 2023, helping the labour market bounce back, according to experts from the Ministry of Labour, Invalids, Social Affairs and Vietnam Labour Confederation.

Trained labour

The percentage of trained labour in Vietnam in 2022 is 26.2%, increasing 0.1% from the previous year, meaning the majority of Vietnamese workers still have low qualifications and the proportion of trained labour is growing at a relatively low pace.

Currently, increasing the proportion of trained labour is one of the top priorities of Vietnam in order to improve the quality of the whole workforce. In recent years, many training projects for workers, especially rural workers, have been implemented. The country is also concerned about the quality of vocational training. At the beginning of 2023, the government issued Decision 73/QĐ-TTg aiming at enhancing the quality of vocational education institutions. The goal of the plan is to reduce the total number of vocational education institutions, of which a higher proportion of private, high-quality institutions will prevail instead of public schools.

Income



VND 6.7M

average monthly income

According to the General Statistics Office, labour's average monthly income is VND 6.7 million (USD 290) in 2022, increasing by VND 930 thousand (USD 39.5) from 2021. By sector, the average wage recorded at the end of 2022 of people working in the service sector is VND 8.1 million (USD 345), twice as much as the income of workers in agriculture, forestry, and fisheries, which is VND 4.0 million (USD 175). Workers in industry and construction earned an average salary of VND 7.7 million (USD 328). The wage gaps encourage workers to shift from jobs in agriculture, forestry, and fisheries to higher-paid jobs in industrial production or the service sector.

Vietnam's plan to reduce the number of vocational education institutions

	Colleges	Intermediate schools	Vocational education centres	Total institutions
Year 2022	410	437	1,058	1,905
Year 2025	400	400	1,000	1,800

(Source: Ministry of Labour, Invalids, and Social Affairs, thuvienphapluat)

Cost of living

In 2022, Vietnam's CPI increased by 3.15% on average over the last year. In general, the price movement of various goods and services such as food, energy, and education was relatively stable. The rate of 3.15% is below the target of 4% set by the National Assembly at the end of 2021, indicating that Vietnam did well in putting inflation under control.

The General Statistics Office reported that in 2022, Hanoi is the city with the most expensive cost of living in Vietnam. Quang Ninh and Ho Chi Minh City occupy the 2nd and 3rd positions, respectively. Meanwhile, the provinces with the lowest cost of living mainly belong to the Southwest region.

Vietnam in general has a low cost of living compared to the majority of the world. Out of the 227 cities examined in the Mercer Cost of Living report in 2022, Hanoi ranked 150th while Ho Chi Minh City ranked 163rd. These two cities are costlier than Kuala Lumpur (ranked 181st), but still less expensive than Bangkok and Phnom Penh (ranked 106th and 134th).



150th

Ranking of the cost of living in Hanoi

[Source: www.mercer.com]

Living standards

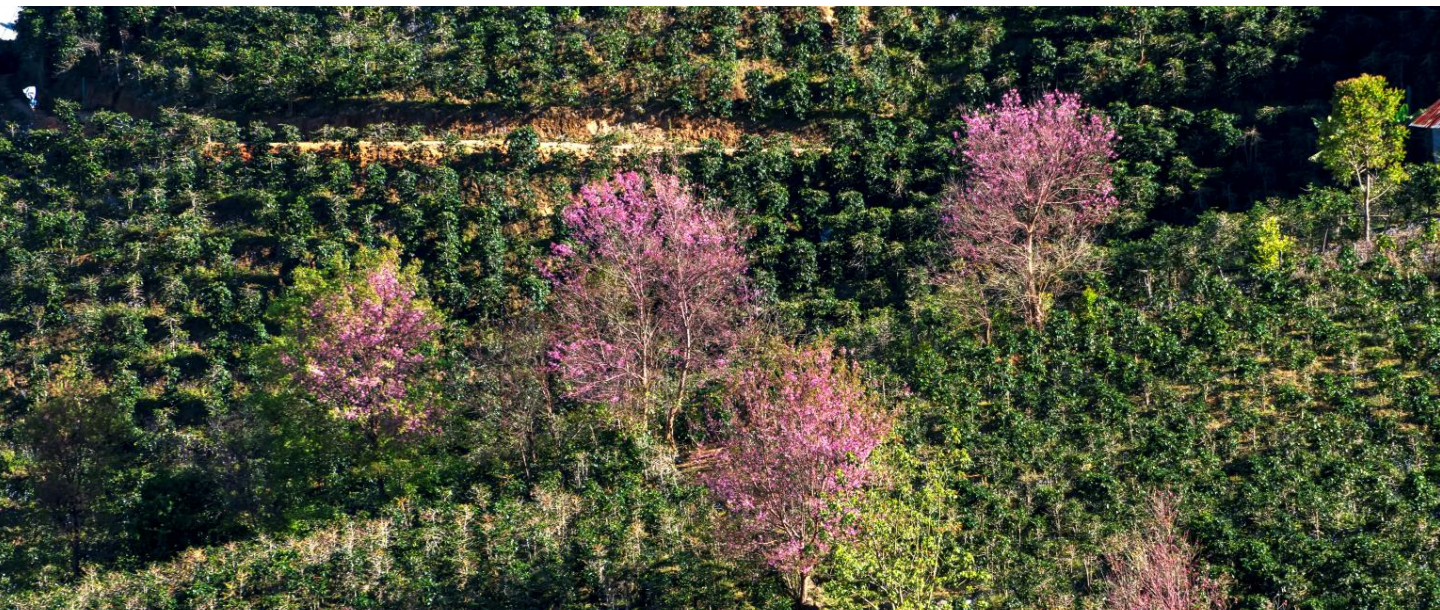
According to the 2022 data of the Ministry of Labour, Invalids, and Social Affairs, the multidimensional poverty rate, including the rate of poor households and near-poor households, is 7.52% nationwide, with the total number of multidimensional poor and near-poor households being nearly 2 million households. The proportion of poor and near-poor households is 4.03% and 3.49%, respectively. The Southeast region, where industrial development is the most significant in the country, has the lowest multidimensional poverty rate with only 0.34%

Vietnam's socioeconomic status growth in general and human development in particular has made significant strides. According to the United Nations Development Program (UNDP), the Human Development Index (HDI) of Vietnam in 2021 is 0.703, belonging to the high group. Vietnam's HDI ranking among the world's nations and territories is 115 out of 189. Meanwhile, in the World Happiness Report's happiness ranking based on a three-year-average 2020-2022, Vietnam ranks 65th out of 137 countries and territories studied, higher than some countries in Southeast Asia such as the Philippines, Indonesia, Laos, Cambodia, and Myanmar.



163rd

Ranking of the cost of living in Ho Chi Minh City



Business Etiquette

Greetings

To greet and say goodbye to Vietnamese business partners, it is customary to shake using both hands with the left hand on top of the right wrist and bow slightly. Alternatively, you can bow to them.

Business meetings

Face-to-face meetings are considered very formal in Vietnam, and will normally be confirmed at most one week before the appointment time if dealing with Government departments and State Owned Enterprises. To start a business conversation: business cards should be handed and received to and from business partners with two hands. To understand the person you are speaking with and to show proper respect, you should read your partner's cards carefully. Do not simply glance at it and put it in your pocket or wallet. One more important thing to note is being receptive to any invitations to lunch or dinner after business meetings. Dinners or luncheons are often arranged by business partners, who will be hosting you in order to build personal relationships – one of the keys to successful business in Vietnam.

Addressing Vietnamese

Vietnamese names are written backwards compared to Western names and generally have three or 4 parts: Surname (family name), middle name and first name. If it is applicable, you can add the professional title. It is normal to use the last written name to address a Vietnamese (their first name).

Souvenirs and gift giving

The giving of gifts and souvenirs are quite common, throughout Vietnam. Numerous occasions during the year, and in business meetings are used to express your appreciation, gratitude or respect to your business partners. Gifts and souvenir do not need to be costly, but it as an appreciation of friendship.

Business attire

In working places, Vietnamese dress conservatively in professional clothing. Men wear suits and women wear suits or dresses. In the warmer months, particularly in Southern Vietnam, jackets and suit jackets are not required unless meeting Government officials.



Public holidays

Employees who have been employed for 12 months are provided with a minimum of 12 days of paid annual leave (vacation) per year, in addition to the public holidays.





Vietnam's Economy

Vietnam's recent business environment

GDP Growth

In 2022, Vietnam's GDP expanded by 8.02%, the highest growth rate in the period 2011-2022. This figure is quite consistent with international organisations' forecast that Vietnam would achieve 7.5-8% in 2022. The rate also surpassed the National Assembly's target of 6-6.5%. The achieved result proved Vietnam's economy to be exceptionally strong and resilient during and after the pandemic compared to its peers in the region and the world. The country started the year with a series of difficulties including travel restrictions and supply chain disruptions but recovered robustly from mid-year, especially in the third quarter when it reached a growth rate of 13.7%.



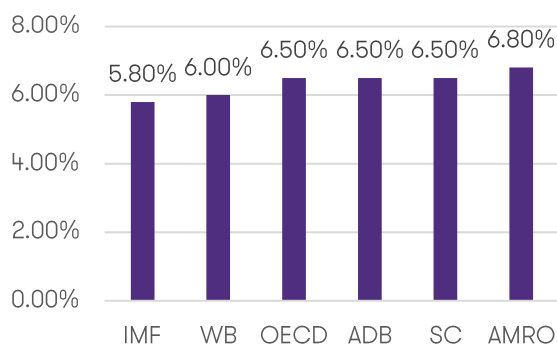
(Source: General Statistics Office)

Despite the overall outstanding result, turbulence has built up since the last quarter of 2022 when the GDP growth rate decelerated remarkably to 5.9%. The regressing world economy with spiked inflation had a detrimental impact on Vietnam's economic performance as businesses experienced a sudden drop in international demand and a surge in input costs. Difficulties were predicted to spread to 2023, therefore, many world organisations' forecasts for 2023 are lower than the rate of 8.02% in light of the downward economic outlook in Vietnam.

In the first quarter of 2023, Vietnam's GDP had a growth rate of 3.32%. The government considers the GDP growth rate of 3.32% a not-high-yet-laudable result in the context of uncertainties and unfavourable economic developments in the world, putting pressure on prices and consumer demand. The stagnation of industrial production and the real estate market contributed to Vietnam's low economic performance. Even so, Vietnam still attained some commendable results such as keeping inflation at a low level and having a trade surplus of more than USD 4 billion.

Some international organisations are still relatively optimistic about Vietnam's economic prospects this year. Their projections are not too different from the target set by the National Assembly for 2023 of 6.5%. The World Bank's recent estimation is 6.0% while ADB, the OECD, and Standard Chartered Bank's forecast is 6.5%. According to these organisations, the global economic situation is making certain progress thanks to an improvement in consumption and a slowdown in inflation, which will have a positive impact on Vietnam. Meanwhile, domestically, there have been some positive signs. The General Statistics Office and the Ministry of Industry and Trade recently reported that raw materials imports have increased, suggesting that the shortage of orders has somewhat improved. Therefore, trade activities are expected to recover better in the second half of 2023.

Vietnam GDP Growth Forecast for 2023



(Source: Compilation from the above organisations)

Having awareness of the challenges, the Vietnamese government has set out specific actions, focusing on stabilizing the macroeconomic environment by constantly updating worldwide inflation movements and monetary policies. Several solutions to counter difficulties in production and trading activities, such as tax reduction, lowering interest rates, and easing the real estate market, are getting underway. Besides, the government is looking to diversify export products and markets for Vietnam's manufacturing. With the efforts of the Vietnamese government and all levels, sectors, localities, business communities, and people nationwide, it is believed that the economy of Vietnam can overcome hardships and achieve the target of the National Assembly by the end of the year.

Inflation

Ever since 2022, globally, turbulence has been building up as inflation surged, especially in the West, putting pressure on the monetary and financial system and threatening the everyday functioning of society. Despite the global economic and financial stress, Vietnam has been successfully keeping inflation under control.

Overall, in 2022, Vietnam's average inflation rate is 3.15%, achieving the target of 4% set by the National Assembly. The low inflation rate is a result of Vietnam's great efforts in stabilizing the prices of various key commodities. According to the General Statistics Office, despite the soaring global fuel and petrol prices throughout 2022 due to geopolitical conflicts in the world, Vietnam still made careful adjustments to petrol prices and used the country's petroleum stabilization fund as well as reduced taxes and fees to control prices. In addition, to reduce pressure on CPI, the government decided to delay price increases for several public services such as education and healthcare. At the end of 2022, a spike in world inflation also affected Vietnam, causing CPI during this time to rise above 4%. However, given that inflation in some areas of the world was surging to around 10% at the time, a rate of over 4% showed the country's great effort to counter inflation.

Moving to 2023, due to concerns about the continued inflationary pressure globally, experts were more cautious in forecasting Vietnam's inflation in 2023. Government agencies estimated that CPI would range from over 3.5% to 5%. Meanwhile, the National Assembly set the target for inflation in 2023 at 4.5%.

AVERAGE INFLATION FORECASTS FOR 2023

General Statistics Office
3.8% - 4.8%

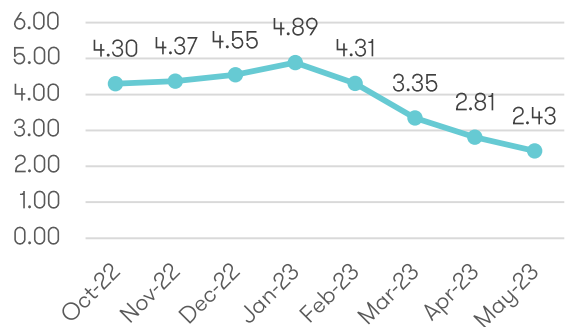
Ministry of Finance
3.9% - 4.8%

State Bank of Vietnam
4.3 ± 0.5%

[Source: Compilation from the above organisations]

Vietnam started 2023 with CPI increasing by nearly 5% over the same period last year, which reflects the heightened inflationary pressure in the world at that time. However, since then, the rate has fallen gradually. Up to May 2023, the average inflation rate is 3.55%, significantly below the National Assembly's target.

CPI growth rate by month over the same period last year (2022-present)



[Source: General Statistics Office]

In the upcoming months, several challenges are expected to put pressure on CPI. The government has recently announced a rise in basic salary in July and an electricity price increase of 3%. As well, price modifications for public services in accordance with the government's plan will be implemented. Even so, the outlook for Vietnam's inflation is still deemed positive. Recently, the General Statistics Office has claimed that inflation is likely to continue to ease in the remaining months in case of no abnormal factors. Currently, the Vietnamese government is still maintaining a balance between boosting economic growth and inflation control. Meanwhile, inflation on a global scale is reported to have gradually cooled down thanks to the monetary tightening policy. Therefore, it is believed that with the combination of efforts and experiences of international and domestic forces, Vietnam can thoroughly put inflation under control and achieve the target of the National Assembly for 2023.

Foreign Direct Investment (FDI) inflow

According to the Ministry of Planning and Investment, in 2022, Foreign Direct Investment (FDI) in Vietnam reached nearly USD 27.72 billion, a decline of 11% compared to 2021. The Ministry of Planning and Investment attributed the decline to the heightened risks due to global political conflicts and high inflationary pressures, which had negatively affected capital outflow in major economies. However, of the total FDI, disbursed capital reached 22.4 billion USD, rising 13.5% over the same period in 2021. This is the record amount of FDI disbursed in the period 2017-2022. In addition, although the total newly-registered capital decreased compared to 2021, the number of projects and the total additionally-registered capital increased. Some large-scale projects with an investment value of around USD 1 billion in 2022 include Lego's factory construction in Binh Duong and Samsung's factory expansion in Thai Nguyen. These figures show that Vietnam was still considered a safe and attractive destination for investors during the high-risk period.

The Ministry of Planning and Investment forecast that in 2023, FDI in Vietnam might increase by 30% thanks to the advantages of stable political and macroeconomic conditions and the upgrade of the investment environment. At the beginning of 2023, the global economic situation remained unfavourable. Vietnam's FDI inflow was recorded to slow down but gradual improvements have been witnessed. Data from the Ministry of Planning and Investment shows that FDI has increased sharply recently compared to the beginning of the year.

The world economy currently showing a gradual recovery can be seen as a predictor of higher FDI in Vietnam in the upcoming period. On the other hand, Vietnam is aware that investors will remain cautious as the country has yet to resolve the global minimum tax rate issue. The country is looking forward to discussing solutions in the third quarter of 2023 and at the same time, preparing to enhance the business environment in various aspects to reduce reliance on tax incentives.

108 Nations and Territories
invested in Vietnam in 2022

(Source: Ministry of Investment and Planning)

Top 5 contributors to FDI inflow:



Singapore
(USD 6.46 billion)



Republic of Korea
(USD 4.88 billion)



Japan
(USD 4.78 billion)



China
(USD 2.52 billion)



HongKong
(USD 2.22 billion)

Reasons for FDI in Vietnam

Free Trade Agreements

Vietnam is one of the countries that has been actively negotiating, promoting, and expanding free trade. Currently, the country has a total of 19 FTAs, with 15 of them being in effect and 4 being under negotiation.

Ease of doing business

Vietnam has a fairly open environment for businesses, especially FDI firms. The government has provided various incentives and forms of support for businesses. Bureaucracy has also seen improvements with many procedures in public services being cut or digitalised via adoption of new technology

Abundant labour force

Vietnam is in the golden population period and the population currently stands at around 100 million people. The labour force is quite young and skilled and the cost of labour is considered quite competitive in the region. Also, the middle class is rapidly expanding, indicating the growing consumer spending in Vietnam.

Political stability

Vietnam has a stable government that provides strategic directions and decides on all major policy issues with socioeconomic development being a top priority. Investment in Vietnam will be benefited from its political stability and consistency. The government has increasingly reformed and improved transparency.

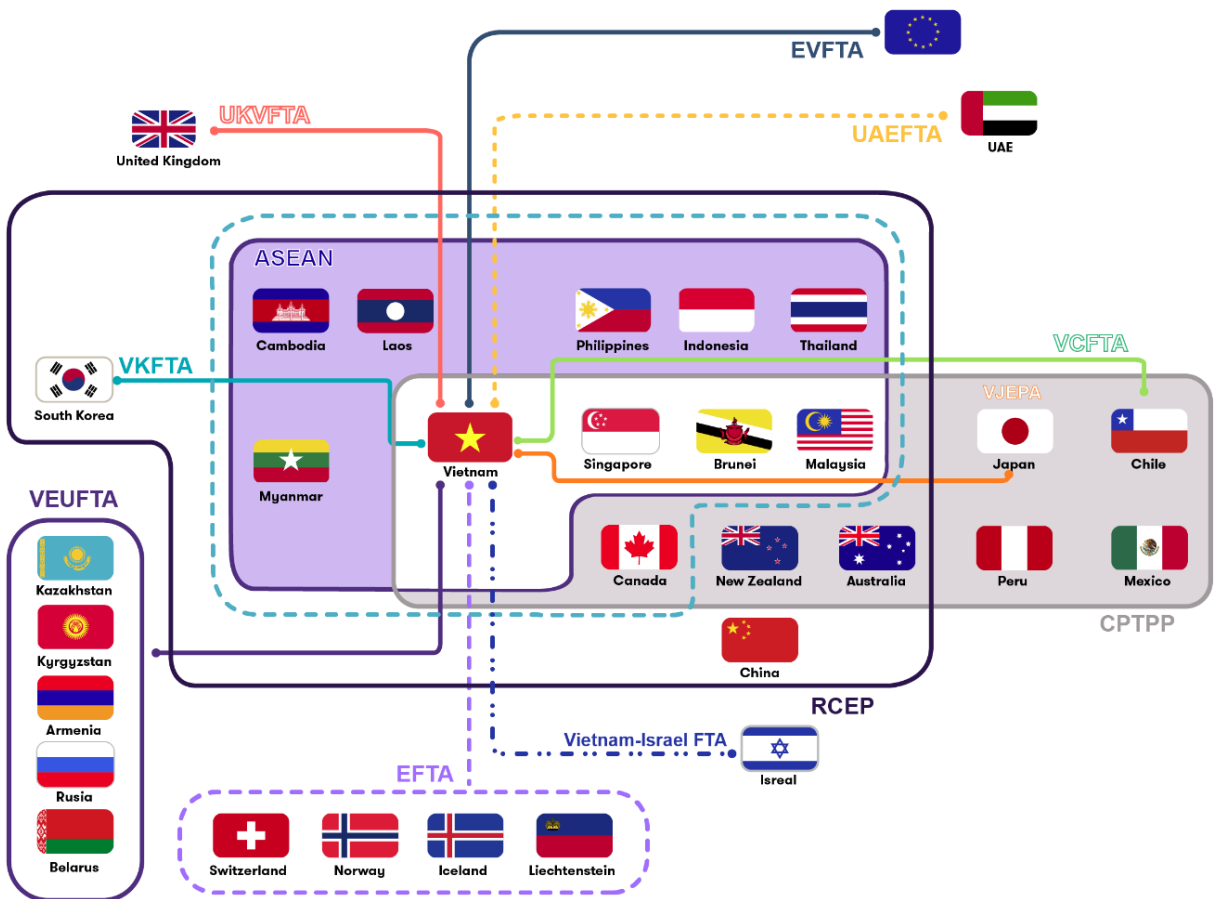
Trade Agreements

Vietnam is one of the countries with the most free trade agreements (FTAs) in the world. As of 2023, the country has a total of 19 trade agreements, 15 of which are already in force while 1 agreement has been concluded and 3 are in the process of negotiation.

The FTAs have opened the door wider for made-in-Vietnam goods to enter foreign markets, helping the country improve its trade balance with its trade partners. Aside from export turnover, the FTAs have also brought other benefits, the most important one being ensuring fairer access to resources.

Many FTAs, especially new-generation ones, pay attention to fairness, which forces Vietnam to continuously improve its domestic business environment. The trade deals also assist with efforts to improve infrastructure, push forward administrative reforms and remove market barriers.

Vietnam also signed the Regional Comprehensive Economic Partnership, the world's largest trade deal, which covers nearly a third of global GDP.



Current FTAs in Vietnam

(Source: centre for WTO and International Trade - VCCI)

No.	FTA	Status	Parties
FTAs in effect			
1	AFTA	Effective since 1993	ASEAN
2	ACFTA	Effective since 2003	ASEAN, China
3	AKFTA	Effective since 2007	ASEAN, Republic of Korea
4	AJCEP	Effective since 2008	ASEAN, Japan
5	VJEPA	Effective since 2009	Vietnam, Japan
6	AIFTA	Effective since 2010	ASEAN, India
7	AANZFTA	Effective since 2010	ASEAN, Australia, New Zealand
8	VCFTA	Effective since 2014	Vietnam, Chile
9	VKFTA	Effective since 2015	Vietnam, Republic of Korea
10	VN – EAEU FTA	Effective since 2016	Vietnam, Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan
11	CPTPP (previously known as TPP)	Effective since 30/12/2018, came into effect in Vietnam since 14/01/2019	Vietnam, Canada, Mexico, Peru, Chile, New Zealand, Australia, Japan, Singapore, Brunei, Malaysia
12	AHKFTA	Effective in Hong Kong (China), Laos, Myanmar, Thailand, Singapore and Vietnam since 11/06/2019 Effective in all member countries since 12/02/2021	ASEAN, Hong Kong (China)
13	EVFTA	Effective since 01/08/2020	Vietnam, EU (27 members)
14	UKVFTA	Effective temporarily from 01/01/2021, officially effective since 01/05/2021	Vietnam, The UK
15	RCEP	Official effective since 1/1/2022	ASEAN, China, Korea, Japan, Australia, New Zealand
FTA negotiation completed			
16	Vietnam – Israel FTA	Negotiations commenced in December 2015, completed in April 2023	Vietnam, Israel
FTAs under negotiation			
17	Vietnam - EFTA	Negotiations commenced in May 2012	Vietnam, EFTA (Switzerland, Norway, Iceland, Liechtenstein)
18	ASEAN – Canada FTA	Negotiations commenced in November 2021	ASEAN, Canada
19	Vietnam – UAE FTA	In the process of initiating negotiations	Vietnam, United Arab Emirates (UAE)

Key points to look at in the upcoming period

Global minimum tax rate

From January 1, 2024, the global minimum tax policy will come into effect. This policy is also referred to as the Pillar Two of the OECD's "Two-pillar solution to address the tax challenges arising from the digitalisation and globalisation of the economy", agreed upon by more than 140 countries, including Vietnam. Accordingly, the global minimum tax rate is 15%, applicable to multinational companies with a total revenue of EUR 750 million, or USD 800 million or more in 2 years of the last 4 consecutive years. Companies that are enjoying a tax rate lower than 15% in the country of investment will have to pay the difference, or the top-up amount, in the country where they are headquartered. The OECD estimates that with the application of Pillar Two, the total global tax revenue from multinational companies will increase to USD 220 billion.

Most EU countries, Switzerland, the UK, Republic of Korea, Japan, Singapore, Indonesia, Hong Kong, and Australia have confirmed the application of Pillar Two from 2024

The new policy undoubtedly has a negative impact on Vietnam as the country has been offering tax incentives to attract foreign investments. According to preliminary statistics from the General Department of Taxation, about 100 large enterprises are likely to be affected by the global minimum tax from 2024.

The Vietnamese government has actively organised many discussions on issues surrounding the imposition of the global minimum tax, including analysing challenges and opportunities as well as offering solutions to ensure a favourable investment and business environment for FDI enterprises. Recently, a special unit under the Prime Minister has been established to research and propose solutions related to the global minimum tax of the OECD. So far, there has been no conclusion because the country is considering the situation of each sector and industry. However, the consensus among experts is that Vietnam will inevitably have to make adjustments to the current corporate income tax rates applied to FDI firms in line with the OECD's Pillar Two. A part of the revenue from the new tax rate is expected to be allocated to support FDI enterprises, partly lifting the tax burden. Some solutions currently being considered include building infrastructure where businesses are located in the area, supporting human resource training for businesses, and reducing costs related to business operations, such as worker care costs or logistics costs. Vietnam is also aiming to negotiate contracts with FDI enterprises in a win-win direction, guaranteeing to honour the country's commitments to investors, providing them with the opportunity to actively select the most suitable course of action and supporting them with their decisions.



Reduction of Value-Added Tax (VAT)

It is forecast that difficulties will persist, so businesses are in dire need of support in stimulating market demand to sell more products. Much attention has been focused on the application of the policy to reduce value-added tax (VAT) from 10% to 8%. Specifically, on 24 June 2023, the National Assembly approved a 2% VAT reduction for goods and services currently subject to 10% VAT (with certain exceptions) for the period from 1 July 2023 to 31 December 2023 to support business and stimulate market demand. In addition, business establishments, including business households and business individuals, that calculate value-added tax by the percentage of turnover method are entitled to a 20% reduction of the percentage rate to calculate value-added tax when issuing invoices for goods and services eligible for value-added tax reduction.

The policy will be applicable to categories of goods and services currently subject to the 10% tax rate. Exceptions from the new VAT rate include telecommunications, information technology, finance, banking, securities, insurance, real estate, and a few types of industrial products.

In the face of a sharp decline in export orders and many Vietnamese consumers tightening their spending, the tax reduction is expected to reduce the price of various goods and services and stimulate domestic demand, thereby boosting production and business activities, and creating momentum for the recovery of Vietnam's economy. The government and businesses are responding positively to the application of this policy. Despite knowing the adverse impact on the state budget, the Vietnamese government believes this is an essential trade-off to ensure the healthy state of the economy and the quality of citizens' life.



Categories of goods and services that are not entitled to a 2% VAT reduction from July 1, 2023:

- Telecommunication
- Information technology
- Financial services
- Banking
- Securities
- Insurance
- Real estate
- Metal
- Prefabricated metal products
- Mining products (excluding coal mining)
- Coke
- Refined petroleum
- Chemical products
- Goods and services subject to excise tax

Improvement of investment environment

Shifting to the green economy

Vietnam is making efforts to transform its traditional economy into a green economy. Many experts believe that Vietnam has gone through a long period of attracting foreign investment focusing too much on scale and capital factors, neglecting global trends such as sustainability and advanced technology. Therefore, as tax incentives are soon to be neutralized to a certain extent, Vietnam is increasingly motivated to move toward the green growth movement in the economy.

FDI enterprises are now considered the pioneer in sustainable development in Vietnam. According to the Foreign Investment Department under the Ministry of Planning and Investment, FDI enterprises and domestic enterprises have invested about USD 9 billion in fields related to green growth as well as equipment for the green economy, accounting for about 2% of Vietnam's GDP. The growth rate of the past two years has been at 10-13%, showing positive signs for the country's process of greening the economy. Recently, the government has issued specific green growth strategies and action plans for the period 2021 - 2030, aiming at the goal of net zero emissions by 2050. Thus, in the future, it is expected that Vietnam will actively evaluate and select investment projects placing more weight on factors related to environmental protection and sustainable development. For the business community in general, the country will strengthen the promotion of green business and green production. Overall, the robust transition of Vietnam from the traditional economic model to the green economic model in the upcoming period will be worth anticipating.

Upgrading supply chain and logistics performance

The Covid-19 pandemic during the past 3 years has caused supply chain crises in Vietnam, thereby making businesses increasingly aware of the development of a sustainable supply chain for production activities. Firms today have begun to pay more attention to diversifying their supply sources as well as applying technology to analyse, identify and manage risks from suppliers. On the other hand, in recent years, the country has made efforts to improve its logistics capacity. Vietnam has been devising and implementing plans to expand and upgrade the logistics infrastructure, focusing on the bottleneck at the Southern key economic region, where there has been stagnant road and highway network development. The country is also aiming to reduce bureaucratic procedures and upscale digital transformation. As a result, Vietnam has been able to increase its ranking on the world logistics map. According to Agility's annual ranking in 2023, Vietnam is the 10th highest emerging logistics market in the world.

Administrative reform

Currently, Vietnam is putting great effort into strengthening administrative reform. Digital transformation, one of the primary goals of Vietnam's administrative reform today, has made remarkable achievements. Recent statistics show that more than 4.4 thousand online public services have been provided on the National Public Service Portal. Moreover, the National Single Window Portal contains 250 administrative procedures of 13 ministries and sectors connected with more than 55 thousand participating businesses. This year, Vietnam is aiming to accelerate administrative reform, focusing on cutting business-related procedures and digital transformation. Currently, plans to reduce and simplify nearly 1.1 thousand regulations of 10 ministries and agencies have been approved and the government has issued new targets for digital transformation, concentrating on database completion, AI application, online document processing, and online payment.

Vietnam's industrial parks: Opening up and incentives

According to the Vietnam Association of Realtors, by the end of 2022, Vietnam had established 397 industrial parks (IPs), of which 292 have been put into operation, with a total natural land area of more than 87,100 ha and an industrial land area of more than 58,700 ha. The provinces in the southern key economic region have the most IPs currently in operation. Binh Duong is the province with the largest IP area in the country with a total area of 12,721 ha from 31 IPs, accounting for 13% of the total area in Vietnam.

Since 2022, Vietnam's real estate market has been in a difficult state. However, the real estate market for industrial parks stood out when it demonstrated steady growth. According to the Ministry of Construction's report for 2022, the market maintained high demand across regions with the average land price increasing by around 10% over last year. The average occupancy rate at IPs across the country was above 80%.

In the first quarter of 2023, the industrial real estate market continued to perform well as it maintained high occupancy and demand. In the tier 1 market which includes big cities and provinces, such as Binh Duong, Hanoi, Bac Ninh, Hai Phong, Dong Nai and Ho Chi Minh City, the leasing area is almost completely filled and occupancy is always at a high level of 95%. On the other hand, the tier 2 market, comprising smaller localities like Thai Nguyen, Vinh Phuc, Quang Ninh, Ba Ria - Vung Tau, Tay Ninh, and Binh Phuoc, saw more demand in the first quarter of 2023, mainly because the supply of industrial land in the tier 1 market was reported to be limited, prompting investors to move to the tier 2 market.

Northern region

The northern region has industrial land areas concentrated in big cities and provinces such as Hanoi, Hai Phong, Bac Ninh, Hung Yen, and Vinh Phuc. This region has an average occupancy rate of around 80%. The Northern industrial market has shone in recent years thanks to synchronous investment in education and infrastructure as well as inherent advantages such as competitive labour costs, positive economic prospects, and proximity to China. Northern IPs currently tend to attract investments in fields related to electronics and technology.

Central region

The central region has Da Nang and Quang Nam as the centres for industrial activities. The area has an occupancy rate of about 67%. Thanks to a large supply of land with lower rents than other regions and a dense seaport system, the central region attracts many international industrial producers from industries such as food, textiles, and wood manufacturing and heavy industries such as oil, gas and energy.

Southern region

The southern region is the oldest industrial production centre in the country, with key provinces and cities including Ho Chi Minh City, Binh Duong, Dong Nai, Long An, and Ba Ria - Vung Tau. The region has a high occupancy rate of around 80-90%. South Vietnam has bustling economic and trade activities, dynamic and progressive human resources along with a developed infrastructure and transportation system, thus is a favourite destination for many investors. The dominant industries are mainly light industries such as garment, textiles, footwear, rubber and plastics, metals, and machinery and equipment manufacturing.



Industrial parks play a key role in promoting foreign investment in Vietnam thanks to the concentration of favourable conditions for businesses. Companies setting up in IPs have access to modern infrastructure, facilities, and logistics systems. The internal road system in IPs is now basically built with good quality, mostly using four-lane roads for main roads and two-lane roads for secondary roads. Around the IPs, the transportation network is increasingly upgraded and expanded with the goal of enhancing connectivity in the supply chain. In particular, the focus on completing the expressway system is creating more IPs adjacent to the highways. This is also one of the important factors that help attract investors. Other essential facilities such as electricity and water supply and Internet are ensured and progressively enhanced. With Vietnam’s aim toward a green economy, the use of renewable

energy for production is starting to gain attention and internal waste treatment systems are being installed more.

Companies investing inside IPs also enjoy various tax incentives and procedural support. Reductions and exemptions are provided for several tax categories, including corporate income tax, export-import duties, and land lease tax. The application level varies by scale, sector, and area of investment. In addition, socialised investment projects such as opening production facilities in disadvantaged areas or building housing areas for workers and experts will also be subject to more incentives. Besides, the authorised state agencies will support firms with labour recruitment, administrative procedures, and other issues in the process of project implementation.

Categories

Industrial parks in Vietnam include general industrial parks and industrial parks specifically designed for certain activities. Investors can choose to invest in these separate parks to access more advantages in terms of resources and incentives.

Export processing zones

An export processing zone (EPZ) is a concentrated industrial park specializing in the production of export goods, the provision of services for export goods production, and export activities. Vietnam currently has 4 EPZs, all of which are located in the south. Businesses established in an EPZ are categorized as export processing enterprises (EPEs). Setting up facilities in EPZs is a beneficial investment for foreign companies seeking to locate production in Vietnam as this option provides greater incentives in terms of tax and policy.

	Export processing zones (EPZ)	Industrial park (IP)
Definition	An industrial park specializing in the production of export goods, providing services for export production and export activities.	An area with a defined geographical boundary, specialized in manufacturing industrial goods and providing services for industrial production.
Goal	Attract foreign businesses	Attract domestic and foreign businesses
Incentives	<ul style="list-style-type: none"> - Incentives applied in normal IPs - Exemption and reduction of some additional taxes such as VAT, import-export tax - Unlimited quantities of raw materials imported - Support for quick customs procedures 	<ul style="list-style-type: none"> - Exemption and reduction of corporate income tax (the extent of application depends on scale, sector, and location) - Exemption and reduction of land lease tax (the extent of application depends on the size, sector, and location)
Industry	Industries and goods for export such as food, textiles, footwear, etc.	Most industries with diverse goods and services

Hi-tech parks

Vietnam has been actively promoting investments into hi-tech parks, a type of industrial park gathering firms specializing in research and development, hi-tech applications, and the production and trading of hi-tech products. This IP model is established with the objective of attracting hi-tech foreign and domestic companies to carry out business and research activities at the same time, thereby helping to enhance Vietnam's technology capacity, providing a driving force for the country to accelerate digital transformation and head toward becoming a smart and modern country in the world. Currently, Vietnam has 4 hi-tech parks, including Hoa Lac hi-tech park in Hanoi, Ho Chi Minh City hi-tech park, Da Nang hi-tech park, and Dong Nai biotech park. Some localities have also been applying for authorisation to build their hi-tech parks.

After many years into operation, hi-tech parks have attracted many large and prestigious corporations in the world and in the country to make investments. According to the latest statistics, Ho Chi Minh City hi-tech park has attracted more than 160 investment projects while the number of Hanoi's Hoa Lac hi-tech park is around 100 projects. Several big names that can be found at hi-tech parks include Intel, Samsung, Schneider, TTI, Nidec, Nissan, Viettel, and FPT.

Aside from businesses, hi-tech parks also accommodate various institutions and facilities that benefit research activities, such as laboratories and research centres established by prestigious universities in the country. Therefore, by setting up facilities in hi-tech parks, firms will have access to cutting-edge technologies, advanced infrastructure, and a high-quality, well-educated workforce. In addition, Vietnam has been proactively attracting investments into hi-tech parks by using incentives. Specifically, when investing in a high-tech park, investors will enjoy preferential policies on corporate income tax, import-export tax, and land rent. In addition, investment projects and activities in hi-tech parks are supported by the hi-tech park management board and government agencies to carry out administrative procedures under the one-stop-shop mechanism. Furthermore, companies in hi-tech parks are given priority to participate in support programs in training and recruitment, research and development, high technology applications, technology transfer, and other activities.

Eco-industrial parks

An eco-industrial park is a new industrial park model in Vietnam, created with the goal of environmental protection. The rapid industrial development in the country has caused adverse effects on the environment, resulting in various threats to people's health and life. Therefore, the construction of eco-industrial parks is considered a solution to overcome limitations and inadequacies in environmental problems as well as reduce resource waste and promote sustainable growth.

The eco-industrial park model is still in the development stage in Vietnam. Currently, government agencies are carrying out projects to transform traditional industrial parks into eco-industrial parks. Several parks in 5 cities and provinces, including Ho Chi Minh City, Da Nang, Hai Phong, Dong Nai, and Can Tho, have been selected for piloting the eco-industrial park model.

To succeed in developing eco-industrial parks, many incentive policies have been introduced, such as land rent exemption and reduction and preferential credit loans. In particular, eco-industrial parks are prioritized by the government to attract investment, so projects in eco-industrial parks are entitled to loans from the Enterprise Development Support Fund, the Technology Innovation Fund, and Vietnam Development Bank. In addition, in eco-industrial parks, businesses will have greater access to technology and support for technical solutions to convert into eco-enterprises.

Industrial parks targeted for eco transformation:

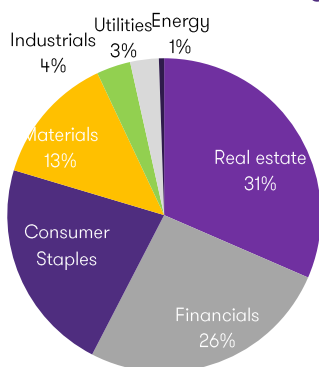
- Dinh Vu Industrial Park (DeepC – Hai Phong)
- Hoa Khanh Industrial Park (Da Nang)
- Amata Industrial Park (Dong Nai)
- Nhon Trach 2 Industrial Park (Dong Nai)
- Hiep Phuoc Industrial Park (HCMC)
- Linh Trung 1 Export Processing Zone (HCMC)
- Tra Noc Industrial Park (Can Tho)

Capital markets

Vietnam's stock market is considered a frontier market by Morgan Stanley Capital International (MSCI) and other international rating agencies, and looking to be upgraded to an emerging market status in the next 2-3 years to attract more investment capital. Domestic individual investors dominate the Vietnam stock market with over 80% of the market transaction value. Their securities accounts also take up over 99% of the total number of accounts, equivalent to about 7% of the population.

After reaching an all-time high in April 2022, VN-Index entered a phase of correction due to negative sentiments among investors. VN-Index closed at 1,007 points at the end of the year, posting a drop of -32.8% compared to the end of 2021, and recorded the lowest level of 911.9 points on November 15, 2022 and remained a range of over 1,000 points during five beginning months of 2023. The negative market sentiments stem from the rising of interest rates; credit tightening to real estate; and a crisis in investor confidence in bonds after leaders of Tan Hoang Minh and Van Thinh Phat were accused of bond issuance fraud and their bond repayment is still in question.

MSCI Vietnam Index – sector weights



Source: Vietstocks Finance

Vietnam Index

According to the MSCI Vietnam Index as of May 31, 2023, real estate is the largest sector in terms of total market capitalization, making up around 31% of the stock market. This is followed by Financials, Consumer Staples and Materials with 26%, 22% and 13% of the market, respectively.

As of May 31, 2023, the market capitalization of HSX was at USD 186 billion. Of the 396 stock tickers listed on HSX, 36 have a market capitalization of more than USD 1 billion, with five tickers having the highest values being Joint Stock Commercial Bank of Foreign Trade of Vietnam (VCB), Vinhomes Joint Stock Company (VHM), Joint Stock Commercial Bank for Investment and Development of Vietnam (BID), Vingroup Joint Stock Company (VIC), PetroVietnam Gas Joint Stock Corporation (GAS).

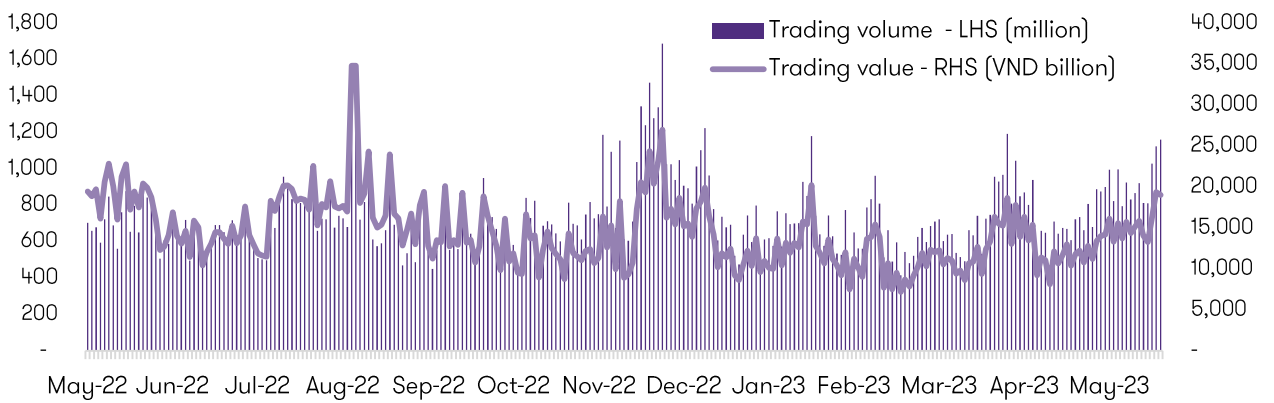
As of May 31, 2023, the market capitalisation of HNX was at USD 12.1 billion. Of the 342 stock tickers listed on HNX, five stock tickers with the highest values include Petro Vietnam Technical Services Corporation (PVS), Thaiholdings Joint Stock Company (THD), IDICO Urban and Industrial Zone Development Company Limited (IDC), PVI Holdings (PVI) and North Asia Commercial Joint Stock Bank (BAB) as of May 31, 2023.

Besides the listed company market, the Unlisted Public Company Market (UPCoM) has become more attractive to investors. As of May 31, 2023, the market capitalization of UPCoM was at USD 44.8 billion. Five stock tickers with the highest values include Airports Corporation of Vietnam (ACV), Viettel Global Investment Joint Stock Company (VGI), Binh Son Refining and Petrochemical Company Limited (BSR), Masan Consumer Corporation (MCH), and Vietnam Engine And Agricultural Machinery Corporation (VEA).

The trading activity in the Vietnam stock market became less active with a slight decline in trading value and trading volume between May 2022 and May 2023. The daily trading value decreased from roughly VND 20,000 billion in the period of May 2022 to around VND 10,000 – 13,000 billion in March 2023. However, from April to May 2023, the domestic stock market witnessed a rebound in trading activity with trading value rising to roughly VND 19,000 billion.

Despite the current stock market’s gloom, we believe that the stock market still continues to act as one of the important capital markets for Vietnamese businesses, aside from bank loans and corporate bonds. The government’s initiatives to ease restrictions on the corporate bond and property market, promote public investment and cut the lending interest rate would stimulate business activities as well as positive market sentiments, supporting the bright outlook of the Vietnamese stock market.

Vietnam’s stock trading activity May 2022 – May 2023



(Source: TVSI)



Private Equity investment opportunities

In response to the prevailing global economic downturn, Vietnam's Merger & Acquisition (M&A) market for private equity this year has experienced a slight decrease in the number of announced and closed deals. However, there was a rebound in the total disclosed transaction value during May 2022 – May 2023 compared to the previous corresponding period (58% YoY increase), which suggests the sustainable funding momentum in Vietnam despite global headwinds.

From May 2022 – May 2023, Vietnam's private equity sector recorded 273 transactions closed and 171 deals announced. The total disclosed transaction value was about USD 10,369 million. There were 17 transactions with at least USD 100 million in closed values in this period, according to Capital IQ.

Real estate was the sector that topped M&A closed transaction value in Vietnam thanks to a strategic investment of USD 450 million made by ESR V Investor 5 Pte. Ltd into BW Industrial Joint Stock Company in January 2023.

Renewable energy is also among the top industries that have received special attention from foreign investors, especially after the Prime Minister's strong commitment to achieving net-zero emissions by 2050. Notable transactions in the period include EDPR Sunseap buying a controlling interest in Xuan Thien Group which is developing two solar power projects with a capacity of 200MW solar in Ninh Thuan province. This transaction value was recorded at USD 284 million.

Consumer discretionary came second in Vietnam M&A's spotlights last year with major deals such as The Sherpa Co., (a subsidiary of Masan Group) purchase of 34% equity of Phuc Long Heritage for USD 153 million, resulting in Masan's equity interest in the beverage chain now being 85%. In December 2022, Vinfast Trading and Production LLC., signed deals with Credit Suite and Citigroup for fundraising of roughly USD 4 billion in a mix of debt and equity to support electric vehicles and battery making in the US state of North Carolina.

The financial sector ranked among the leading sectors with notable announced deals such as Sumitomo Mitsui Banking Corp's buying 15% of Vietnam Prosperity Commercial Bank in March

2023, for USD 1.5 billion. Additionally, in December 2022, HDBank announced USD 500 million raised via convertible bonds and a plan to increase its foreign ownership limit from 18% to 20%.

Despite the turbulent global investment climate, Vietnam remains a favoured destination for investors due to its sturdy economic growth and skilled young workforce. Also, thanks to favourable macro factors and the government's support policies, such as tax incentives, and the acceleration of investment capital movement out of China has made Vietnam become one of the world's most appealing M&A markets.

The Vietnam M&A outlook for 2023 is bright. Industries such as renewable energy, consumer discretionary and real estate, are increasingly attractive to foreign investors. With a growing middle class, a young tech-savvy population and increasing disposable income; Information technology, consumer staples and healthcare are regarded as continually emerging sectors. Besides, the expected trend of Environmental, Social and Governance (ESG) criteria being deeply integrated into Vietnam's M&A market could hold a potential for inbound transactions.

From May 2022 – May 2023, the Private sector recorded

Announced and Closed

444 deals

Compared to 580 in last period



273

Deals closed



171

New deals announced



78

Deals targeted for more than 51% ownership

(Source: Capital IQ)

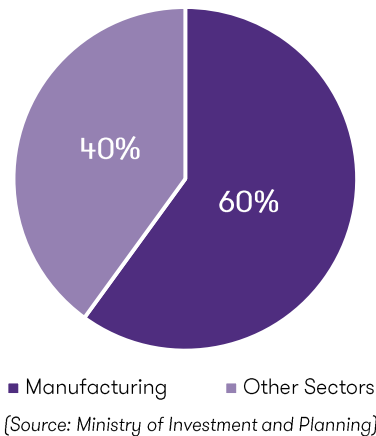


Key Sectors for Investment in Vietnam

Manufacturing

Manufacturing is one of Vietnam’s main drivers for economic growth. Among the four basic industrial sectors, manufacturing takes the lead, contributing the most to Vietnam’s GDP. In 2022, Vietnam's manufacturing sector continued to gain many achievements. According to General Statistics Office, the manufacturing sector’s added value grew by 8.1%, contributing 2.09 percentage points to the growth rate of the total added value of the whole economy. In addition, the Index of Industrial Production (IIP) of the whole industry increased by 7.8% in which manufacturing rose by 8% last year. In terms of FDI, the sector also attracted the most investment capital in 2022 with registered capital reaching nearly USD 17 billion, equivalent to 60% of the total number. Overall, the manufacturing sector performed well, which contributed significantly to Vietnam's economic achievements in 2022.

FDI in Vietnam by sector in 2022

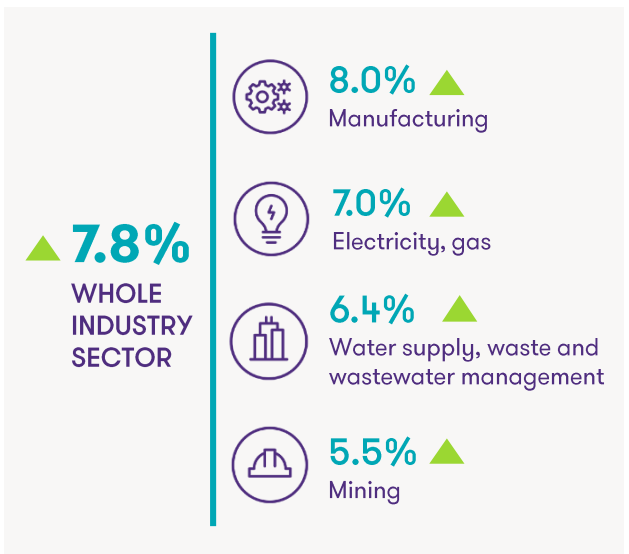


However, Vietnam’s manufacturing has been under significant stress as a result of the global economic downturn since the end of 2022. In the last quarter of 2022, the sector was hit by a shortage of international orders and a surge in input prices, leading to the downward trends of several indicators. The headwinds have continued until recent times as statistics for the first three months of 2023 show a declining trend. According to data released by the General Statistics Office, the added value of the manufacturing industry decreased by 0.37% over the same period last year, reducing 0.1% to the overall growth rate of the whole economy. The IIP of manufacturing also fell by 2.4%.

Although the general figure dropped, several industries, including beverage manufacturing and petroleum manufacturing, recorded a significant increase in IIP. In contrast, the index of some key industries of Vietnam, such as garment and footwear manufacturing, saw a negative growth rate.

Index of industrial production in 2022

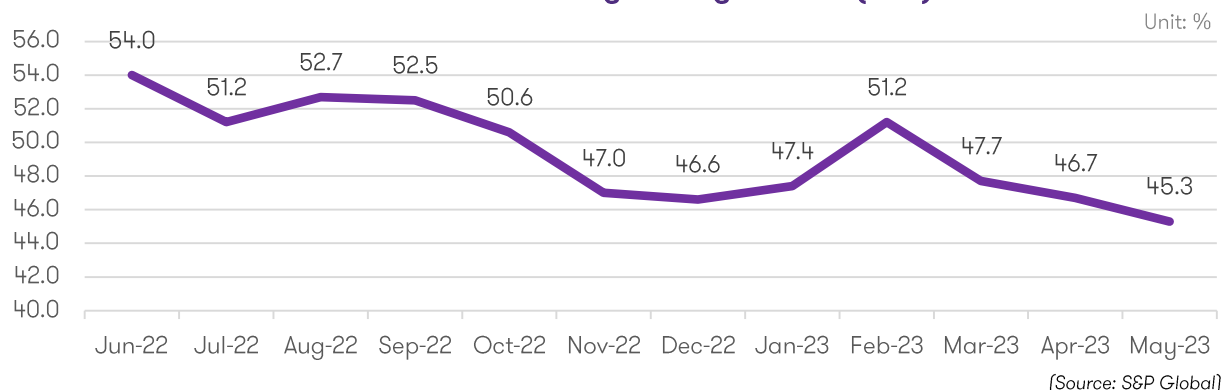
IIP growth rate over the same period last year



(Source: Ministry of Industry and Trade)

The Purchasing Managers' Index (PMI) also reveals the situation of Vietnam’s manufacturing in recent times. In the second and third quarters of 2022, PMI was always above the 50.0 no-change mark, suggesting that production activities were in a normal state with sufficient orders coming from major export markets of Vietnam. However, since the fourth quarter of 2022, PMI had declined to below the 50.0 no-change mark until February this year. As export orders declined and input prices rose, business confidence sank and firms scaled back production, employment, and purchasing activity. In February, PMI increased to above the no-change level, signalling an improvement in business conditions. However, the index fell again to 47.7 in March and since then has been on a downward trend, thus showing the weak health of the manufacturing sector of Vietnam ever since last year.

Vietnam's Purchasing Manager Index (PMI)



It is expected that challenges will remain for the manufacturing sector but the pressure will reduce and the situation will gradually turn for the better in the upcoming period. According to the Ministry of Industry and Trade, some good signals have been observed. In major export markets of Vietnam like the US and EU, inflation has cooled down. Domestically, the import of raw materials for the production of export orders recorded growth in May, showing that businesses are boosting production activities. Currently, the government is implementing various plans to support businesses, such as reducing taxes, lowering interest rates, providing support packages, and promoting trades with markets with better conditions, such as ASEAN.

Generally, the comprehensive picture of Vietnam's manufacturing is not as optimistic as before. However, it is worth noting that this period of hardships is an inevitable consequence of Vietnam's vastly open economy, which leads to the country being more vulnerable in the face of negative global economic movements. In this context, the Vietnamese government has properly assessed the situation and quickly issued directions to remove difficulties for enterprises in the manufacturing sector. With positive signals witnessed in both domestic and international markets, Vietnam's manufacturing industry can be expected to recover in the second half of 2023.

Index of Industrial Production (IIP) of some industrial products in 2022



▲ 32.3%

Beverage manufacturing



▲ 14.8%

Garment manufacturing



▲ 17.2%

Wood and wood products manufacturing



▲ 7.6%

Computers, electronic and optical products manufacturing



▼ 6.6%

Plastic and rubber products manufacturing



▼ 2.5%

Metal manufacturing

Source: General Statistics Office, Ministry of Industry and Trade

The general view is that the challenges are fairly short-term and not structural and the manufacturing sector will see improvements in the second half of 2023. Looking past the current challenges, Vietnam's manufacturing is heading towards becoming smarter and more visible in the global supply chain. Vietnam is well on its way to embracing important trends that have the ability to transform the industry.

Digitalisation and Technology adoption

Vietnam has been committed to digital transformation and technology application in industrial processes. Currently, more and more organisations and businesses in Vietnam are providing digital transformation and technology adoption support for firms in all fields, including the manufacturing sector. Recently, the Ministry of Planning and Investment has started a program to support businesses in digital transformation, helping manufacturing firms in various areas, namely steel, paint, electrical equipment, and furniture, build and deploy the application of digitalisation and smart production. Currently, the Ministry of Industry and Trade in cooperation with Samsung Vietnam is also implementing a project to support smart factory improvement for many manufacturing enterprises across the country.

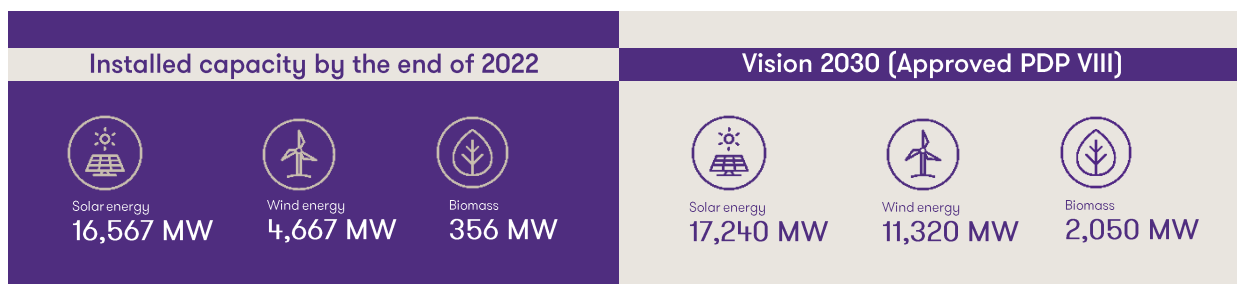
Labour skills improvement

Vietnam is aiming to shift from a low-cost to a skill-based manufacturing powerhouse. There has been a combination of education and training efforts between Vietnamese vocational education institutions and manufacturing firms, which has raised the prospect of the quality of Vietnamese human resources in recent years. The increased application of technology and digitalisation has also given Vietnamese workers more experience, knowledge, and skills, bringing their capabilities and productivity to higher standards. According to the General Statistics Office, from 2011 to 2020, Vietnam's manufacturing sector's labour productivity growth rate tends to increase steadily compared to other sectors, proving that Vietnam is well on its way to improving labour quality with a focus on manufacturing.

Environmental and Social responsibility

Vietnamese manufacturing is shifting from 'brown' to 'green'. Various manufacturers revealed that many of Vietnam's export markets are increasingly demanding and require compliance with green production standards. Moreover, domestic consumers have been reported to pay more attention to green consumption and monitor firms' manufacturing processes. As a result, firms now pay more attention to sourcing clean, nontoxic and reusable materials, investing in advanced manufacturing technology, actively engaging in the utilization of clean energy, and devising measures for saving energy and water and for waste disposal. Aside from positive trends toward green production, there are notable changes with regard to social issues. Manufacturing firms are increasingly committed to providing a decent work environment, with labour safety becoming one of the issues of high concern.

Renewable Energy and Cleantech



Vietnam's electricity system witnessed a growth in installed capacity to 79,351 MW by the end of 2022, which marks an increase of 2,731 MW compared to the previous year. Notably, renewable energy constitutes the third largest power source in Vietnam at 25,312MW, accounting for 27.21%, trailing behind thermal power at 34,797 MW (43.85%) and hydropower at 22,345 MW (28.16%).

The installed capacity of solar energy and wind energy, within the renewable energy segment, amounted to 21,234 MW, equivalent to 26.76% of the total installed capacity – representing a modest increase of 564 MW compared to the previous year. The moderate growth can be attributed to a combination of factors, including the expiration of the FIT pricing mechanism for wind power projects on October 31 2021, and restrictions on licenses for solar power projects due to potential oversupply capacity compared to the planned capacity.

Renewable energy – new transitional pricing

New pricing scheme for transitional renewable energy project. On January 7, 2023, the Ministry of Industry and Trade issued Decision 21/QĐ-BCT that established a new pricing framework for transitional wind and solar power projects. Under this framework, Vietnam Electricity (EVN) and the transitional solar and wind power projects specified in Circular No.15/2022/TT-BCT would negotiate the electricity prices based on the ceiling price issued by the Ministry of Industry and Trade, which is about 15 – 30% lower than the previous FIT for projects completed by November 2021 (wind energy) and January 2021 (solar energy) as shown below:

Transitional price set for solar and wind energy projects

Type	Original FiT (VNĐ/kWh)	Ceiling price (VNĐ/kWh)	% change
Ground-mounted solar farm	1,644	1,184.90	-28%
Floating solar farm	1,783	1,508.27	-15%
Onshore wind farm	1,928	1,587.12	-18%
Offshore wind farm	2,223	1,815.95	-18%

Source: Ministry of Industry and Trade

The new pricing scheme is not positive news for investors in transitional renewable energy projects which failed to meet the Commercial Operating Date (COD) due to the current high-interest rate environment and limited access to foreign capital. As a result, it is likely that transitional renewable energy projects will operate at a thin margin or even at a loss in the foreseeable future, under the new price bracket issued in Decision 21/QĐ-BCT. A recent report by VNDirect Securities specifies that the new internal rate of return (IRR) for solar energy farms is only 5.1%, while for onshore and offshore wind power farms, it drops to 8% and 7.9% respectively, from 12% under FiT prices. This means that investors of transitional renewable energy projects will need to reduce loan interest, and operating and investment costs to optimize profitability, otherwise, they may face bankruptcy.



DPPA mechanism and current status

Delay in Implementation of the pilot DPPA scheme due to regulatory changes. After a period of public consultation, the Ministry of Industry and Trade uploaded the Second Draft Prime Minister's Decision on the Direct Power Purchase Agreement (DPPA) mechanism between renewable energy generators and large electricity consumers on May 9, 2022, in which the pilot DPPA schemes were expected to be implemented in 2023 initially with the official program to be implemented in 2025. However, the issuance of Decree No. 39/2022/ND-CP on June 18, 2022 has caused a delay in the pilot program's implementation. This is due to the fact that the DPPA scheme will now fall under the authority of the National Assembly instead of the Prime Minister. As a result, the pilot DPPA must be postponed until the Draft PM's Decision is replaced by a Draft National Assembly's Resolution to maintain its legality.

Despite regulatory changes, Vietnam is committed to implementing the synthetic DPPA model (financial DPPA model), which involves consumers purchasing electricity from power corporations at the current retail price and directly entering into a forward contract (known as Contract for Differences - CfD) with a generator, agreeing on the electricity price and output for future trading cycles.

Power Development Plan VIII (PDP8)

The PDP8 has finally been approved under Decision No.500/QĐ-TTg dated 15 May 2023. Below is key highlights of PDP8:

- Renewable energy is expected to be a major focus and will account for almost 50% of the energy mix by 2030.
- The renewable energy mix could further increase to 66.5% if the Vietnam Just Energy Transition Partnership pledges are fully implemented.
- Offshore wind capacity by 2030 has been slightly reduced to 6GW (compared to 7GW in previous drafts of PDP8) but will increase to 70GW by 2050, so the targets remain ambitious – positive news for the numerous players already established in Vietnam and readying themselves for the sector to launch.
- The grid network will be upgraded to link regional power systems and unlock the potential of large-scale renewable energy resources.
- The government plans to export the energy with a target of 5 – 10GW by 2030.
- The plan requires the funding of USD 134.7 billion for the construction of new power plants and grid infrastructure, part of which is expected to come from foreign investors.

The ratification of PDP8 has provided a formal framework for renewable energy projects. Nevertheless, the implementation of the plan is still subject to further implementation guidance, particularly the auction mechanism, the direct power purchase agreement mechanism, and the electricity competition market. In addition, it is necessary to optimize the investors' financing structure in response to the lower selling prices scenario in the near future.

Advanced technology and key trends in ERP* application

The impact of the Fourth Industrial Revolution and the rising competitive pressure in the global supply chain is encouraging the Vietnamese business community to quickly transform and enhance its competitiveness through upgrading technology and digital capacity. Currently, more and more Vietnamese businesses are interested in applying advanced technology solutions in both office and production activities.

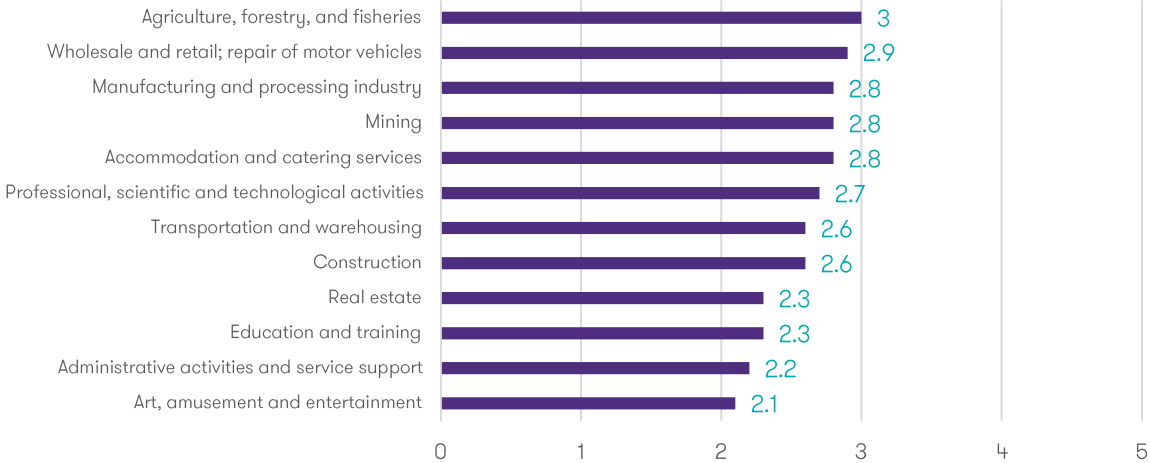
Large enterprises in Vietnam have been pioneering the process, especially firms within the service sector. For example, in the banking and financial sector, cutting-edge technology has been widely adopted and digitalisation has been considered a core strategy for business growth. Recent statistics show that 90% of bank records currently do not require the use of paper in business processes. By the end of 2022, it is estimated that the banking sector has invested more than VND 15,000 billion in digital transformation activities, making Vietnam one of the leading countries in digital banking applications. Aside from banking and financial services, other service sectors in Vietnam, such as retail and healthcare, have made remarkable strides in setting up a digital presence and applying advanced technology.

In a number of large firms in agriculture and animal husbandry as well as industrial

production in Vietnam, digital transformation is also showing positive signs worth expecting. Many manufacturers such as Nestle and Vinfast have modern, smart, and almost fully digitalised factories.

For big firms in Vietnam, participating in the technology adoption competition is almost a requirement in order to enhance competitiveness. Meanwhile, for small and medium enterprises (SMEs), digital transformation is in the development phase, with notable achievements recorded in recent years. According to a 2022 report surveying 1000 businesses, mostly SMEs, by the Ministry of Planning and Investment, 12 out of 16 economic sectors surveyed have an above-average level of digital transformation readiness of 2.5 points. This shows that most of the surveyed sectors are building digitization goals in strategic planning, along with setting up plans and management positions for specific digital transformation projects. It is also found that businesses overall have made progress in applying technology in financing and accounting, marketing, distribution, and omnichannel sales activities. In general, downstream activities in businesses' supply chains tend to be more focused to improve customer experience and customer service. Digital technology is also more commonly applied in a number of areas such as inventory management, production, and purchasing management.

Level of digital transformation readiness of SMEs by sector (2022)



(Source: Department of Business Development - Ministry of Investment and Planning)

*Enterprise Resource Planning (ERP)



Being a key part of rapid digital transformation, Enterprise Resource Planning (ERP) systems are playing a pivotal role in this evolution.

The adoption of ERP systems in Vietnam has witnessed significant growth in recent years, benefiting both FDI companies and SMEs. According to a report by Vietnam Software Association (VINASA), the ERP market in Vietnam is projected to grow at a compound annual growth rate (CAGR) of 15% from 2020 to 2025. This growth signifies the increasing recognition among companies in Vietnam, including FDI and local enterprises of various sizes, of the benefits of ERP implementation in driving operational efficiency and competitiveness.

In the ever-evolving landscape of technology, businesses are constantly seeking innovative solutions to streamline their operations and gain a competitive edge. Enterprise Resource Planning (ERP) systems have long been at the forefront of managing business processes efficiently. However, to stay ahead in today's digital age, integrating ERP with trending technologies has become imperative. The fusion of ERP with various cutting-edge technologies and some of the advantages it offers to businesses are as follows:

Artificial Intelligence (AI) and Machine Learning (ML) in ERP

AI and ML technologies revolutionize ERP systems by automating routine tasks and enhancing decision-making capabilities. For example, an AI-powered Chatbot integrated with ERP can handle customer inquiries, provide real-time support, and even assist with order processing. ML algorithms can analyse historical sales data to predict demand patterns, optimizing inventory management and procurement processes. These technologies empower businesses to streamline operations, improve customer experiences, and increase efficiency.

Internet of Things (IoT)

By integrating IoT devices with ERP systems, businesses can gather real-time data from interconnected devices and leverage it for better decision-making. For instance, in a manufacturing setting, IoT sensors embedded in machines can monitor equipment performance, identify maintenance needs, and trigger automatic work orders in the ERP system. This integration enables predictive maintenance, reduces downtime, and improves overall equipment effectiveness. Additionally, IoT data can be used for supply chain optimization, ensuring timely deliveries and reducing stockouts.

Robotic Process Automation (RPA) combines ERP

RPA automates repetitive and rule-based tasks, reducing manual efforts and errors. In the context of ERP, RPA can automate data entry, invoice processing, and report generation. For instance, an RPA bot can extract data from incoming invoices, validate it against ERP records, and update the system accordingly. This integration improves process efficiency, accelerates task completion, and enables employees to focus on higher-value activities, such as analysing financial data or engaging with customers.

Blockchain with ERP

Blockchain technology enhances data integrity, traceability, and transparency in ERP systems. For example, in the food industry, integrating blockchain with ERP allows for the secure tracking of products from farm to fork. Each step in the supply chain is recorded on the blockchain, ensuring transparency and eliminating fraud. Smart contracts integrated with ERP can automate payment settlements, reducing the need for intermediaries. This combination enhances trust among stakeholders, simplifies compliance, and strengthens supply chain management.

Cloud Computing and ERP

Cloud-based ERP systems offer scalability, flexibility, and cost-effectiveness. They eliminate the need for extensive hardware infrastructure and maintenance while providing seamless accessibility. For example, a sales team can access real-time customer and order information from anywhere using a cloud-based ERP system, facilitating remote work and enabling collaboration across multiple locations. Cloud ERP also ensures automatic software updates, enhanced security measures, and data backup, relieving businesses of IT maintenance burdens.

By embracing these technologies and investing in ERP, SMEs can level the playing field with larger enterprises. They can enhance operational efficiency, improve decision-making capabilities, and respond quickly to market demands. Moreover, integrating these technologies with ERP enables SMEs to stay agile, adapt to changing market trends, and unlock new growth opportunities.

While the initial investment may seem daunting, the long-term benefits far outweigh the costs. SMEs that leverage these technologies and invest in ERP gain a competitive edge, increase productivity, reduce costs, and enhance customer satisfaction.

Establishing in Vietnam



The current Law on Enterprises (LoE) was passed by Vietnam's National Assembly on 17 June 2020 and took effect on 1 January 2021. The laws provide for four types of legal forms of incorporation for business entities, comprising:

- Limited liability company (LLC)
- Joint-stock company (JSC)
- Sole proprietorship
- Partnership
- Branch
- Representative Office
- Business Co-operation Contract

The law on Public Private Partnership came into effect on 1 January 2021. Forms of investment under PPP contracts will be made on the basis of a contract between a regulatory agency and an investor.

The National Assembly adopted the Law on Investment 2020 on June 17, 2020, which seems to be structurally more permissive of foreign investment. However, it also introduces a "negative list", which means that foreign entities are allowed to invest in any business in any business, in Vietnam, except in those sectors explicitly set out in the List of Restricted Sectors. Investment in certain sectors may be subject to certain conditions. Conditional investment rules apply to foreign investors, with additional potential restrictions including:

- (i) Percentage ownership limits;
- (ii) Restrictions on the form of investment;
- (iii) Restrictions on the scope of business and investment activities;
- (iv) Financial capacity of the investors and partners and;
- (v) Other conditions under international treaties and Vietnamese law

Foreign investors who wish to establish an entity in Vietnam for the purpose of conducting their business in the country must have an investment project. An investment project is a collection of proposals declaring how the firm plans to spend its medium and long-term capital for investment activities in a specific area and for a specified duration of time. Documents must also be supplied and attested to the legal status of the investor. In addition, a report on the financial capacity, and a proposal for investment

preferential treatment (if any) 9if any) must also be provided. An Investment Registration Certificate ("IRC") will be issued within 15 days from the receipt of a complete dossier of documents for a common investment project. Upon the issuance of the IRC, the investor must apply for the Business Registration Certificate ("BRC") which will be issued within 03 working days from the receipt of a complete dossier, to complete the incorporation process and put the investment project into implementation. These processes may take longer if the authorities require extra documentation. In some cases, an IRC may not be granted, as it is at the discretion of the authorities.

Capital requirement

Typically, there are no maximum or minimum capital requirements for a company. However, in some sectors, a company must be able to meet certain capital threshold requirements before it is permitted to start business, e.g. a minimum capital requirement of VND3,000 billion (equivalent to USD129 million) is required for a commercial bank.

Company Charter

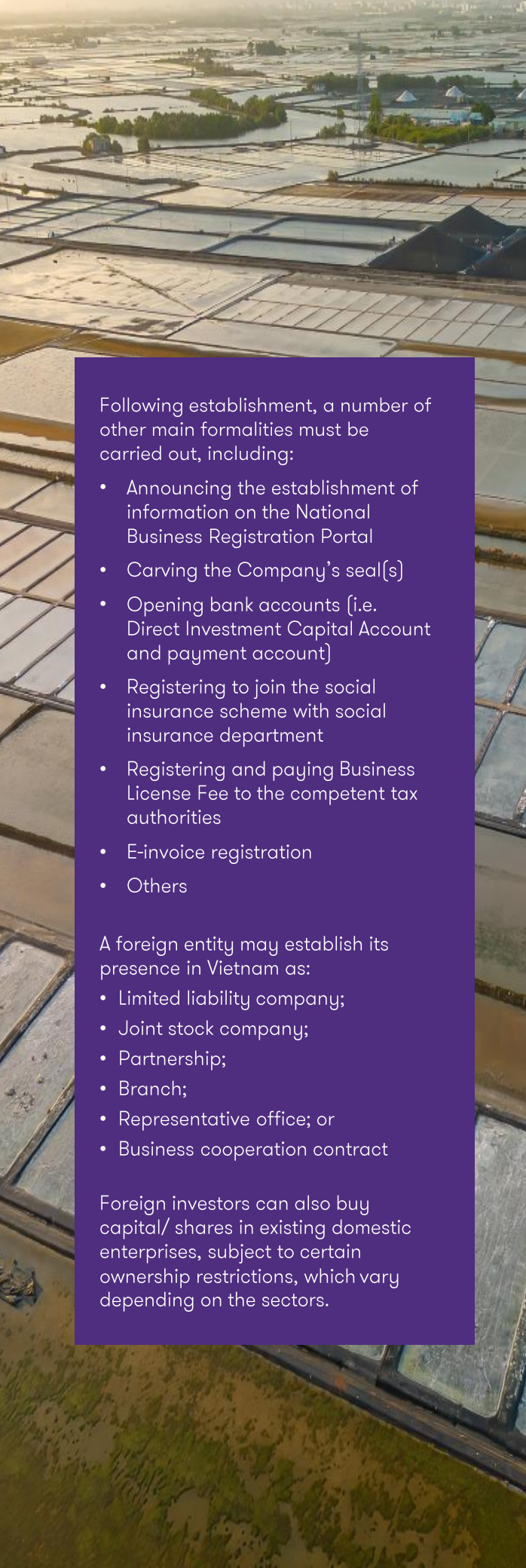
The Company Charter is one of the documents that governs the incorporation and operation of the company. The Company Charter determines the competence, duties and obligations conferred on the board of directors and its shareholders/owners.

Filing requirements

Every company established in Vietnam must comply with the Vietnamese Accounting Standards and System of Accounts regulated by the Ministry of Finance.

Companies are obliged to submit financial statements within 30 days for sole proprietorships and partnerships and within 90 days for other types of enterprises from the fiscal year end.

Audited financial statements by third parties are mandatory for foreign invested companies, public companies, securities firms, credit institutions, financial institutions, insurance enterprises/brokers, state-owned companies (except for the state-owned enterprises operating in the field of state secrets as prescribed by law), companies implementing national important projects, companies and organisations with state contributed capital and the projects funded by other State capital prescribed by the Government.



Following establishment, a number of other main formalities must be carried out, including:

- Announcing the establishment of information on the National Business Registration Portal
- Carving the Company's seal(s)
- Opening bank accounts [i.e. Direct Investment Capital Account and payment account]
- Registering to join the social insurance scheme with social insurance department
- Registering and paying Business License Fee to the competent tax authorities
- E-invoice registration
- Others

A foreign entity may establish its presence in Vietnam as:

- Limited liability company;
- Joint stock company;
- Partnership;
- Branch;
- Representative office; or
- Business cooperation contract

Foreign investors can also buy capital/ shares in existing domestic enterprises, subject to certain ownership restrictions, which vary depending on the sectors.

Limited Liability Companies

There are two types of limited liability company: (i) One Member Limited Liability companies, and (ii) Limited Liability companies with two or more members. Neither form can be listed.

Limited liability companies are not entitled to issue shares and the total members in a limited liability company cannot exceed 50. A limited liability company can have more than 01 legal representative.

A limited liability company cannot issue shares. In addition to cash, capital contributions can be made in the form of gold, the value of land use rights, intellectual property rights, technology, technical know-how and other assets.

Limited liability companies can reduce their charter capital in certain circumstances in accordance with the laws.

Joint-Stock Companies

A joint stock company ("JSC") is a company whose charter capital is divided into shares, held by three or more organisations or individuals. A JSC can have more than 01 legal representative. JSC is a recognised legal entity and the only company type under Vietnamese law that can issue shares. Its shareholders are responsible for its debts and liabilities up to the amount of their contributed capital. A JSC can issue securities and be listed on the Securities Exchange. A JSC may either be 100 per cent foreign owned or domestically owned, or may take the form of a joint venture between foreign and domestic investors.

A JSC is established by its founding shareholders based upon their subscription to shares in the company. It is required to have at least 03 shareholders, with no maximum stipulated by law.

The founding shareholders of a JSC must subscribe for at least 20% of the total shares that the JSC is authorised to offer for sale. Shareholders can be Vietnamese or foreign nationals. A JSC must issue ordinary shares and may issue preference shares and/or issue bonds. Types of preference shares include:

Voting preference shares: only held by government authorised organisations and founding shareholders

- Dividend preference shares
- Redeemable preference shares
- Other types of preference share are subject to the company's charter.

Shareholders are permitted to convert preference shares into ordinary shares, but not permitted to convert ordinary shares into preference shares. The company's shares are allowed to be freely transferred among shareholders, except for voting preference shares.

Business Cooperation Contract (“BCC”)

A business cooperation contract is a contractual relationship signed between multiple parties, generally a foreign investor and a local company. This does not form a legal entity but permits the partners to engage in business activities on the basis of mutual allocation of responsibilities and the sharing of profits and losses. This form of business has traditionally been used in industries where LLCs and JSCs are restricted. This form of business is a means of private financing without transferring management control to a foreign partner.

Public and Private Partnership Contract (“PPP”)

Public and Private Partnerships (“PPP”) contract is a contractual arrangement entered into by the government with the private sector for infrastructure projects and public services. A PPP is typically used for transportation, electricity production, water supply, drainage and waste treatment projects. It includes Build-Operate-Transfer (BOT), Build-Transfer (BT) and Build-Transfer-Operate (BTO) Contracts. The difference between these contracts is the point in time that the project is transferred to the government. According to the law on PPP, it is focused on five essential areas: 1. Transportation 2. Power grid, power plant (except hydroelectric plants and some other cases) 3. Irrigation, clean water supply, drainage, wastewater treatment, waste treatment 4. Health care, education and training 5. IT infrastructure

Partnership

Partnerships can be established in Vietnam provided there are at least two individuals who are members of the partnership and co-owners of the business. These individuals will be general partners and have unlimited liability for all obligations of the partnership. The partnership may also have limited liability partners, who can be individuals or organisations, who only contribute a part of the capital and have limited liability and rights up to the value of their contribution.

Typically, partnerships are not widely used for foreign investment in Vietnam.

Representative Office

In accordance with Commercial Law, foreign investors can set up a resident Representative Office (“RO”) in Vietnam. The following regulations are in place regarding the RO:

- Foreign businesses shall not be allowed to establish more than 01 RO that has the same name within a province or a centrally-affiliated city.
- The foreign parent company must have been in operation for at least 01 year to be allowed to establish an RO in Vietnam, and its incorporation certificate (or equivalent documents) must be valid for at least 1 year from the date of submission of the application;
- Licenses for an RO will be valid for 05 years but may be extended or re-issued upon expiration;
- RO is not allowed to conduct revenue-generating activities (e.g. concluding contracts, selling goods/services). The RO is only permitted to act as a liaison office, conduct market research and promote the parent company’s business and investment opportunities;
- RO is required to submit an annual report on activities to the local Department of Industry and Trade.

Branch

Branch is not a common form of foreign direct investment and is only applicable in certain sectors (e.g. banks or law firms). A branch is not an independent legal entity.

- Foreign businesses shall not be allowed to establish more than 01 branch that has the same name within a province or a centrally-affiliated city.
- Foreign businesses shall only be entitled to set up a branch in Vietnam with the condition that the business has been in operation for at least 05 years.
- Branch of a foreign company is permitted to conduct commercial activities in Vietnam whereas the RO is not permitted.
- Branches are required to report annually to the Ministry of Industry and Trade, on the operational and financial position of the business.



Accounting and Audit

Accounting system

Foreign-invested business entities are generally required to adopt the Vietnamese Accounting System (“VAS”). VAS is mainly governed by the following Circulars:

Circular 200

Circular No 200/2014/TT-BTC dated 22 December 2014 (“Circular 200”) for all types of enterprises in Vietnam

Circular 133

Circular No 133/2016/TT-BTC (“Circular 133”) for Small and Medium-sized Enterprises

Circular 132

Circular No 132/2018/TT-BTC (“Circular 132”) which provides guidance on VAS for microenterprises

Circular 210

All securities companies in Vietnam are required to adopt the Circular No 210/2014/TT-BTC (“Circular 210”)

Circular 200

Circular 200 replaces Decision 15/2006/QĐ-BTC, provides guidance for Vietnamese Accounting Systems (“VAS”) - the application of adoption of accounting standards to all types of enterprises in Vietnam.

Circular 133

Circular 133 provides guidance on VAS for Small and Medium-sized Enterprises (“SMEs”) and replaces the contents applied to SMEs in both the Decision No 48/2006/QĐ-BTC dated 14 September 2006 and the Circular No 138/2011/TT-BTC dated 4 October 2011. SMEs are authorised to proactively design and construct their accounting systems in line with SMEs’ respective industries, management and decision-making purposes. SMEs can decide to apply the accounting system under the Circular 200 and relevant amendments, supplements or replacements of regulations, but are required to notify the Tax Authorities as well as to consistently apply this accounting system during the fiscal year.

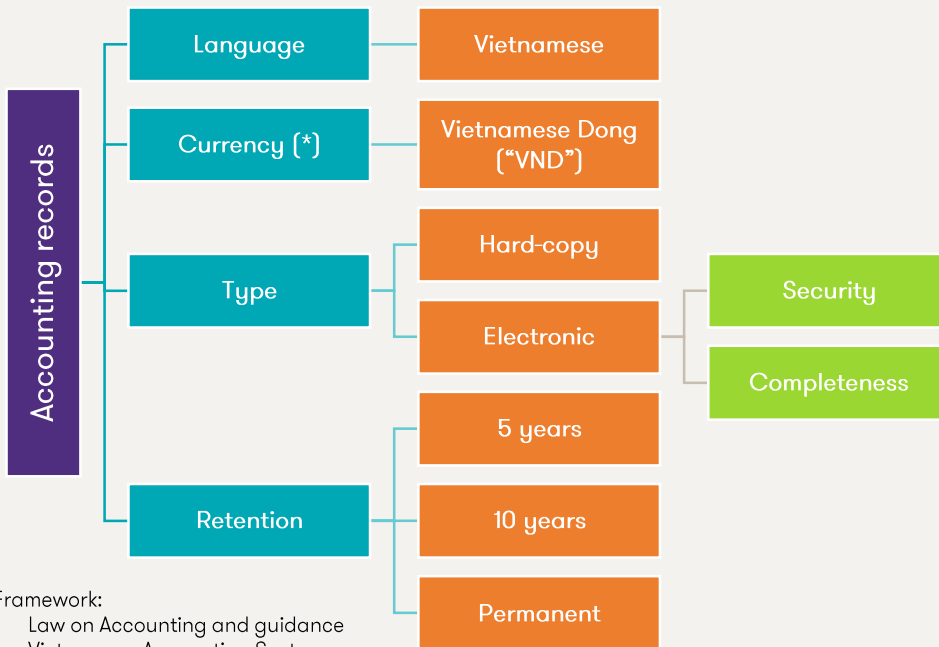
Circular 132

Circular No 132 provides guidance on VAS for microenterprises. The Circular 132 took effect for fiscal years commencing on or after 1 April 2019. Accordingly, a microenterprise shall not be required to appoint a chief accountant, if available, it is entitled to engage in chief accountant services. In addition, a microenterprise that pays corporate income tax (“CIT”) based on the CIT-to-sales ratio (%) is not bound to prepare and submit a financial statement to the tax authority. A microenterprise, at their discretion, may choose to apply either the Circular 132 or the Circular 133 on accounting regulations for SME’s.

Circular 210

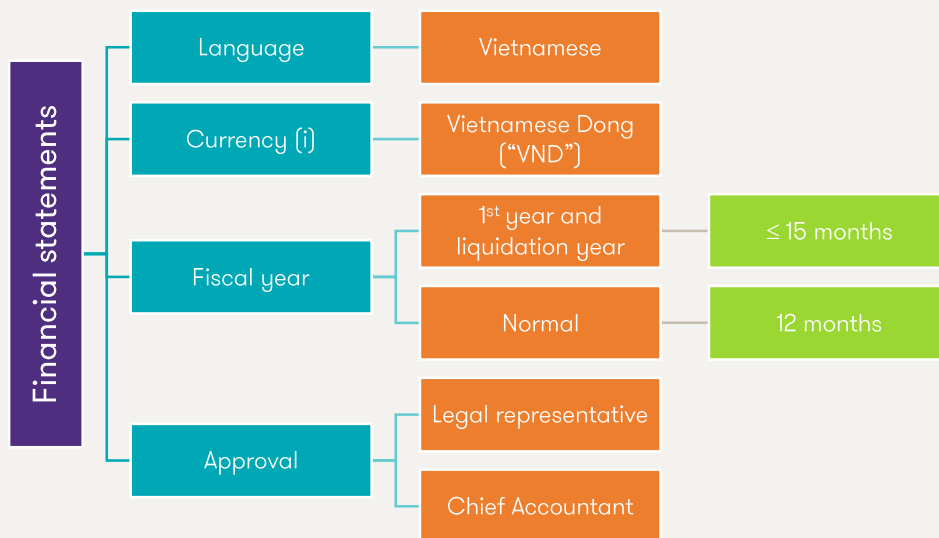
Circular 210 provides guidance on accounting systems applicable to securities companies. Circular 210 provides a number of amendments related to the chart of accounts, accounting methods, forms of accounting books, methods of preparation, and presentation of financial statements applicable to securities companies, which have been established and are operating under the provisions of the Vietnamese Securities Law. Circular 210 is applied to securities companies’ from financial year starting from 1 January 2016 onwards.

Accounting records



(*) Foreign-invested entities are allowed to select and use another currency in recording transactions and maintaining their accounting records, provided that they can clearly demonstrate that the receipts and disbursements are mainly denominated in such other currency. However, for statutory reporting, entities using another currency as a functional currency must convert their financial statements prepared under such other currencies into VND under certain prescribed regulations.

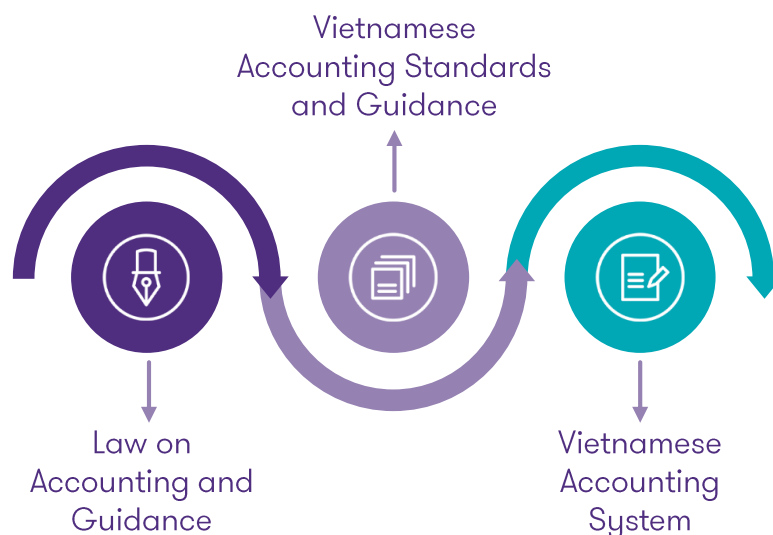
Financial statements



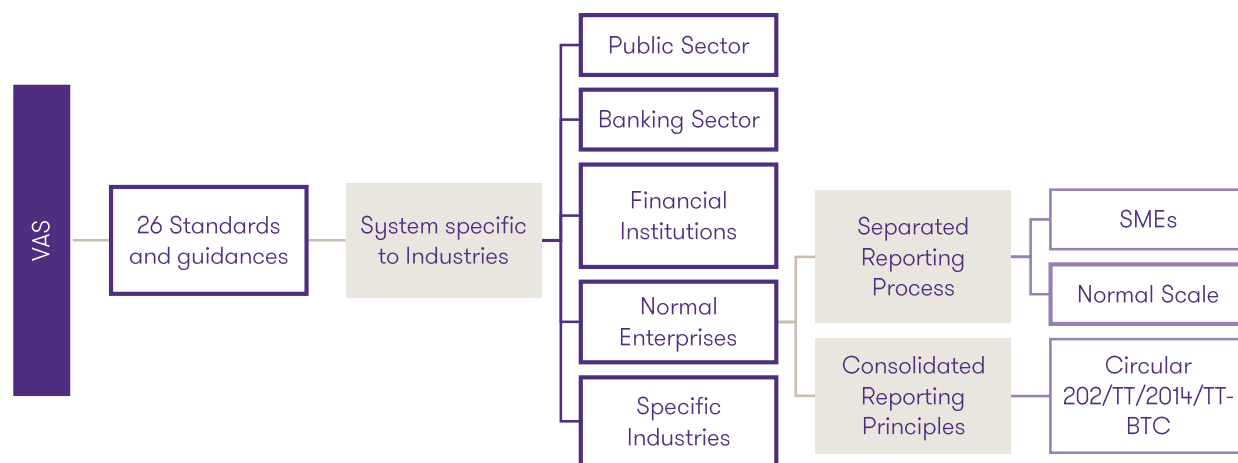
(i) If an enterprise selects a foreign currency to be used as functional currency in recognising transactions, maintaining accounting records and preparing financial statements, its financial statements are required to be translated into VND for statutory reporting purposes.

(ii) VAS specified some requirements for financial statements of change in the fiscal year.

Accounting regulations



Vietnamese Accounting Standards and System (“VAS”)

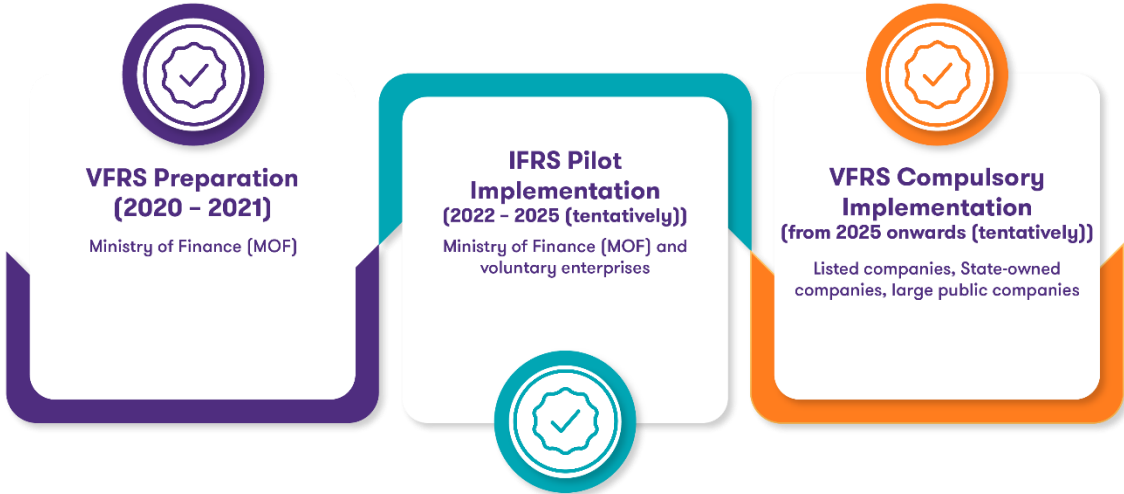


Main characteristics of VAS:

- The Vietnamese Accounting Standards for normal enterprises were issued from 2000 to 2005. They have been adopted from and primarily based on the International Accounting Standards (“IAS”) and International Financial Reporting Standards as promulgated by the International Accounting Standards Board (“IASB”) prevailing at the time of issuance.
- Key differences between IFRS and VAS include terminology, applied valuation methods and disclosure requirements due to the continuing changes and amendments to IFRS.
- Accountants usually refer to the detailed guidance of Vietnamese Accounting System instead of Vietnamese Accounting Standards which clearly guides standardised financial statements, accounting treatments, accounts mapping, accounting ledgers/vouchers, etc.

Vietnamese Financial Reporting Standards (“IFRS”) process

On 16 March 2020, the Ministry of Finance issued Decision No. 345/QĐ-BTC which approved the proposal to apply Financial Reporting Standards in Vietnam with the following key tentative timeline:





Vietnam to be adopted IFRS

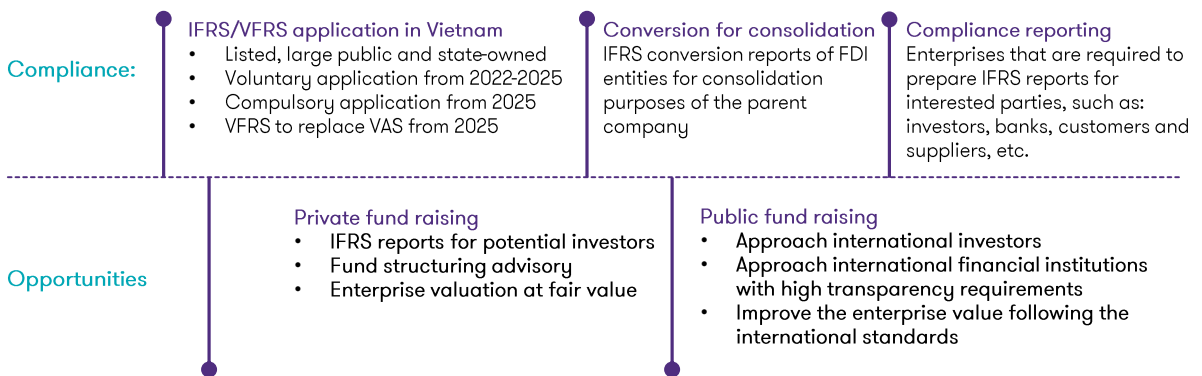
VFRS is Vietnamese Financial Reporting Standards, which has been developed based on the requirements of IFRS and tentatively to replace the current VAS from 2025. However the official commencement date of this adoption is subject to the Decision to be issued by Ministry of Finance in future. The implementation is divided in 2 phases:

- Phase I – Voluntary application period from 2022 to 2025: Entities with demand and sufficient resources would apply IFRS in preparation of consolidated financial statements such as: parent company of large scale state-owned group, listed or non-listed parent company, and large public parent company. Foreign Direct Investment entities would also apply IFRS in preparation of their statutory (separate) financial statements if they have demands and sufficient resources
- Phase II - Compulsory application (after 2025): Based on the implementation results of Phase I, the Ministry of Finance will evaluate and decide whether to apply IFRS compulsorily.

From 2025 onwards, the adoption of VFRS will be required for all entities, except for those already adopting IFRS or VAS for microenterprises (as per Circular 132/2018/TT-BTC). There will be specific guidance(s) from the MOF on the accounting practice for micro-enterprises that have neither the need nor sufficient resources to adopt IFRS and VFRS.

The (voluntary) implementation of IFRS has several benefits for entities, as IFRS is one of the most popular accounting systems in the world (applied in over 140 countries and jurisdictions) which is encouraged to be applied by financial management authorities in developed countries. The application of IFRS is expected to strengthen the transparency and comparativeness of financial information among countries. Furthermore, IFRS also aims to support enterprises, customers, and suppliers to approach capital market more effectively, efficiently and economically.

By applying IFRS for reporting, enterprises in Vietnam might have the following benefits:



Key audit requirements

Compulsory annual audit

Public interest entities: are required to submit “reviewed” semi-annual financial statements and “audited” annual financial statements. There are 35 audit firms in the list of firms who are approved and authorised by the MOF in 2023.

-  Listed companies
-  State-owned enterprises
-  Banks
-  Securities companies
-  Financial institutions
-  Insurance firms

Foreign direct investment enterprises are subject to the statutory audit of the annual financial statements. There are 214 audit firms in the list of firms that were approved and authorised by the MOF in 2023.

Any other entities involved in special circumstances such as mergers and acquisitions, changes in ownership, dissolution, and bankruptcy must be audited.

Audit contract deadline

Audit contracts should be signed with the independent auditors no later than 30 days before the end of the entity’s financial year in accordance with the Decree 105/2004/ND-CP dated 30 March 2004 and the Law on Independent Auditing with effect from 1 January 2012.



Audit report and rotation

Certain entities such as banks, non-banking credit institutions, and branches of foreign banks have to rotate or replace their audit firm with another audit firm after five consecutive years. There is no similar requirement for rotation of audit firms and auditors for other business entities.

For public interest entities (“PIE”), the involvement of all senior personnel (engagement partner, engagement quality control reviewer or other audit partner) shall not be more than four (4) consecutive years.

An Audit opinion is required to sign off by two CPA holders including 1 legal representative of the audit firm and 1 auditor.

Sign-off CPA holders are required to rotate after 3 consecutive years with 1 cooling year.

Internal audit

Compulsory internal audit is required for some specific cases such as listed companies, State-owned companies, securities companies, etc.

Audit report deadline

Audited annual financial statements must be completed and submitted/filed with the applicable licensing body: The Department of Finance in province and city under the jurisdiction of the central government where such enterprise’s head office is located, the local tax authority, and department of statistics by the last day of the third month after the end of the fiscal year. For enterprises located in an Export Processing Zone or Industrial Zone, financial statements will be filed with Export Processing Zone or Industrial Zone Management Board, as required.

Public interest entities are required to submit and publish their semi - annual reviewed financial statements and year-end audited financial statements within 45 days and 90 days, respectively, from the balance sheet date



Taxation





Most business activities and investments in Vietnam are likely to be subject to all or some of the following taxes:

- Corporate Income Tax (Annual filing);
- Value Added Tax (Monthly or quarterly filing);
- Personal income Tax (Monthly or quarterly filing and year end finalisation);
- Foreign Contractor Withholding Tax (Monthly filing or when incurred)

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

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



Corporate Income Tax



Value Added Tax



Personal income Tax

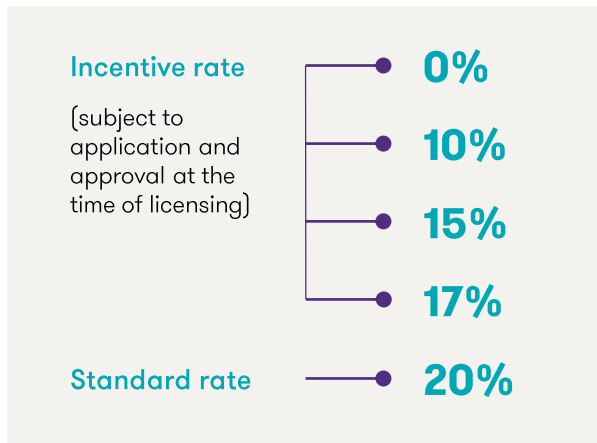


Foreign Contractor Withholding Tax



Others
(Special sales tax; Natural resources tax; Property taxes; Export duties; Environment protection tax)

Corporate Income Tax (“CIT”)



CIT rate

Currently, the CIT standard rate is 20%.

Certain industries are liable to a higher tax rate:

- Companies operating in the oil and gas industry are subject to rates ranging from 32% to 50%, depending on the location and specific project.
- Any companies engaging in prospecting, exploration and exploitation of mineral resources are subject to CIT rates of 40% or 50% depending on location.

CIT may be reduced under investment incentive schemes.

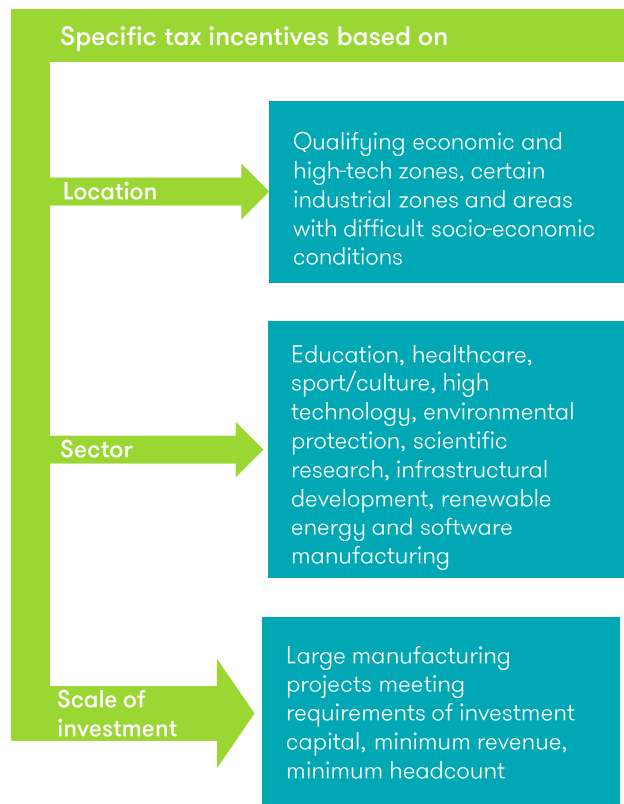
Tax incentives

Preferential CIT rates:

- 10% and 17% (effective from 01 Jan 2016) for 15 years and 10 years, respectively
- Certain socialised sectors (e.g. education, health) enjoy a 10% rate for the entire life of the project.

Tax holidays

- Complete exemption from CIT for a certain period generally beginning after the enterprise first makes profits
- Followed by a period where tax is charged at 50% of the applicable rate:
 - 4 years of tax exemption and 9 subsequent years of 50% reduction,
 - 4 years of tax exemption and 5 subsequent years of 50% reduction,
 - 2 years of tax exemption and 4 subsequent years of 50% reduction.





Deductible vs Non-deductible expenses

Deductible expenses

Expenses are deductible if they meet the following requirements:

- Relevant to business activities;
- Supported by sufficient legitimate documents (invoices, non-cash payment evidence for transactions from VND 20 million and above, etc.); and
- Not specifically identified as being non-deductible.

Non-deductible expenses

- Depreciation of fixed assets which is not in accordance with the prevailing regulations;
- Employee remuneration expenses which are not actually paid, or are not stated in a labour contract or collective labour agreement;
- Staff welfare (including certain benefits provided to family members of staff) exceeding an annual cap of one month's average salary;
- Reserves for research and development not in accordance with the prevailing regulations;
- Provisions for severance allowance and payments of severance allowance in excess of the prescribed amount per the Labour Code;
- Overhead expenses allocated to a PE, in Vietnam, by the foreign company's head office exceeding the amount under a prescribed revenue-based allocation formula;
- Interest on loans corresponding to the portion of charter capital not yet contributed;
- Interest on loans from non-economic and non-credit organisations exceeding 1.5 times the interest rate set by the State Bank of Vietnam
- Certain net interest expenses exceeding the cap of 30% of EBITDA;
- Provisions for stock devaluation, bad debts, financial investment losses, product warranties or construction work which are not in accordance with the prevailing regulations;
- Unrealised foreign exchange losses due to the year-end revaluation of foreign currency items other than accounts payable;
- Donations except certain donations for education, health care, natural disaster or building charitable homes;
- Administrative penalties, fines, late payment interest;
- Contributions to voluntary pension funds, life insurance premiums, the purchase of voluntary pension, and life insurance premiums for employees exceeding VND3 million per month per person (effective from 1 February 2018);
- Certain expenses directly related to the issuance, purchase or sale of shares;
- Creditable input value added tax, corporate income tax and personal income tax (in the case of gross income).

Taxable Income

Taxable income is defined as the difference between total revenue and deductible expenditures, plus other assessable income.

Business Units are required to prepare an annual CIT return which includes a section for making adjustments to accounting profit to arrive at taxable profit.

Losses

Businesses that incur losses after tax finalization are entitled to carry forward those losses to be offset against the assessable income of future years for a maximum of 05 consecutive years.

Losses on incentivised activities can be offset against profits from non-incentivised activities, and vice versa.

Losses from the transfer of real estate and the transfer of investment projects can be offset against profits from other business activities.

Taxpayers are not allowed to carry backward losses.

Administration

CIT filing is on an annual basis.

The provisional tax payment is on a quarterly basis, based on estimates, and on an annual basis based on the finalization.

The quarterly CIT shall be paid no later than the last day of the 1st month of the following quarter. The timeline for both filing the annual CIT finalization returns and paying taxes is no later than the last day of the 3rd month from the end of the fiscal year.

Pursuant to Decree 91/2020/ND-CP taking effect from 30 October 2022, the total amount of provisional CIT payment for 04 quarters must not be less than 80% of total annual CIT payable upon year-end CIT finalization (i.e. 80% rule). Otherwise, the shortfall is subject to interest for late tax payment at the rate of 0.03% per day would be applied on the outstanding amount counting from the following day after the deadline of the 4th Quarter tax payment (i.e. by 30 January of the following fiscal year).

For fiscal year 2021, if the tax payers have the provisional CIT payment for the first 03 quarters as of 30 October 2022 which is less than 75% of the annual tax payable, the above 80% rule will be applied. Otherwise, if the provisional CIT payment for the first 03 quarters as of 30 October 2022 is equal or more than 75% of the annual tax payable, the above 80% rule would not be applied. In this case, the shortfall is subject to interest for late tax payment (i.e. 0.03% per day on the shortage amount) counting from the following day after the deadline of the 3rd Quarter tax payment (i.e. 30 October).



The standard tax year is the calendar year. For enterprises that apply a fiscal year different from the calendar year, the tax period shall be determined according to the applied fiscal year. An enterprise may change the tax year period but the period chosen cannot exceed 12 months and it is required to notify the tax authorities prior to implementation.

Firms must pay tax in the province where their head office is located. If an enterprise has a “dependent accounting production establishment” in another province or city, then the amount of CIT assessable and payable will be determined in accordance with a ratio of expenses incurred by each manufacturing establishment over the total expenditure of the company.

Dividend Income

Dividends paid to corporate shareholders are generally exempted from CIT, if the paying firm has fulfilled its CIT obligations before payment.

Thin capitalisation rules

At present, there are no thin capitalisation rules. However, certain restrictions to this effect can be found in the regulations on foreign loans and corporate income tax (permitted borrowing capacity and excessive interest rates).

Profit Repatriation

In Vietnam, Foreign investors are allowed to repatriate their profits either on an annual basis or on termination of the investment, provided that they have profits based on the audited financial statements, and have fulfilled its tax obligations in Vietnam.

Foreign investors or their investee companies upon the foreign investors’ authorisation are required to notify the local tax authorities of the plan to repatriate profits at least 07 working days prior to the scheduled repatriation.

Summary of Incentives Tax Tariff

CIT rate	Description	Applicable period	CIT Exemption	CIT Reduction
10%	(1) Income from new investment projects in the areas of with specially difficult socio-economic conditions, economic zones, and high tech zones	Up to 15 years	4 years	9 years
	(2) Income from new investment projects in: <ul style="list-style-type: none"> Scientific research and technology development; investment in the development of specially crucial infrastructure works as prescribed and software production Manufacturing composite materials, light construction materials, precious and rare materials; manufacturing reproduction energy, clean energy, energy from destroying waste; developing bio-technology Environmental protection 	For the newly invested projects in items (2), the applicable period might be extended for an additional 15 years maximum, subject to the Government's decision		
	(3) Income of high tech enterprises, agricultural enterprises applying high technology	15 years	4 years	9 years
	(4) Income from newly-established investment projects in the sector of production (except for project producing goods subject to special sales tax, mineral exploitation projects) have investment capital scale at the minimum of VND6 trillion and being disbursed in under 3 years from the date of investment certificate, and <ul style="list-style-type: none"> Having total minimum revenue of VND10 trillion/year no later than 3 years from the first year of generating revenue; or Employing more than 3,000 fulltime employees no later than 3 years from the first year of generating revenue 			
10%	Income of enterprises from social activities in the sectors of education and training, vocational training, culture, medical health, sports, the environment, and judicial assessment	Entire project life	4 years	5 years or 9 years applying for the areas with specially difficult/difficult socio-economic conditions
15%	Incomes of enterprises from farming, husbandry, processing of agriculture and aquaculture products in areas with normal socio-economic conditions	Entire project life		
20%	Income from newly-invested projects based in areas with difficult socio-economic conditions Income from newly-invested projects in manufacture of high-quality steel; production of energy saving products; manufacture of machinery and equipment serving for agriculture, forestry, fish breeding, salt production; manufacture of irrigation equipment; production and refining of feed for cattle, poultry and aquatic resources; development of traditional trades and occupations	10 years (CIT rate of 17% from 01/01/2016)	2 years	4 years

Tax Incentives applicable for R&D and mega projects

On 06 October 2021, the Government issued Decision 29/2021/QĐ-TTg on special investment incentives for R&D and mega projects in special preferential sectors. The detailed incentives schemes could be summarised as below:

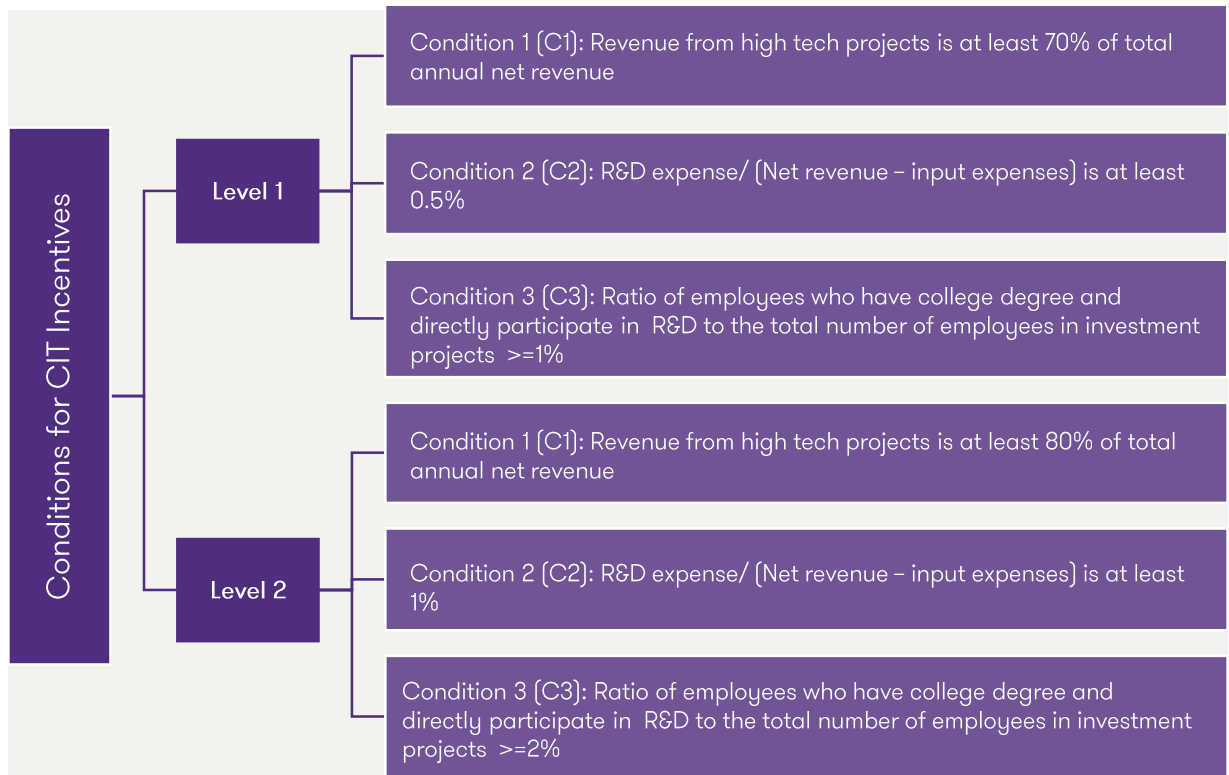
Applicable projects	Conditions on eligibility of special investment incentives
Group A	Newly-established innovation centre, research and development centre that meet the following conditions: <ol style="list-style-type: none"> i. A total investment capital of at least VND3 trillion ii. At least VND1 trillion of capital disbursed within three years from the issuance date of the Investment Registration Certificate or the approval of investment
Group B	Mega investment projects specializing in special preferential sectors that meet the following conditions: <ol style="list-style-type: none"> i. A total investment capital of at least VND30 trillion ii. At least VND10 trillion of capital disbursed within three years from the issuance date of the Investment Registration Certificate or the approval date of investment

Under the guidance of the Decision, the special incentives would be applicable to both new and expansion investment project. Below is the summary of CIT incentives scheme which is applied to eligible projects.

CIT rate	Conditions on eligibility of special investment incentives	Applicable period	CIT Exemption	CIT Reduction
9%	Applied to profits generating from Group B projects	30 years	5 years	10 years
7%	Applied to profits generating from the projects that fall into the following categories <ul style="list-style-type: none"> • Group A projects • Group B projects that meet one of the following criteria: <ol style="list-style-type: none"> i. Being assessed as a level 1 high tech project ii. Having Vietnamese enterprises engaging in the value chain at level 1 iii. Having added value (i.e. the total cost of products minus the expenses paid to overseas such as imported materials, machinery, royalty fees, etc) accounting for over 30% to 40% of the total cost of products iv. Satisfying the condition of technology transfer of level 1 	33 years	6 years	12 years
5%	Applied to profits generating from the projects that fall into the following categories <ul style="list-style-type: none"> • Innovation centres established under a Decision of the Prime Minister • Group B projects that meet one of the following criteria: <ol style="list-style-type: none"> i. Being assessed as a level 1 high tech project ii. Having Vietnamese enterprises engaging in the value chain at level 2 iii. Having added value accounting for over 40% of the total costs of products; or iv. Satisfying the condition of technology transfer of level 2 	37 years	6 years	13 years

Corporate Income Tax Incentives applicable for R&D and mega projects (Cont'd)

The level 1 or level 2 high tech projects are stipulated as follows:

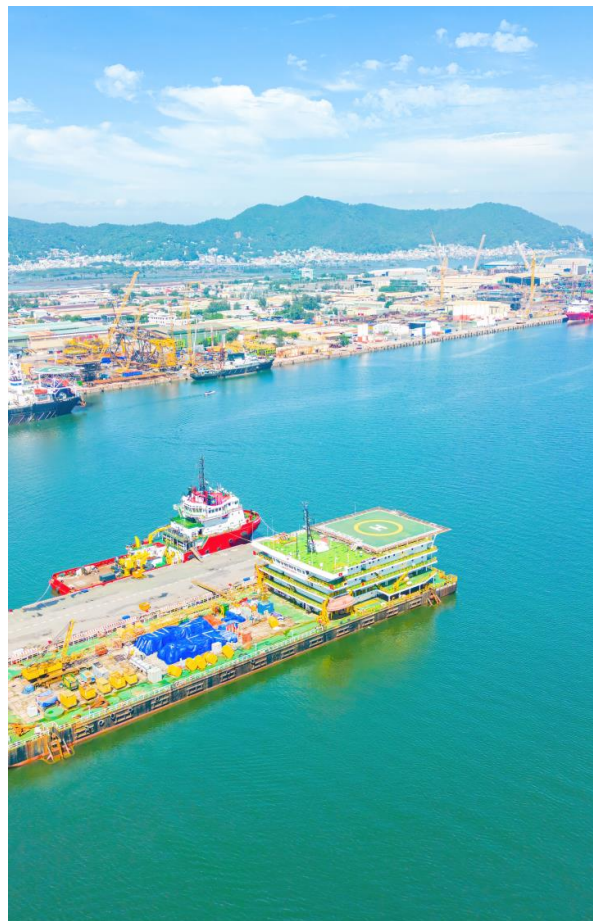


Corporate Income Tax Incentives applicable for Supporting Industry products

In addition, on 4 June 2021, the government already issued Decree No. 57/2021/ND-CP (“Decree 57”) to supplement Decree No. 218/2013/ND-CP on CIT incentives for projects manufacturing Supporting Industry products. Decree 57 came into force from 04 June 2021 and is applied retroactively.

Preferential policies related to the Supporting Industry have been issued and took effect from 1 January 2015. Preferential policies in this sector, in addition to CIT incentives at the highest level (tax exemption for 4 years, reduction of 50% of tax payable for the following 9 years and a preferential tax rate of 10% within 15 years). The enterprises are entitled to CIT incentives for the fiscal year when they are granted the incentive certification of projects for manufacturing of supporting products from the statutory authorities (i.e. Department/ Ministry of Industry and Trade).

For enterprises that have been or are enjoying CIT incentives under other conditions (besides the conditions on Supporting Industries), the “remaining incentive period” is determined by the CIT incentive period under the conditions of the projects manufacturing Supporting Industry products, minus the number of years where they have already enjoyed tax exemption, tax reduction or preferential tax rate under other incentive conditions.



Transfer Pricing (“TP”)

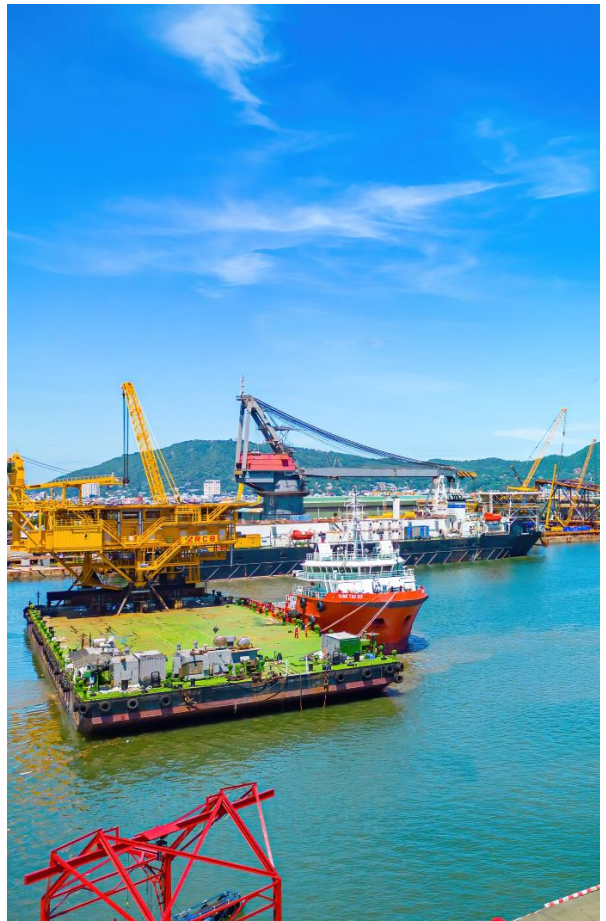
In terms of compliance documents, Vietnamese taxpayers who enter into related party/controlled transactions are subject to declaration by preparation of annual TP Disclosure Forms and TP Documentation reports with consistent information to be declared and filed in both materials.

- While TP Disclosure Forms are required to be prepared and submitted together with the annual Corporate Income Tax return, the TP Documentation reports could be stored at the taxpayer’s premise and submitted to the tax authority for examination and/or review purpose only upon request. Submission deadlines for TP Documentation reports have been mandated to be in line with Inspection Law in case of tax audit and 30 working days upon receiving request for review purposes.
- At the same time, the Vietnamese TP regulations also provide a threshold for TP filing simplification, in which small and medium taxpayers who do not breach the said threshold conditions will be exempted from the preparation of TP Documentation report for the respective tax years.
- Last but not least, Circular 45/2021/TT-BTC (Circular 45) has recently issued on 18 June 2021 in order to provide guidance toward the application of Advance Pricing Agreement (APA) mechanism. The Circular 45 has replaced Circular 201/2013/TT-BTC and shall take effective from 3 August 2021 onwards. Circular 45 has provided several clarifications regarding APA matters in terms of declaration, processing, and authorisation procedures as well as shortened the APA duration to 3 years from the maximal 5-year period mandated under the preceding regulations.

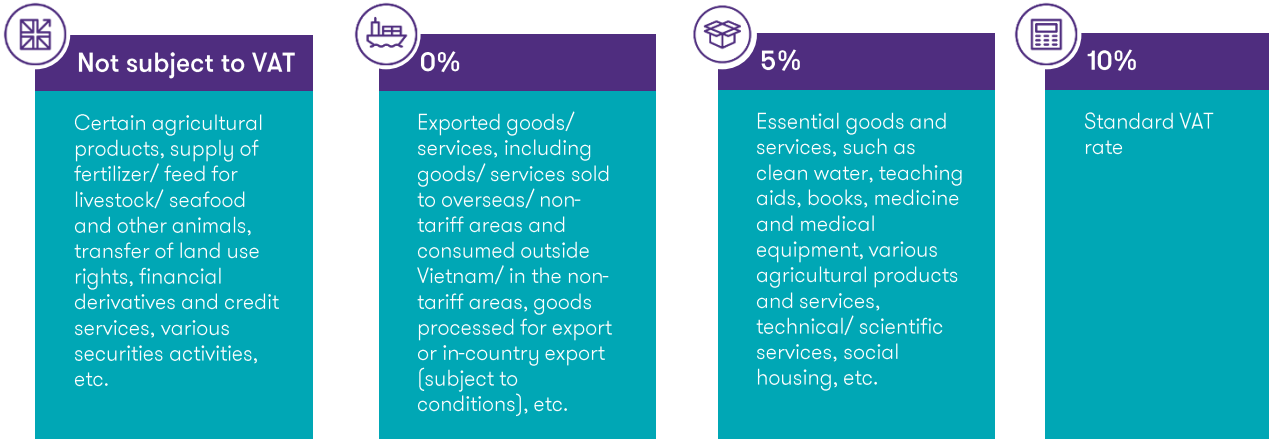
TP Regulations apply if:

- One party participates directly or indirectly in the management, control or equity of the other, or puts investment in the other;
- Two or more parties participate directly or indirectly in the common management, control, or via the capital investment to or from other parties.

The Vietnamese TP regime is established in accordance with the Transfer Pricing guidelines and the Base Erosion and Profit Shifting (BEPS) action plan issued by the Organisation for Economic Co-operation and Development (OECD). Further several interpretations and improvisations from the local lawmakers were applied and enforced under Decree 132/2020/ND-CP, which resulted in a divergence of the local TP regulations in comparison with the original guidelines. This made it impossible for entities applying general OECD guidelines in their home jurisdiction to adapt the local regulations without professional advice.



Value-Added Tax (“VAT”)



VAT rates

VAT rate: 0%

This rate applies to export goods/services including goods/services sold to overseas/non-tariff areas and consumed outside Vietnam/in the non-tariff areas, goods processed for export or in-country export (subject to conditions), goods sold to duty free shops, certain export services, construction and installation carried out for export processing enterprises, aviation, marine and international transportation services.

VAT rate: 5%

This rate applies generally to areas of the economy concerned with the provision of essential goods and services. These include: clean water; teaching aids; books; unprocessed foodstuffs; medicine and medical equipment; various agricultural products and services; technical/ scientific services; rubber latex; sugar and its by-products; certain cultural, artistic, sport services/products and social housing.

VAT rate: 10%

The 10% 'standard' rate applies to activities not specified as not subject to VAT, exempt, or subject to the 0% or 5% rate.

On 24 June 2023, the National Assembly approved a 2% VAT reduction for goods and services that are currently subject to 10% VAT (with certain exceptions) for the period from 1 July 2023 to 31 December 2023 to support business and stimulate market demand.

In addition, business establishments, including business households and business individuals, using the turnover-based VAT calculation method, are entitled to a 20% reduction in the percentage rate for calculating VAT when issuing invoices for eligible goods and services subject to VAT reduction.

The policy applies to goods and services subject to the 10% rate, excluding certain sectors (i.e. telecommunications, information technology, finance, banking, securities, insurance, real estate, and a few types of industrial products.) Despite the impact on the state budget, the government believes this trade-off is necessary for the economy and citizens' well-being, as it is expected to lower prices and boost domestic demand.

VAT exemption

Under this treatment, no output VAT shall be charged and the input VAT shall be uncreditable, but considered as deductible expenses for CIT purposes, comprising the following:

- Certain agricultural products;
- Fertilizer, feed for livestock, poultry, seafood and other animals
- Goods/services provided by individuals having an annual revenue of VND 100 million or below;
- Imported or leased drilling rigs, airplanes and ships of a type which cannot be produced in Vietnam;
- Transfer of land use rights (subject to limitations);
- Financial derivatives and credit services (including credit card issuance, finance leasing and factoring); sales of VAT payable mortgaged assets by a borrower under the lender's authorisation, in order to settle a guaranteed loan and provision of credit information.
- Various securities activities including fund management;
- Capital assignment;
- Foreign currency trading;
- Debt factoring;
- Certain insurance services (including life insurance, health insurance, agricultural insurance and reinsurance);
- Medical services;
- Teaching and training;
- Printing and publishing of newspapers, magazines and certain types of books;
- Public passenger transport;
- Transfer of technology, software and software services except exported software which is entitled to 0% rate;
- Gold imported in pieces which have not been processed into jewelry;
- Export unprocessed mineral products such as crude oil, rock, sand, rare soil, rare stones, etc., or processed into other products, in which the total value of such natural resources and minerals plus the energy cost is equal to at least 51% of production costs
- Imports of machinery, equipment and materials which cannot be produced in Vietnam for direct use in science research and technology development activities;
- Equipment, machinery, spare parts, specialized means of transport and necessary materials which cannot be produced in Vietnam for prospecting, exploration and development of oil and gas fields;
- Goods imported in the following cases: international nonrefundable aid, including from official development aid, foreign donations to government bodies and to individuals (subject to limitations).



No VAT declaration and payment

- Compensation, bonuses and subsidies, except those provided in exchange for marketing/promotional services;
- Transfers of emission rights and other financial revenues;
- Certain services are rendered by a foreign organisation which does not have a Permanent Establishment in Vietnam, where the services are rendered outside of Vietnam, including repairs to means of transport, machinery or equipment, advertising, marketing, promotion of investment and trade overseas; brokerage activities for the sales of goods and services overseas, training, certain international telecommunication services;
- Sales of assets by non-business organisations or individuals who are not registered for VAT;
- Transfer of investment projects;
- Sales of agricultural products that have not been processed into other products or which have just been through preliminary processing;
- Capital contributions in kind;
- Certain asset transfers between a parent company and its subsidiaries or between subsidiaries of the same parent company;
- Collections of compensation/indemnities by insurance companies from third parties;
- Collections on behalf of other parties which are not involved in the provision of goods/services (e.g. if company A purchases goods/services from company B, but pays to company C and subsequently company C pays to company B, then the payment from company C to company B is not subject to VAT);
- Commissions earned by (i) agents selling services, including postal, telecommunications, lottery, airlines/bus/ ship/train tickets, at prices determined by principals; and (ii) agents for international transportation, airlines and shipping services entitled to 0% VAT; and (iii) insurance agents;
- Commissions from the sales of exempt goods/services.
- Goods exported and then re-imported back to Vietnam due to sales returns by overseas customers.

VAT calculation methods

Credit method

This method applies to business establishments maintaining full books of account, invoices and documents in accordance with the relevant regulations, including: (i) Business establishments with annual revenue subject to VAT of VND1 billion or more, and (ii) Certain cases voluntarily registering for VAT declaration under the deduction method.

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

Input VAT is creditable if it meets the requirements of:

- Relevant to business activities;
- Having sufficient legitimate invoices and vouchers;
- Settlement via forms of non-cash payment for transaction more than VND20 million; and
- Paying through a bank account

Direct method

This method applies to:

- Business establishments with annual revenue subject to VAT of less than VND1 billion;
- Individuals and business households;
- Business establishments which do not maintain proper books of account and foreign organisations or individuals carrying out business activities in forms not regulated in the Law on Investment; and
- Business establishments engaging in trading in gold, silver and precious stones.

$$\text{VAT payable} = \text{Revenue} \times \text{Deemed VAT rate}$$

The deemed VAT rate for direct VAT calculation varies depending on the business activities, as below:

- 1% this ratio is for the business of “distribution, supply of goods”
- 3% this ratio is for “the production, transportation, service associated with goods, construction exclusive of the materials
- 5% this ratio is for “service, construction exclusive of material”
- 2% this ratio is for other business activities.

VAT administration

All organisations and individuals producing VAT liable goods and supplies must register for VAT. In addition, branches must also register separately and declare VAT on their own transactions.

The Business Units shall file and pay their VAT returns on a monthly basis, by the 20th day of the subsequent month, or on a quarterly basis by the last day of the 1st month of the subsequent quarter (for companies with prior year annual revenue of VND 50 billion or less).

Invoices and payment vouchers

From 1 July 2022 onwards, according to Decree 123/2020/ND-CP dated 19 October 2020 prescribing electronic invoices for the sale of goods and provision of services, e-invoices will now be mandatory for businesses all businesses, economic organisations, business households, and individuals paying tax under the declaration method .

There are two types of e-invoices as follows:

- E-invoices without a verification code from the tax authorities are acceptable for enterprises in certain industries, such as electricity, petroleum, telecommunication, transportation, financial services, insurance, medical, e-commerce, supermarkets, trading, etc., and other companies that meet certain conditions regarding technology infrastructure.
- E-invoices with a verification code from the tax authorities are applicable for enterprises other than the above and the individuals/enterprises in the high tax risk category.

VAT refund

From 01 July 2016, VAT refunds will no longer be allowed, except the following cases:

- For exporters, where excess input creditable VAT exceeds VND300 million, a refund may be granted on a monthly/ quarterly basis; however, the amount of input VAT relating to export sales to be refunded must not exceed 10% of export revenue.
- Pursuant to Decree No. 49/2022/ND-CP, business establishments satisfy the following conditions are entitled for VAT refund:
 - have registered for business and VAT payment according to the tax credit method;
 - have new investment projects (including investment projects divided into several investment phases or investment categories) except some certain circumstances OR projects on prospection and projects to search, prospect, and develop oil and gas fields that are in the investment phase, which are in the investment phase;

- have the input VAT of goods and services incurred during the cumulative investment phase that have not been fully deducted from at least VND300 million.
- Especially, the enterprises having conditional business lines shall be eligible for the VAT refund for investment projects that fall into the following cases:
 - Investment projects in the investment phase and have been granted licenses for the conditional business lines by competent state agencies, such as licenses, certificates, or documents on verification and approval;
 - Investment projects in the investment phase that have yet to be required to apply for licenses for the conditional business lines;
 - Investment projects that are not subject to licenses to engage in conditional business lines as stipulated by laws.

However, for investment projects, VAT refunds shall not be granted in the following cases:

- the chartered capital has not been fully contributed as registered;
- conditional investment projects do not meet the conditions under the Investment Law;
- investment projects exploiting natural resources licensed after 01 July 2016, or manufacturing projects in which the cost of natural resources and energy expenses account for 51% or more of the total cost of the product.



Personal Income Tax (“PIT”)



Residency status

Tax resident

- Physical presence in Vietnam \geq 183 days in calendar year or consecutive 12 months; or
- Having “regular residence” in Vietnam.

Non-tax resident

Do not meet the conditions for being tax resident.

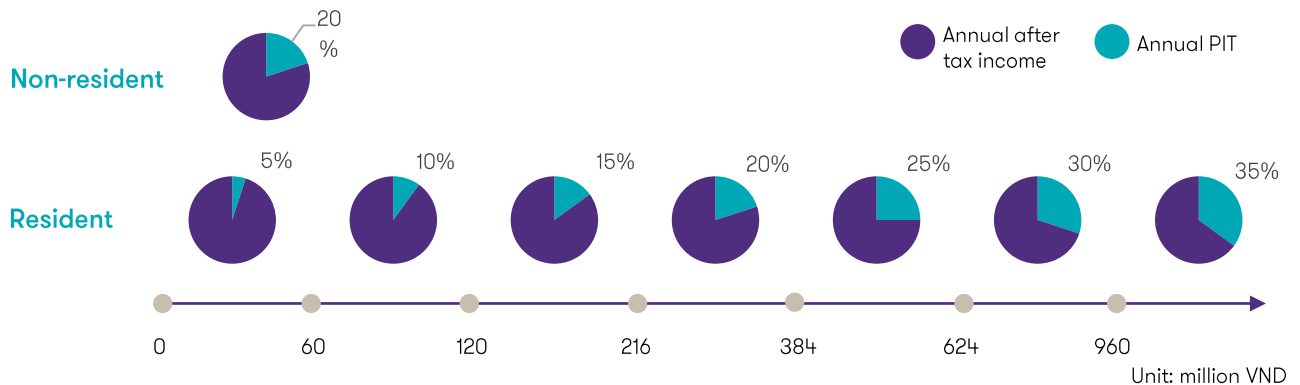


Tax residents are taxed on world-wide income, whereas non-tax residents are taxed on Vietnam-sourced income.



Depends on the nature of income and tax residency status

Employment income



Business income



0.5%

Goods distribution / Supply



5%

Asset lease, insurance brokerage, lottery brokerage, multi-level marketing brokerage, compensation



2%

Service, construction exclusive of building material



1.5%

Manufacturing, transportation, service associated with goods, construction inclusive of building material



1%

Other business activities

Deductions for Tax residents



Tax relief

- Personal relief: VND11 million/month
- Family relief: VND4.4 million/ month/ qualified tax dependent



Compulsory insurance contribution

Social Insurance (SI), Health Insurance (HI) and Unemployment Insurance (UI)^(*)

(*) From 1 December 2018, in addition to HI, the expatriate under employment contract is entitled to SI contribution

Taxable income and Non-Taxable income

Taxable Income

Taxable income generally comprises 10 main types of income: employment income, business income, income from capital investments, income from capital transfers, income from real property transfers, winnings or prizes, royalties, income from franchises, income from inheritances and receipts of gifts.

Non-Taxable Income

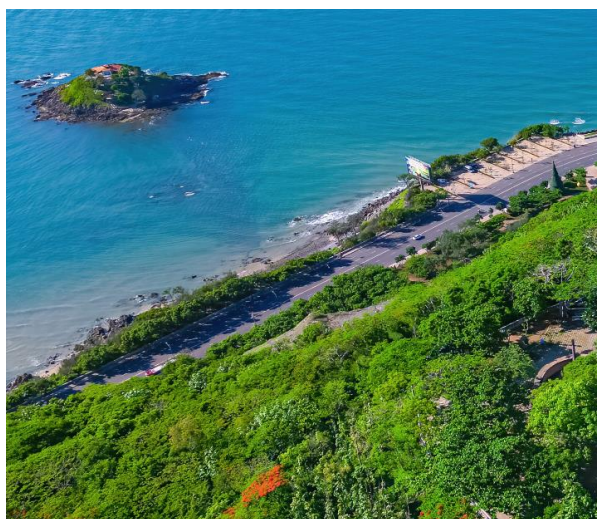
Employment Income

- One-off regional transfer allowances for: (i) foreigners moving to reside in Vietnam, (ii) Vietnamese holding other country's nationality working in Vietnam, and (iii) Vietnamese working overseas;
- Once per year home leave round trip airfare for expatriates and Vietnamese working overseas;
- Employee training fees paid to training centres;
- School fees up to high school in Vietnam/overseas for children of expatriates/Vietnamese working overseas;
- Mid-shift meals (subject to a cap if the meals are paid in cash);
- Taxable housing benefit including utilities: being the lower of the actual rental paid and 15 per cent of the employee's gross taxable income (excluding taxable housing);
- Part of night shift or overtime salary payable that is higher than the day shift or normal working hours salary stipulated by the Labour Code;
- Compensation for labour accidents;
- Severance allowance paid according to the regulations; and
- Income of Vietnamese vessel crew members working for foreign shipping companies or Vietnamese international transportation companies.

To apply the PIT exemption to the above, there are a range of conditions and restrictions.

Non-Employment Income

- Interest earned on deposits with credit institutions/banks and on life insurance policies;
- Retirement pensions paid under the Social Insurance law (or the foreign equivalent);
- Income from the transfer of properties between various direct family members;
- Inheritances/gifts between various direct family members;
- Monthly retirement pensions paid under voluntary insurance schemes;
- Income from life insurance policies;
- Foreign currency remitted by overseas Vietnamese;
- Scholarships;
- Compensation payments from life and non-life insurance contracts.



PIT administration

Individual tax code

Any individual present in Vietnam who has taxable income must obtain an individual tax code. The taxpayers who have taxable employment income must submit the tax registration file to their employer; the employer will subsequently submit this to the local tax office. Every individual with taxable non-employment income, must submit their tax registration file directly to the district tax office.

PIT declaration and payment

For employment income

Employers must deduct and withhold employees' PIT and submit/ pay it to the tax authority, alongside the relevant social insurance contributions on a monthly basis, with a timeline no later than the 20th of the following month or on a quarterly basis by the last day of the 1st month following the reporting quarter. The total PIT withheld must be finalized no later than the last day of the 3rd month after the end of the western calendar year.

Individuals who are subject to PIT direct filling are required to carry out PIT finalization no later than the last day of the 4th month after the end of the calendar year.

Expatriate employees are also required to carry out a PIT finalisation on the termination of their Vietnamese assignments within 45 days from the termination date. Tax refunds due to excess tax payments are only available to those who have a tax code and a Vietnamese bank account.

For non-employment income

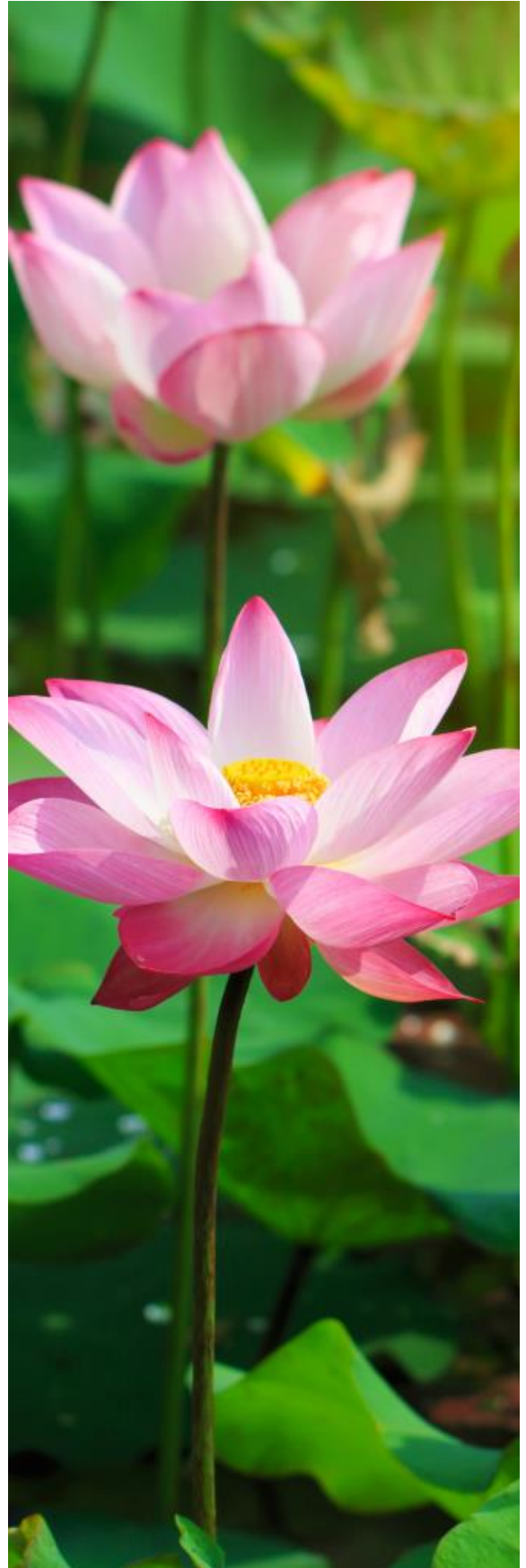
The individual is required to declare and pay PIT in relation to each type of taxable non-employment income. The PIT regulations require income to be declared and tax paid on a regular basis, often each time income is received.

PIT credit

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

PIT year

The Vietnamese tax year is the calendar year. However, in the calendar year of first arrival, if the taxpayer resides for less than 183 days in one calendar year, his/her first tax year is the 12-month period from the date of arrival. The subsequent tax year is the calendar year.



Brief of PIT rates and bands

No.	Type of taxable incomes	PIT rate	
		Resident	Non-resident
1	Employment income	Progressive rate as above (*)	20%
2	Business income		
	Goods distribution/ supply	0,5%	
	Service, construction exclusive of building material	2%	
	Particularly: Asset lease, insurance brokerage, lottery brokerage, multi-level marketing brokerage	5%	
	Manufacturing, transportation, service associated with goods, construction inclusive of building material	1,5%	
	Other business activities	1%	
3	Capital investment	5%	
4	Capital assignment	20% on net gains	0.1% on sales proceeds
5	Transfer of securities	0.1% on gross sale proceeds	
6	Real property transfer	2% on gross sale proceeds	
7	Royalties/ Technology transfer/ Franchising	5% on amount over VND10 million	
8	Winnings/ Prizes/ Inheritance/ Gifts	10% on amount over VND10 million	

Employment Income

Non-tax residents are subject to PIT at a flat tax rate of 20% on Vietnam-sourced employment income whereas tax residents are subject to PIT under the below progressive tax rates on worldwide employment income irrespective of where the income is paid.

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



Capital Gains Tax

Vietnam does not operate a separate Capital Gains Tax (“CGT”) regime.

For local corporate sellers, any gains derived from the transfer of capital/securities to another Vietnamese entity are regarded as other income and accordingly subject to CIT at the current standard rate of 20%.

For foreign sellers (e.g. individuals being tax resident in Vietnam and corporations), the tax treatment on capital gains earned by a foreign seller is different depending on the corporate form of the target. In particular, the transfer of contributed capital in a Vietnamese limited liability company is subject to CGT at 20% on the gain whereas the transfer of securities (bonds, shares of public joint stock companies) is subject to CGT on a deemed basis at 0.1% of the sale price.

However, an individual investor who is a non-tax resident in Vietnam and earns income from the transfer of capital/ securities in a Vietnamese LLC/JSC is subject to PIT at a rate of 0.1% on the sales proceeds.

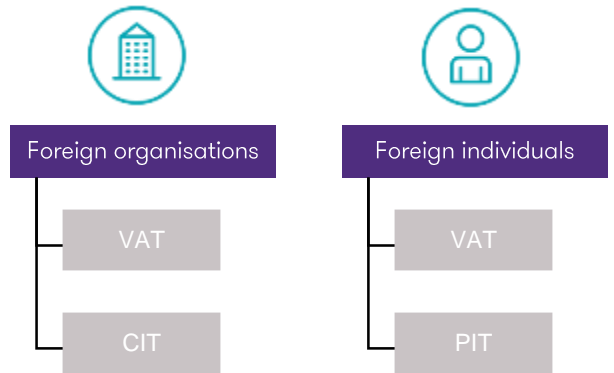
The taxable gains are determined as the excess of the transfer price less the purchase price of transferred capital/ securities less the deductible transfer expenses.



Foreign Contractor Tax (“FCT”)

FCT imposed on foreign business individuals and foreign organisations earning Vietnam-sourced income (hereinafter referred to as “foreign contractor” or “FC”), except: (i) “pure supply of goods” under INCOTERMS., i.e. where title passed at or before the border gate of Vietnam and there are no associated services performed in Vietnam, (ii) services performed and consumed outside Vietnam.

The FCT is not a separate tax. FCT comprises VAT and CIT or PIT.



FCT Payment Methods

Deduction method

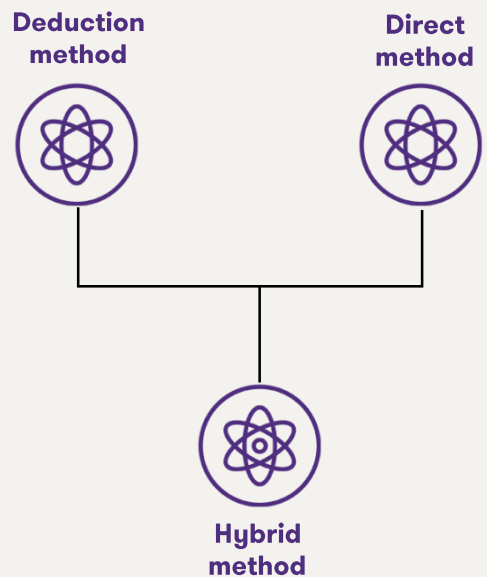
This method allows the FC declaring: (i) VAT under the approach of crediting the input VAT against the output VAT, and (ii) CIT based on the declaration of revenue and expense similar to the local enterprises' application. Of note, FC is required to meet some criteria, including FC's adoption of the Vietnamese Accounting System.

Direct method

Under this method, FCT is the mechanism to withhold taxes. The FC's VAT and CIT will be withheld by the Vietnamese customers at prescribed rates from the payments made to the FC. Various FCT rates are regulated under the nature of activities performed (please kindly see our below table briefing the FCT rates for each activities).

Hybrid method

This method is a mixed-up between the deduction method and direct method, i.e. allows the FC declares VAT based on the creditable approach and CIT at direct method.



FCT rates

Deemed CIT and VAT rates under the direct method in common cases as below:

Ratio for FCT (%)			
	Type of business activities	Deemed VAT-FCT rate (%)	Deemed CIT-FCT rate (%)x
1. Trades:	i. Distribution, supply of goods; ii. Distribution, supply of goods associated with services rendered in Vietnam (including the form of spot export and import); iii. Supplying goods under INCOTERMS where the seller bears risk relating to goods in Vietnam.	1/Exempt	1
2. Services:	Services	5	5
	Restaurant/ hotel/ casino management services	5	10
	Service associated with goods supply (if contract doesn't separate the value of goods and service)	3	2
3. Insurance:	Insurance	5 /Exempt	5
	Re-insurance abroad, commission of the re-insurance transfer	Exempt	0.1
4. Leasing:	Leasing machinery and equipment	5	5
	Leasing aircraft, airplane engines/ spare parts, vessels (for aircraft and vessel cannot be produced in Vietnam)	Exempt	2
5. Banking:	Derivative financial services	Exempt	2
	Loan interest	Exempt	5
6. Capital Investment:	Transferring securities/ deposit certificates	Exempt	0.1
7. Oil and Gas:	Supply of goods and/ or services for oil & gas exploration and development	10/5/ exempt	5
	Leasing drilling rigs	Exempt	5
8. Construction:	Construction, installation including supply of materials, machinery, equipment	3	2
	Construction, installation excluding supply of materials, machinery, equipment	5	2
9. Transportation:	Transport (including the transport by seaway, by airway)	3/0	2
10. Royalty:	Royalty/ License fee (*): Software licenses, transfer of technology, transfer of intellectual property rights are VAT exempt	Exempt (*)	10
11. Others:	Other production	3	2
	Other Business activities	2	2

Taxation on cross-border e-commerce and digital transactions in Vietnam

Tax mechanism on foreign e-commerce business

Circular 80/2021/TT-BTC dated 29 September 2021 effective as of 01/01/2022 provides a mechanism for a tax declaration for foreign companies doing business in Vietnam.

Foreign companies having such business activities will be granted a tax code and would be required to make an online tax declaration using a portal of the General Department of Taxation (“GDT”) on a quarterly basis to settle tax online. In case of deriving no income in a tax period, a quarterly blank tax return is mandatory to be submitted.

Of note, the foreign contractor is able to pay tax via bank transfer in convertible foreign currencies.

In case such foreign companies do not apply for tax code registration as well as declare and pay tax in Vietnam, relevant Vietnamese entities would be under the following obligation:

- (i) Vietnamese companies are required to withhold and declare tax on behalf of foreign companies (this mechanism is similar to that of foreign contractor tax);
- (ii) If the Vietnamese customers are individuals, the Vietnamese commercial intermediary banks or payment service providers involved in the transaction are required to withhold, declare, and pay taxes on a monthly basis. GDT will provide the names and websites of such offshore suppliers to the banks and/or payment intermediaries for tax withholding.
- (iii) If the Vietnamese customers use payment methods where the banks and intermediary payment service providers cannot withhold tax, the banks or the payment service providers are required to report payments made to the offshore suppliers to Vietnamese tax authorities on a monthly basis.



Applicable tax rates

Foreign companies shall be subject to Vietnamese VAT and CIT on a deemed percentage of the revenue earned by such offshore suppliers. The rate of VAT and CIT would variously depend on the nature of goods or services provided by the foreign companies.

The VAT and CIT rates are provided under Decree 209/2013/ND-CP and Decree 218/2013/ND-CP, respectively.

Revenue derived in Vietnam for tax assessment purposes will be based on payment information (credit card or bank account information), residency status (i.e., billing, delivery or home address) and access information (e.g., mobile phone country code, IP address, and landline address or similar information).

Avoidance of Double Taxation Agreement (“DTA”)

Vietnam has entered into DTAs with approximately **80 countries.**

The CIT/PIT portion of the withholding tax may be eliminated/reduced under a DTA if foreign contractors/individuals do not create a PE/ tax residency status in Vietnam.

The qualified foreign contractors/ individuals will need to submit the DTA application to the tax authority in order to enjoy the tax exemption/ reduction in Vietnam. Following the submission of the DTA application by the foreign contractors, the tax authority is required to issue a decision as to whether the foreign contractors are qualified for tax reduction/exemption under the applicable DTA.

Although the DTAs follow organisation Economic Co-operation and Development (“OECD”) and United Nations (“UN”) models with similar provisions, there are some treaties with more beneficial conditions as compared to others.



Other Taxation

Import Duty

Generally, all goods crossing Vietnamese borders are subject to import duties. In particular:

- Goods imported through Vietnamese border gates or border by road, river, seaport, airport, international railway, international post and other locations for customs procedures clearance
- Goods transferred from the local market to non-tax areas or vice versa
- Other goods traded or exchanged that are considered as imports.

The following goods are not subject to import duties:

- Goods transited and transported by mode of border gate trans-shipment through Vietnam's border gates or borders under the customs law
- Humanitarian aid goods
- Goods imported from abroad into non-tariff zones and only used therein
- Goods brought from one non-tariff zone to another

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

Preferential tax rates are applicable to imports originating from countries, groups of countries or territories that grant most-favoured-nation treatment in trade relations with Vietnam. Taxpayers declare the origin of goods themselves and are held responsible for declarations regarding the origin of goods.

Particularly-preferential tax rates are individually specified for each item covered by decisions released by the Minister of Finance.

Ordinary tax rates are applicable to imports originating from countries, groups of countries or territories that do not grant most-favoured-nation treatment or special import tax preferences to Vietnam. The ordinary tax rate is equal to 150% of the preferential tax rate.

Apart from being subject to import tax, in certain situations Vietnam also imposes an anti-dumping tax, anti-subsidy tax and an anti-discrimination tax or safeguard tax, in accordance with existing rules.

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

Export Duty

Export duties are charged on a limited number of items, generally natural resources such as sand, chalk, marble, granite, ore, crude oil, forest products, and scrap metal. Export duty rates range from 1% to 40%.

Special Sales Tax (“SST”)

A Special sales tax is a form of excise tax levied on the production or import of certain goods and the provision of certain services:

- Goods generally subject to SST includes cigarettes, cigars and other products processed from tobacco; spirits and beer; certain passenger vehicles; two-wheel motor vehicles with a cylinder capacity above 125cm³; aircraft and yachts for specific civil purposes; various types of petrol; air-conditioners with a capacity of 90,000 BTU or less and cards.
- Businesses subject to SST includes dancehalls, massage lounges, karaoke parlours, casinos, slot machines and other similar types of machines, betting businesses, golf and lotteries.

Manufacturers of SST liable goods which are purchased or imported. SST liable raw materials are permitted to credit the SST amount paid on raw materials imported or purchased from local suppliers against the SST amount payable upon selling goods.

The SST taxable price of domestically manufactured goods is the selling price excluding the environment protection fee. The SST taxable price at the import stage is the import dutiable price plus import duty. The SST payable is computed by the taxable price multiply with the SST rate.

Environmental protection tax

An environmental tax is an indirect tax, collected on products and goods that, when used, are deemed to cause negative environmental impacts. The tax is levied on the production or importation of certain goods, based on the absolute tax rate. Export products are exempt from environmental protection taxes.

To support the airlines impacted by Covid-19 pandemic, the government has reduced environmental tax levied on jet fuel from 01 January 2021 to 31 December 2021.

Property tax

Property tax in Vietnam is levied in the form of three taxes: land-use fee, land rental and non-agricultural land-use tax.

- The land-use fee applies to organisations, which are allocated land by the state to develop infrastructure for sale or for lease and who are subject to the payment of a land-use fee. The duration of land usage under this category should be “long term stable use”.
- Land rental is the amount an investor pays to lease (or rent) land in Vietnam. The amount varies depending on a number of factors including the location, infrastructure and the industrial sector in which the business is operating. Payment of the lease can be for a long-fixed period of time or annually.
- The non-agricultural land-use tax applies to residential land in rural/urban areas and non-agricultural land used for business purposes. The calculation of tax liability is based on the land area, price of land and tax rate.

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%.

Natural Resources Tax (“NRT”)

NRT is also known as production royalty tax. All organisations and individuals engaged in the exploitation or the mining of natural resources in compliance with the laws of Vietnam, irrespective of their industry, scope and operational form, are liable to register, declare and pay royalties.

Taxable resources means all natural resources existing on the land, islands, internal waters, sea territory, exclusive economic zones (including maritime areas common to both Vietnam and a neighbouring country) and the continental shelf under the sovereignty of the Socialist Republic of Vietnam, including: metallic mineral resources; non-metallic mineral resources including soil, stone, sand, gravel, coal, gemstones, mineral water and natural thermal water; oil; gas or natural gas; natural forest products; natural marine products; natural water including surface water, ground water and other natural resources under the law on natural resources.

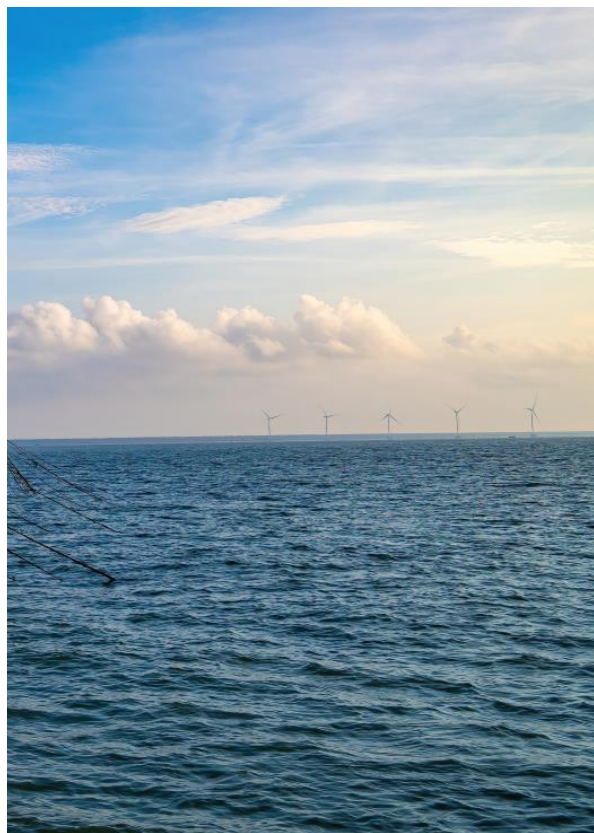
The taxable value of a resource is the selling price of each item or unit of resource at the place of mining in accordance with the principle of market price. The royalty rates vary from 1% to 40%, whilst petroleum, natural gas and coal gas are taxed at progressive tax rates depending on the daily average production output.

Anti-avoidance measures

While Vietnam does not have any specific anti-avoidance rules, the tax authorities have the power to carry out tax inspections of any taxpayer. Tax inspections can be conducted on a regular basis but no more than once a year. Tax inspection duration must not exceed thirty days from the date of notification of the tax inspection decision. However these may be extended for an additional period not exceeding thirty days.

A taxpayer who pays tax later than the deadline is to pay the full tax amount plus a fine equal to 0.03% per day for late payment of the tax amount. Taxpayers who make incorrect declarations, thereby reducing tax payable or increasing refundable tax amounts, will have to pay the full amount of the undeclared tax or return the excess refund. Additionally, these taxpayers will also have to pay a fine equal to 20% of the under-declared or excess refunded tax amounts, together with a fine for late payment of the tax.

A taxpayer that commits an act of tax evasion or tax fraud is liable to pay the full amount of tax according to the regulations and a fine will be imposed of between one and three times the evaded tax amount. The general statute of limitations for imposing taxes is 10 years and for penalties is 5 years.





Labour

Employment contracts

The terms and conditions of employment contracts can be freely negotiated between employers and employees, as long as they are not less favourable than the basic provisions prescribed under the Vietnam Labour Code and other laws.

An employment contract shall be concluded in one of the following types:

- Indefinite-term employment contract
- Definite-term employment contract - the duration of which is defined by the two parties but does not exceed 36 months from the date of its conclusion.
- Contracts with a definite term can only be extended twice and on the 3rd times default to indefinite term contracts.

Locally hired foreigners will, in practice, always have a maximum of 24 months for contracts, which cannot exceed the duration of work permit, due to work permit regulations.

Probation period

The length of a probationary period is dependent on the required skills and qualifications for the position and it can vary from 6 to 180 days. The wage for an employee during the probation period must be agreed upon in writing and cannot be less than 85% of the full-time salary for the position.

Payroll

In Vietnam, the payroll cycle is monthly and is most commonly paid at the end of the month, or as agreed within the employment contract.

A 13th-month is not mandatory in Vietnam, but most employers provide a 13th month bonus as an annual bonus. It is common to pay this bonus at the end of the year or during the Tet (lunar New Year) holiday.

Salaries paid to Vietnamese employees must be paid in Vietnamese Dong (VND). Foreign employees are permitted to receive salaries, bonuses and allowances in a foreign currency.

Apprenticeship period

Enterprises are allowed to accept students who are recruited and to practice doing their work by the employer in order to work for the employer. The maximum duration of apprenticeship is 3 months.

Upon the expiry of the apprenticeship or traineeship period, both parties must enter into an employment contract if the conditions stipulated in the labour Code are satisfied.

Forms of employment contract



Written labour contracts including electronic form



Verbal labour contracts are applicable for some cases with less than 1 month term



Indefinite-term labour contract



Definite-term labour contract

Types of employment contract

Normal working hours, overtime and leave

Normal working hours

Under the Vietnam Labour Code, normal working hours should not exceed 8 hours per day or 48 hours per week. The employer has the right to determine the daily or weekly working hours as long as the working hours shall not exceed 10 hours per day and not exceed 48 hours per week where a weekly basis is applied.

Overtime and work at night

Employers can request employees to work overtime with the condition that the employer obtains the employee's consent. Employees who work overtime are entitled to an additional wage. Overtime hours cannot exceed 50% of the total hours worked per day. In case of weekly basis working hours, the total normal working hours plus overtime working hours shall not exceed 12 hours in 1 day, and 40 hours in 1 month. Ensure that the number of Overtime hour of employee does not exceed 200 hours in 01 year, except for those cases specified.

The compensation rates over and above the normal hourly pay are:

- Weekdays, daytime: 150% of the regular salary rate
- Weekends, daytime: 200% of the regular salary rate
- Public holidays and paid leave days: 300% of the regular salary rate

Employees working at night shall be paid at least 130% of the normal hourly pay.

Employees who work overtime at night, beside above additional overtime wages, will be paid an additional 20% of salary calculated according to the job performed during the daytime of a normal working day or of a weekly holiday or of a public holiday.

Leave

Public Holidays

There are 11 official paid holidays. If any of the public holidays falls on a weekend, employees are entitled to take the next weekday off. Foreign employees are additionally entitled to one day off with pay on traditional public holiday and one day off with pay on the national day of their country.

Paid Time Off

Paid leave in Vietnam is set in the employment contract at a minimum of 12 days paid leave a year, exclusive of public holidays. This increases by one additional day for every five years of employment.

Sick Leave

All employees are entitled to up to 30 days of paid sick leave per year, increasing to 60 days in exceptional circumstances. Sick leave is paid by the Social Insurance Authority, not by the employer, and applies to both Vietnamese and foreign employees. Employees entitled to sick pay are entitled to 75% of their salary or remuneration on which social insurance premiums were based in the month preceding their leave.

Maternity Leave

Female employees are entitled to 6 months of maternity leave, potentially up to 7 months for complicated/multiple births.

The maternity payment is paid by the Social Insurance Authority at a rate of 100% of the salary of the average salary during the six-month' maternity leave. The female employee can return to work after at least four months of maternity leave.

Other Leave

Paternity leave is also stipulated to be 5 - 14 working days, depending on the number of children born and the circumstances of the birth. This leave is paid by the Social Insurance Authority.

Parental leave in Vietnam is available for childcare and entitles employees to up to 20 days of parental leave per year until the child reaches the age of 3 and thereafter up to 15 days per year until the child reaches the age of 7. The childcare leave is paid by the Social Insurance Authority.

Bereavement leave: employees are entitled to 1 - 3 days of paid leave for the death of a family member.

Marriage leave: Employees are entitled to up to 3 days in the case of marriage and 1 day for a child's marriage.



8:00 AM to 5:00 PM

Business and Banking hour

Minimum wages

In Vietnam, the statutory basic minimum wage and minimum regional wages is set by the government and reviewed annually.

The minimum wage are as listed by the following zones:

Zone	VND/month	VND/hour
Zone 1	4,680,000	22,500
Zone 2	4,160,000	20,000
Zone 3	3,640,000	17,500
Zone 4	3,250,000	15,600

Contributions

There are three types of statutory social security in Vietnam that must be covered by the company for employees working under employment contracts with some other applicable conditions:

- Social insurance (SI);
- Health insurance (HI); and
- Unemployment insurance (UI).

Social insurance covers employee benefits including sick leave, maternity leave, allowances for work-related accidents and occupational diseases, retirement allowance, and mortality allowance.



Health insurance entitles employees to a medical examination and inpatient/outpatient treatments at authorised medical establishments. Unemployment insurance is paid out to employees depending on the period of time during which they contributed.

Both employer and employee are required to pay the statutory insurances. The mandatory contribution rates are as follows:

	SI				HI	UI	Total
	Sickness, maternity fund	Occupational disease and accident fund	Retirement and mortality fund	Total SI			
For local employees							
Employee			8%	8%	1.5%	1%	10.5%
Employer	3%	0.5%	14%	17.5%	3.0%	1%	21.5%
For foreign employees							
Employee			8%	8%	1.5%		9.5%
Employer	3%	0.5%	14%	17.5%	3.0%		20.5%

Contributions are determined based on employees' monthly salary as stipulated in the employment contract (capped at 20 times the common minimum wage for social insurance/health insurance and 20 times the minimum regional wage for unemployment insurance).

The contribution rate to trade union funds is set at 2% of the salary fund for Social Insurance contributions for employees. This fee must be paid into trade union funds once per month. Additionally, if the Company establishes the internal organisation trade union, there will be a trade union fee of 1% of the salary fund for social insurance contributions to be contributed by members.

Termination

The termination of a labour contract in Vietnam can be quite complex and is based on the Labour Code requirements. It can differ depending on the reason of termination and the type of employment contract. This affects the legal requirements, notice period, and possible severance payments.

The employer is also responsible for paying the rest of the salary within 14 working days from the date of termination of the employment contract. This period may be extended but it shall not exceed 30 days.

Notice period

Employers are obligated to give prior notice before unilateral termination based on the type of contract:

- 3 working days for the labour contracts of under 12 months
- 30 days for a definite employment contract with period from 12 to 36 months;
- 45 days for an indefinite employment contract.

Severance payments

In Vietnam, the employer is responsible for offering a severance allowance (if applicable) to the employee who has worked on a regular basis for a period of at least 12 months. Each year of work will be worth half a month's salary.

The qualified period of work as the basis for the calculation of severance allowance is by year (full 12 months); in the case of months less than or equal to 6 months, it is equal to a half year, over 6 months is counted as 1 working year. The qualified period of work, as the basis for calculation of severance allowance, shall be the total period during which the employee actually worked for the employer minus the period over which the employee participated in the unemployment insurance in accordance with unemployment insurance laws and the period for which severance allowance or redundancy allowance has been paid by the employer.

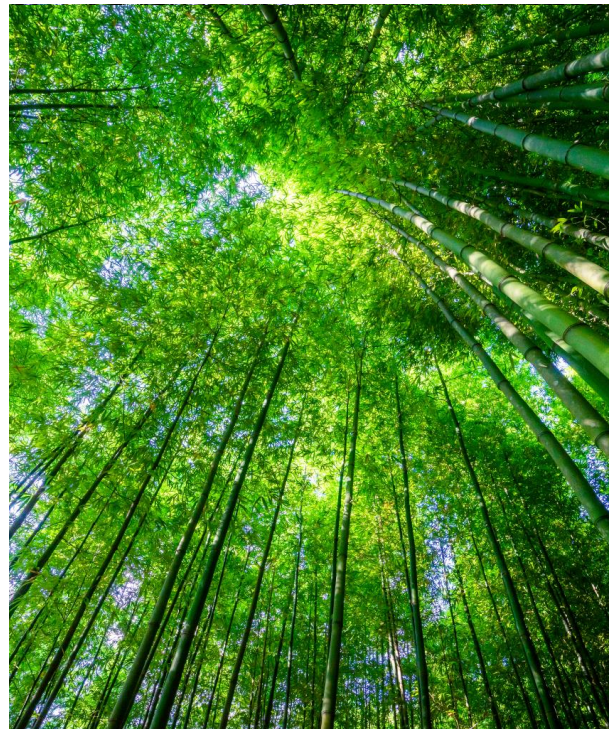
Support granted to trade unionists or employees forced into reduction in working hours or on furlough

According to Decision 6696/QĐ-TLĐ on Jan 16, 2023, the trade union members and employees of enterprises and cooperatives that have paid union dues before September 30, 2022 are granted supported when their working hours are reduced or their labour contracts are terminated as a way to alleviating and relieving their difficulties. Amounts of support from VND700,000 to VND1,000,000 per capita which depending on the beneficiary and it should be paid in cash or wire transfer on a one-time basis.

List of occupational diseases covered by social insurance

According to the Circular No.02/2023/TT-BYT, "occupational COVID-19 has been added to the list of occupational diseases covered by social insurance.

Therefore, as of April 1, 2023, there are 35 occupational diseases covered by social insurance.



Grant Thornton (Vietnam) Limited

Grant Thornton (Vietnam) Limited, a member firm of Grant Thornton International which is one of top global accounting firm, is a long established company in Vietnam since 1993.

Key figures and facts



30 years
Established in
Vietnam



2 offices
in Hanoi and
Ho Chi Minh City



350
employees
in Vietnam



12
partners
in Vietnam

AUDIT AND ASSURANCE

Statutory audit • IFRS audit
• Review of financial statements •
Compilation of financial information
• Cross-border audit • US GAAP
audit • Agreed-upon procedures

INTERNATIONAL FINANCIAL REPORTING ADVISORY SERVICES

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reports • Implementation of new
standards

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For additional information about
Doing Business in Vietnam report and
our services, please contact us.



Trinh Thi Tuyet Anh

Director
Business Development and
International Liaison

T +84 28 3910 9170

E anh.trinh@vn.gt.com

LinkedIn: Anh Trinh

Contact our experts



Nguyen Chi Trung

CEO and Managing Partner

T +84 24 3850 1616

E chitruong.nguyen@vn.gt.com



Kenneth Atkinson

Founder and Senior Board Adviser

T +84 28 3910 9108

E ken.atkinson@vn.gt.com



Nguy Quoc Tuan

National Head of
Audit and Assurance

T +84 28 3910 9180

E tuan.nguy@vn.gt.com



Hoang Khoi

National Head of Tax Services

T +84 24 3850 1618

E khoi.hoang@vn.gt.com



Le Minh Thang

National Head of Business
Process Solutions

T +84 28 3910 9219

E minhthang.le@vn.gt.com



Nguyen Thi Vinh Ha

National Head of Advisory
Services

T +84 24 3850 1600

E vinhha.nguyen@vn.gt.com



Nguyen Tuan Nam

Audit Partner

T +84 24 3850 1617

E tuannam.nguyen@vn.gt.com



Pham Quoc Hung

Business Process Solutions Partner

T +84 24 3850 1621

E hung.pham@vn.gt.com



Le The Viet

Audit Partner

T +84 24 3850 1622

E viet.le@vn.gt.com



Nguyen Manh Tuan

Audit Partner

T +84 28 3910 9184

E manhtuan.nguyen@vn.gt.com



Valerie Teo

Tax Partner

T +84 28 3910 9235

E valerie.teo@vn.gt.com



Nguyen Hong Ha

Audit Partner

T +84 24 3850 1601

E hongha.nguyen@vn.gt.com



Nguyen Dao Thanh Thao

Audit Partner

T +84 28 3910 9162

E thao.nguyen@vn.gt.com

Connect locally and internationally



Japan Desk

Our Japan-focus for Vietnam was established in 2014 in both Hanoi and Ho Chi Minh City to serve as a bridge with Grant Thornton Japan. They consist of Japanese staff and many Vietnamese experts.



Jin Nishina

Director

T +84 28 3910 9208

E nishina.jin@vn.gt.com



Masanobu Taniguchi

Director

T +84 24 3850 1696

E masanobu.taniguchi@vn.gt.com



China Desk

With our rich industry knowledge, experience in tax, audit and advisory services, our dedicated team of bilingual specialists and the global Grant Thornton network, we can provide advice to guide you through your market strategy. We help to navigate the challenges faced when operating in Vietnam and therefore help you succeed.



Valerie - Teo Liang Tuan (张良端)

Partner, Tax Services

T +84 28 3910 9235

E valerie.teo@vn.gt.com



Lac Boi Tho

Director, Tax Services

T +84 28 3910 9240

E tho.lac@vn.gt.com



Korea Desk

Our Korea Desk in Vietnam has been established since 2019 to serve the Korean clients. Our Korean team consisting of Director and staff will work with our member firm, Grant Thornton Korea [DaeJoo], if necessary, to provide the distinctive and differential client experience service.



Kim Min Je (김민제)

Director

T +84 379 591 011

E minje.kim@vn.gt.com

Grant Thornton Vietnam offices

Head office in Hanoi

18th Floor
Hoa Binh International Office Building
106 Hoang Quoc Viet Street
Cau Giay District, Hanoi
Vietnam
T +84 24 3850 1686
F +84 24 3850 1688

E grant.thornton@vn.gt.com
www.grantthornton.com.vn

Office in Ho Chi Minh City

14th Floor
Pearl Plaza
561A Dien Bien Phu Street
Binh Thanh District, Ho Chi Minh City
Vietnam
T +84 28 3910 9100
F +84 28 3910 9101

