

# Doing Business in Vietnam

## 2021



# Contents

Foreword	3
I. Country profile	4
II. Vietnam Economy	10
Economic Growth During Covid-19 Pandemic	11
Trade agreements	18
Banking and Capital Markets	20
III. Attractive Sectors for Investment in Vietnam	23
Manufacturing Sector	25
Renewable Energy and Cleantech	27
Real Estate	29
IV. Business Entities	32
V. Financial reporting and audit	36
VI. Tax System	42
Corporate income tax (“CIT”)	44
Valued-added tax (“VAT”)	49
Personal income tax (“PIT”)	52
Foreign contractor tax (“FCT”)	57
Avoidance of Double Taxation Agreement (“DTA”)	59
Other taxation	60
VII. Labour	62
About Grant Thornton (Vietnam) Limited	69
Contact our experts	70



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# Foreword

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**Nguyen Chi Trung**

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Vietnam is a unique country providing extensive opportunities for those willing to spend time to understand the market. Although not without its challenges, Vietnam's economy continues to expand and modernise and with the opening up of previously restricted industries and sectors to meet WTO commitments and commitments under various Free Trade Agreements (FTA's), opportunities continue to develop. Growth is being further stimulated through these bi-lateral FTA's (e.g. UK and South Korea) and others such as the EU Vietnam Free Trade Agreement and the CPTPP. Regardless of the challenges and impact of Covid-19 pandemic on both foreign and local enterprises, Vietnam has always shown high expectations for its exports, the majority of businesses will conduct new investments, particularly in luring foreign investors into the attractive sectors. Accordingly, Grant Thornton Vietnam has prepared this guide to assist those interested in doing business in Vietnam.

This guide does not cover the subject exhaustively. However, it is intended to answer some of the more important questions that may arise. When specific problems occur in practice, it will often be necessary to refer to the laws and regulations, of Vietnam and to obtain the appropriate professional advice. We hope this guide helps you in learning about and understanding business in Vietnam. Should you require professional guidance, we will be only too willing to meet you, and ascertain where we can be of assistance.

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 accurate as of the date this guide is received or that it will continue to be accurate in the future. No one is entitled to rely on this information and no one should act on such information without appropriate professional advice obtained after a thorough examination of the particular situation.







# Country profile



# Key statistics

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



### Location

Southeastern Asia, bordering the Gulf of Thailand, Gulf of Tonkin, and South China Sea, as well as China, Laos, and Cambodia.



### 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

### Total area (331,210 km<sup>2</sup>)

310,070 km<sup>2</sup>

Land

21,140 km<sup>2</sup>

Water

### Ethnicity

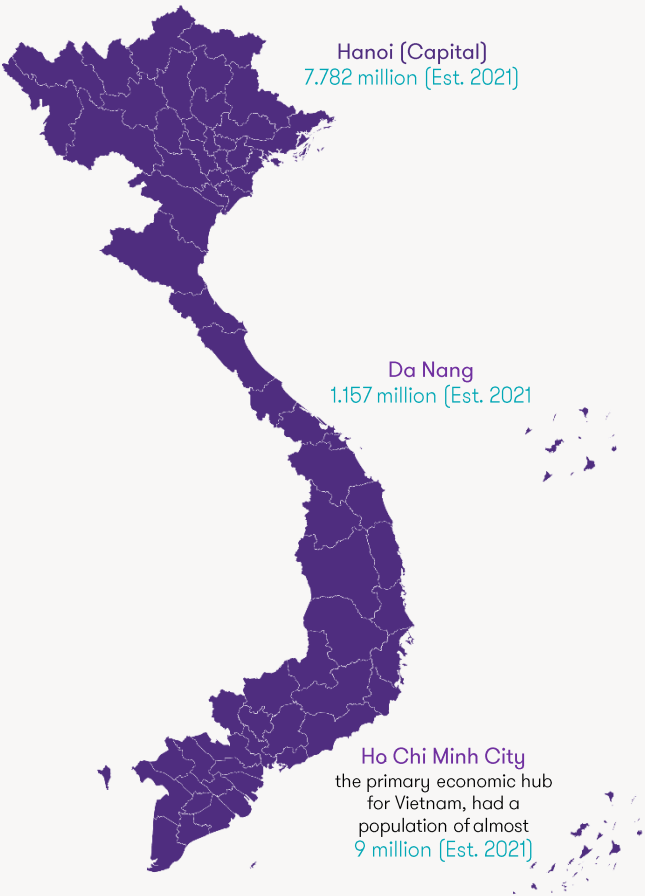
85.7%

Kinh (Viet)

14.3%

Others (Tay, Muong, Thai, Khmer, Mong, Nung, Hoa)

## Major urban area – Population



### Population Est. 2021

98,376,753

Vietnam has the third largest population in South East Asia (after Indonesia and Philippines)



### Population Growth Est. 2021

0.95%



### Urban Population Est. 2021

38.1%

of total population



### Rate of Urbanization (2020-25 Est.)

2.7%

annual rate of change



### Literacy

95%

[Source: World Population Review – 2021]



Government Type  
**Socialist State**



Chief of State  
**President**  
Nguyen Xuan Phuc



Head of Government  
**Prime Minister**  
Pham Minh Chinh



Legislature

**Unicameral National Assembly**

**500** seats

**5-year** terms



Judiciary

**Supreme People's Court**

**1** chief justice

**13** judges



Income Status  
**Lower-middle income**



GDP Growth

**6.61 %**

year-on-year in the  
second quarter of 2021

The growth was driven mainly by:

- Agriculture, Forestry and Fisheries  
**4.11%**
- Industry and Construction  
**10.28 %**
- Service sector  
**4.3 %**

Exports for 8 months of 2021

**USD212.55 billion**



Key partners

U.S.	China	Japan	South Korea
<b>20.1%</b>	<b>4.5%</b>	<b>8%</b>	<b>6.8%</b>

Imports for 8 months of 2021

**USD216.26 billion**



Key partners

China	South Korea	Japan	Thailand
<b>25.8%</b>	<b>20.5%</b>	<b>7.8%</b>	<b>4.9%</b>

(Source: General Statistics Office – August 2021)

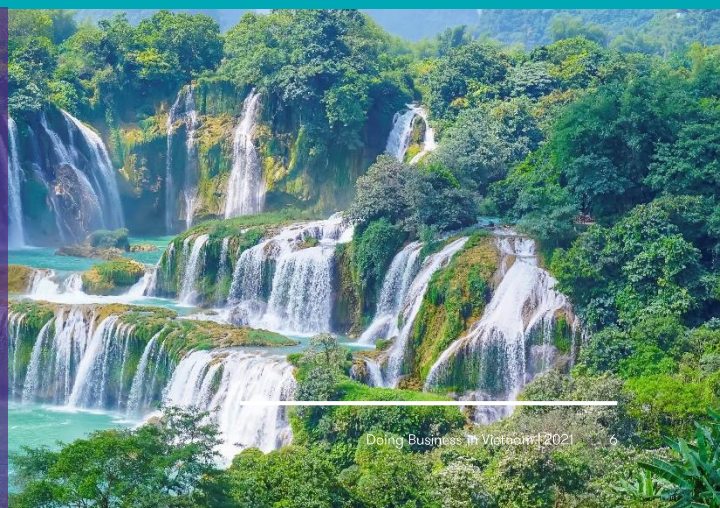
## Key export

- Electronics
- Textiles products
- Machinery
- Footwear products
- Transportation products
- Wooden products

- Seafood products
- Steel
- Crude oil
- Pepper
- Rice and Coffee
- Tourism

## Natural resources

- Antimony
- Phosphates
- Coal
- Manganese
- Rare earth elements
- Bauxite
- Chromate
- Offshore oil and gas deposits
- Timber
- Hydropower
- Arable land







**51.1 M**

people of working age



**39.3%**

of the labour force working  
in service sector

### Employment level

In the second quarter of 2021, Vietnam had 51.1 million people of working age with approximately 69.7% of them concentrated in rural areas. The number actually employed was estimated at 49.9 million, 37.9% of which were working in agriculture, forestry and fishery sectors, 32.8% working in the industrial and construction sector and 39.3% working in the services sector. Overall the unemployment rate in 2020 was 2.48%, 0.31% higher than that in 2019; The unemployment rate of working age in urban areas was 3.88%, up 0.77%. Although higher than the previous year, the unemployment rate in urban areas in 2020 did not exceed 4.0%, reaching the target set by the National Assembly. After the severe damages of COVID-19, the unemployment rate among the working age is reported in the second quarter of 2021 to be the highest of any of the last 5 years, accounting for 2.62%. However, the higher unemployment rate with more people looking for jobs will offer a larger pool of labour for corporations seeking to conduct business in Vietnam. [Source: General Statistics Office]

### Cost of living

According to the Mercer's survey of over 209 cities across five continents in 2020, Vietnam's two major cities: Ho Chi Minh City and Hanoi were ranked 111th and 116th respectively in terms of the cost of living, as compared to 120th and 112th respectively in 2019. Living in Ho Chi Minh City and Hanoi is more expensive than in Kuala Lumpur (ranked 144th) but not as expensive as in Phnom Penh and Bangkok (109th and 35th respectively).

### Living standards

As stated by Ministry of Labour Invalids and Social Affairs, at the end of 2020, the national poverty rate continued decreasing to 2.75% compared to 5.3% in 2019 and 5.35% in 2018. According to the Human Development Index (HDI) report announced by UNDP in 2019, Vietnam's HDI for 2019 positioned it at 117 out of 189, thanks to multiple achievements in poverty reduction, healthcare and education improvements. With 70 percent of the population under 35, the middle class is expected grow to 40% of the population, by 2030, Vietnam lifestyle is rapidly changing. The exposure to new technology services like ride-hailing, e-commerce and online payments allows Vietnamese to have more options and boost their consumption on digital platforms. Consumers are also considered to have better health awareness, with more purchases of natural-based or organic products and physical health awareness. Conscious consumerism is also on the rise thanks to accessible information on the product's source and its nutritional impact. Higher income and changing life perspective encourage outbound travel and people prefer to increase their budget for recreation in general.



# Business etiquette

## Greetings

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

## 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 and open a business conversation, business cards should be handed and received to and from business partners with two hands. To clarify the person you are speaking with and show your proper respect, you should read your partners cards carefully. Do not simply glance at it and put it in your pocket or wallet immediately. One more important thing should be noted in business meetings is being receptive to any invitations to lunch or dinner after your 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 Christian name. If it is applicable, you can add the professional title. It is normal to use the last name to address a Vietnamese i.e. their Christian name.

## Business attire

In working places, Vietnamese dress conservatively in good-looking clothes. 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.

## Gift giving

The Giving gifts is quite common, throughout Vietnam, and on numerous occasions during the year and in business meetings to express your appreciation, gratitude or respect to your business relations. The gift is not supposed to be costly but as an appreciation of friendship.



## 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.





# Travel to Vietnam

## Visas

A valid visa is required for entry into Vietnam. Legally, tourist visas are not valid for business visits, although this requirement is not strictly enforced. Vietnam has signed bilateral agreements with most ASEAN countries to exempt entry visas for ASEAN citizens visiting other ASEAN countries for a pre-determined period of time. Citizens of The United Kingdom, Germany, France, Italy, Spain, Denmark, Finland, Sweden, Japan, South Korea, Norway, Belarus and Russia visiting Vietnam have been exempted from entry visas for visits of less than 15 days.

## e-Visa

Foreigners nowadays can request to have an electronic visa issued by the Vietnamese Immigration

Department through the online portal and the application fee can also be paid via a electronic payment gateway of the Immigration Department. E-visa only allows single entry with a maximum stay length of 30 days. Vietnam e-visa is available for citizens of 80 countries and allow the e-visa holders to enter and exit Vietnam through 33 ports.

## Visa extensions

Vietnam visa extension is not difficult to obtain. Depending on your current visa, the procedures take you 7 to 10 days to extend a visa with term of 30 to 90 days with the fee of USD 10. Normally, it is convenient to apply for visa extensions in four big cities: Ho Chi Minh City, Hanoi, Da Nang and Hue.

## Changes due to COVID-19

The issuance of all visa types to foreigners has been temporally suspended since March 18, 2020 and since March 22, foreigners have been suspended from entering Vietnam to minimize the possibility of spreading COVID-19. According to prevailing regulations, from August 2021, diplomats, experts, foreign investors and highly skilled workers are subject to medical check and 7-14 day mandatory quarantine upon arrival (depending on vaccination status or recovery from Covid-19). Although the Immigration Department has confirmed the transition of the pilot e-visa project to law on July 1st, 2020, international flights for foreigners to Vietnam remain banned until further notice.

Foreigners entering Vietnam on e-Visa, tourist visas or waiver programmes from March 1st, 2020 that are still in the country due to travel restrictions will automatically receive visa extensions with validity until September 30th, 2021. Currently, the government is considering entry visa exemptions to foreign visitors from Australia, New Zealand, Canada and the majority of European countries (such as Switzerland, Netherlands and Belgium). In order to obtain a business visa, a business person should be sponsored by an organisation in Vietnam. The sponsorship can be performed by the visitor's Vietnamese business partner

or the representative office or branch, a trade-support institution, a consulting firm or an authorized agent.

Visitors must submit visa application forms with photographs and their passports to the Vietnamese Embassy in their country for visa issuance and pay a visa stamping fee. Depending on the visa symbol and in each case, the duration of a visa is no longer than 05 year, which could be issued to visitors such as prestige tourism agencies or investors who are making investments in Vietnam. Visas can be pre-arranged through certain travel agents or online and be collected upon arrival at Hanoi or Ho Chi Minh City airports, avoiding the need to visit a Vietnamese Embassy abroad.

Alongside implementing the e-visa system, the Vietnamese Immigration Department has allowed for a Visa on arrival in order to make the process of obtaining a visa easier for tourists and business travellers. This system allows the traveller to apply for an approval letter from the Vietnamese Immigration Department online. The visa will be issued upon arrival at an international airport in Vietnam, upon paying the relevant fee. However, the Visa issuance on arrival can take 30-120 minutes depending on the time of arrival, particularly in HCMC. Therefore, an additional fee is recommended as a fast-track option.





# Vietnam economy





# Economic Growth During Covid-19 Pandemic

The new wave of Covid-19 pandemic, in 2021, has severely wounded several countries' economies, leading to a global economic depression. Even when economies were recovering towards the end of 2020, the new waves of Covid-19 infections continue to endanger the recovery process.

Vietnam is now experiencing the greatest epidemic of Covid-19 in its history. Parts of the nation are under severe lockdown, and a slew of firms, ranging from Nike's shoe factories to Samsung's smartphone facilities, have either slowed or shut down, affecting global supply chains. The pandemic hit the Vietnam economy hard, Vietnam however has taken decisive steps and serious efforts to mitigate both the health and economic fallout. A record number of Covid-19 infections have caused factories in Southern Vietnam to close, affecting one of the world's busiest textile and footwear production centers and sending major companies on the hunt for backup sources. Commercial center Ho Chi Minh City, Vietnam's largest city, has been hit hardest. Besides the South, movement restrictions have also been implemented in major cities such as the capital Hanoi as well as Da Nang, Hoi An, and Hai Phong.

The disruption to the supply chain is a setback for a country that had mostly controlled local spread of the virus in 2020. Despite the epidemic, Vietnam's economy expanded and welcomed additional foreign investment last year, making it one of only a few Asian nations to do so. Since the beginning of July, virtually all of Vietnam's more than 200,000 illnesses have been reported, with daily new cases ranging between 10,000 and 12,000.



**70,209**

Enterprises closed



**68,000**

Firms were registered

According to the Ministry of Planning and Investment (MPI), 70,209 enterprises closed in the first seven months of 2021, a 24.9% increase year on year, with the majority of firms closing being small scale and less than five years old. In contrast, almost 68,000 firms were registered, an increase of 8.1% over the same time, mostly in manufacturing, automobile and motorcycle retail, and maintenance and construction.



**↑ 29%**

Exports in first half of 2021

Vietnam's exports grew by 29% in the first half of the year, owing to a rebound of the US market and the EU-Vietnam free trade deal (EUVN FTA). Smart investors have already started working with suppliers to diversify, and while businesses may haggle for some products, the short-term costs are high.

Retail sales decreased 19.8 percent year on year (y/y) in July, the biggest loss since April 2020, while the Purchasing Managers' Index fell substantially. On the external front, the merchandise trade balance has gone negative in recent months, and foreign investors have been cautious. It appears that interruptions in industrial zones and supply chains caused by the widespread recurrence of COVID-19 have prompted exporters to close factories temporarily or delay production.

The management of the current COVID-19 epidemic, the effective vaccination deployment, and the efficacy of fiscal measures to help impacted businesses and people and boost recovery will all play important roles in whether Vietnam's economy can recover in the last quarters of 2021.





According to the World Bank, Vietnam's GDP is anticipated to grow by around 4.8 percent in 2021, despite a strong economic performance in the first half of this year. This prediction, which is two percentage points lower than the World Bank Group's projection for December 2020, takes into consideration the negative effects of the continuing COVID-19 wave on economic activity.

Despite the Covid 19 pandemic, the capital market has been performing exceptionally strongly and has enthralled investors. We have seen a series of record-high monthly trading account openings and record-high trading volume which helped VN-Index to reach its all time high of 1,420.27 on July 2nd, 2021. Attractive investment prospects in Vietnam's real estate market have lately dried up owing to pandemic-caused building delays, while gold is less tempting to many local savers due to price volatility over the previous year. In terms of a comparable stage of economic growth, the participation rate of local investors in the stock market is still in its infancy. The VN-Index is presently approximately 14% higher than it was at its peak in 2018.



“

Based on the following indicators, Vietnam is expected to experience positive economic growth:



The Government will continue to promote public investment and expenditure, as well as implementing monetary and financial measures such as tax reductions and deferrals, to assist businesses and residents in recovering manufacturing and commerce.



A number of new and revised laws took effect in 2021 (Enterprise Law, Investment Law, Environmental protection law, etc.), dramatically improving the business environment in Vietnam. Vietnam has also concluded trade agreements with preferential commitments for investors, boosting activities in the market, in particular the UK Vietnam FTA.

Vietnam's macroeconomic is still intact and the country is recovering in a V-shaped trend. From the beginning of 2021, the Government set dual goals: protecting people's health as a top priority duty, but also guaranteeing normal social-economic activities, while still remaining vigilant. Vietnam's economic prospects appear to be promising in the near future.

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# The new path for FDI

Foreign direct investment (FDI), which is hunting new prospective markets including Vietnam, is one of the quintessential drivers for Vietnam’s industrial growth and economic growth. FDI has been a major component of the domestic economy, contributing significantly to the mobilisation of investment capital, technology, contemporary governance, and the expansion of Vietnam’s export markets.

Despite the COVID-19 pandemic's effects, Vietnam continues to attract international investment in its electronic industry and foreign electronic businesses have maintained their plants in Vietnam's northern area. The semiconductor sector in Vietnam is anticipated to develop rapidly during the next five years. Many international investors continue to choose Vietnam as a location for manufacturing bases, particularly in the electronic industry. As many as 65% of foreign electronic businesses established manufacturing bases in the country's northern regions, while approximately 30% established facilities in the country's southern area and a handful in the centre region.

According to the Ministry of Planning and Investment (MPI) from the start of January to August 20, 2021, Vietnamese investors have made foreign investments in 13 different sectors. Professional, scientific, and technical activities topped the list, with three projects totalling USD 270.8 million in adjusted capital and newly registered and extra capital (or 47.1% of total investment capital). Wholesale and retail came in second with USD 150.9 million, accounting for 26.2% of total revenue, followed by agriculture, forestry and fishery; administrative and support services, and others.

In the first eight months of 2021, Vietnam invested in 20 nations and territories. The United States of America leads the way with three new investment projects and two adjusted capital projects totalling USD 302.8 million, accounting for 52.7% of total investment capital. Cambodia came in second place, accounting for 15.3% of total investment capital with USD 89.4 million. Laos and Canada were next, with investment capital of USD 47.8 million and USD 32.1 million, respectively.

## FDI projects overview from January to August 2021



Registered capital  
**USD19.12 billion**

**1,135**

Newly licensed projects



**USD11.3 billion**

▲ 16.3% Y-O-Y

**639**

Turns of projects adjust investment capital



**USD4.98 billion**

▲ 2.3% Y-O-Y

**2,720**

Turns of capital contribution and share purchases



**USD2.81 billion**

▼ 42.9% Y-O-Y

(Source: General Statistics Office – August 2021)



Total FDI investment in Vietnam



139

Nations and Territories  
have been investing in Vietnam

Especially

South Korea

USD71.58 billion  
in registered capital

Japan

USD62.9 billion  
in registered capital

Others

Singapore, Taiwan,  
and Hong Kong



63

Provinces and Cities  
have attracted FDI

Especially

Ho Chi Minh City

USD48.94 billion  
12.3%

Hanoi

USD36.36 billion  
9.2%

Binh Duong

USD35.87 billion  
9.1%

Foreign-invested enterprises (FIEs) have provided jobs for 4.5 million direct local labourers and millions of indirect labourers. They contributed 25% of Vietnam's total development investment, 55% of industrial output, 18% of the state budget revenue, and 20% of GDP.

According to the VIR, as of August 2021, FIEs' export turnover grew over the period, reaching USD135.8 billion, up 28.9% year on year (including crude oil)

and USD135 billion (excluding crude oil), up 29.3% year on year, corresponding to about 73.7% and 73.2% of the country's total export turnover.

FIE import turnover is expected to be USD120.9 billion, up 37.6 percent year on year, accounting for 64.7 percent of overall import turnover in the country. The sector's trade surplus was expected to be USD14.9 billion (including crude oil) in the first eight months (excluding crude oil). This has helped to balance some of the local firms' USD17.4 billion trade deficit (Source: VIR).

USD135.8 billion ▲ 28.9% Y-O-Y

FIE's export turnover as of August 2021



73.7%

of Vietnam's total export revenue



This is manifested  
by a climb in  
exports largely  
created by FDI of



Mobile phone and spare parts  
more than  
99%



Equipment  
more than  
93%



Textile and garments  
close to  
63%



Footwear  
nearly  
82%

(Source: General Statistics Office – August 2021)

# Reasons for FDI in Vietnam

The trade tensions between the United States and China has led to capital mobility across regions and countries, particularly the tendency of capital of international enterprises flowing out of China. Several of the world's major corporations are now planning to relocate their manufacturing operations to Vietnam.

FDI flows are expected to considerably increase when the Covid-19 pandemic is well-controlled. Besides the movement of capital flows of large investors, small-scale FDI projects will take advantage of the free trade agreements which Vietnam has signed also in 2021. Due to the following factors, Vietnam has become one of the most attractive investment destinations for foreign investors:

#1



Vietnam has thoroughly and comprehensively integrated into the world economy through continuously signing trade agreements with major countries and regions all over the world. These agreements will provide benefits to the market in general and foreign investors in particular. Specifically, when the EUVNFTA between Vietnam and the European Union takes effect, it will apply the tariff reduction for goods imported and exported between Vietnam and member countries between the parties together with a 10-year roadmap for tariff elimination. Vietnam also committed to creating a more favorable environment for the sector of trade in services and investment such as banking services, insurance, and telecommunications. In order to develop e-commerce between Vietnam and the EU, electronic transactions will be exempt from import tax.

In addition, the Regional Comprehensive Economic Partnership Agreement ("RCEP") signed between the members of ASEAN and six FTA partners: India, China, Japan, South Korea, Australia, New Zealand also made specific commitments on trade liberalization in goods, implementing the non-tariff barrier measures. Under this Agreement, customs procedures are applied in a simple and transparent manner. The agreement is likely to create the largest free trade area in the world and establish the new supply chains due to its commitment to opening markets for goods, services, investment, application of Rule of Origin in the geographical region of RCEP, creating an export market which is stable, long-term for ASEAN countries. In addition, investors also have accessed favorable conditions when Vietnam has signed Double Taxation Avoidance Agreements to exempt or reduce tax payable in Vietnam for residents in the member countries or similar impact to member countries by residents in Vietnam.

RCEP signed between the 15 countries of Asia Pacific Nations, these 15 member countries account for about 30% of the world's population (2.3 billion people) and 30% of the global GDP (USD26.2 trillion) as of 2020. All 10 ASEAN countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam – are involved in the negotiations, along with six ASEAN free trade partners in the region: Australia, China, India, Japan, South Korea, and New Zealand. RCEP will reduce tariffs and set trade rules, and help link supply chains. The agreement is likely to create the largest free trade area in the world and establish the new supply chains due to its commitment to opening markets for goods, services, investment, application of Rule of Origin in the geographical region of RCEP, creating an export market which is stable, long-term for ASEAN countries. RCEP should also help in reducing manufacturing costs and make life easier for companies by letting them export products anywhere within the bloc without meeting separate requirements for each country.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was signed on March 2018, among 11 countries including Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. The agreement features ambitious market-access commitments in trade in goods, services, investment, labour mobility and government procurement. The agreement establishes clear rules that help create a consistent, transparent and fair environment to do business in CPTPP markets, covering issues such as technical barriers to trade, sanitary and phytosanitary measures, customs administration, transparency and state-owned enterprises.



## #2



By a variety of regulations which benefit enterprises have been changed and enacted in the New Enterprise Law, New Investment Law and Resolution 52 on digital transformation of the economy, administrative procedures are simplified and investment conditions are also reduced. The Government will decide the application of special incentives and investment supports to encourage investment projects which have great economic impacts. Technology development policies are concerned and promoted by the Government, investment incentives are applied to some sectors.

## #3



Vietnam is a potential and large market with political stability. With a population of nearly 100 million people and a rapidly growing middle class exploiting the domestic market of Vietnam is also considered as a potential business and investment strategy. In particular, while the tightening of trading conditions is applied in many countries due to the political changes and the impact of epidemics, enterprises can take advantage of the domestic market to mitigate the negative effects from outside.

## #4



The labour force of Vietnam is young, abundant and well-qualified while the labour cost is considered to be quite competitive in the region.

## #5



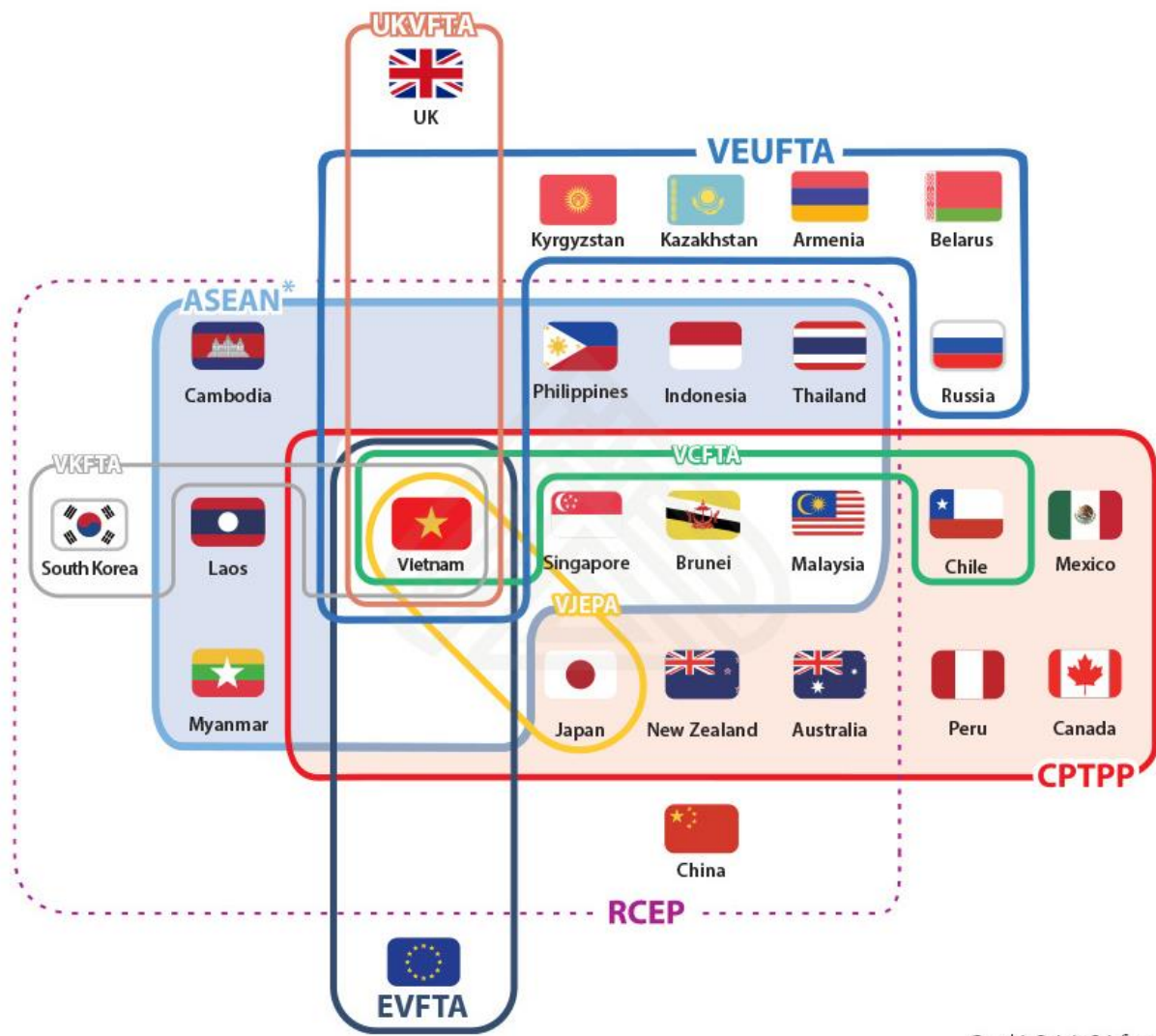
Vietnam is strategically located in the centre of Asia, the flight time from Vietnam to major economic centres such as China, Singapore, Japan, South Korea, Taiwan and ASEAN countries is relatively short.

# “

The Vietnam market has gradually attracted the attention and interest of foreign investors around the world due to its strengths in economy, society and politics. Therefore, Vietnam will be a worthy destination for investors and FDI companies to invest in at present and in the future.



# Trade agreements



Graphic © Asia Briefing Ltd.

Vietnam is one of the countries with the most free trade agreements (FTAs) in the world. It has signed a total of 17 trade Agreements, of which 14 have become effective, 1 has been signed but is yet to take effect, while negotiations have concluded on 2 deals and are on the way for three others.

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

Many FTAs, especially new-generation ones, pay attention to fairness, which forces Vietnam to act to improve the domestic business environment towards fair treatment between State-owned and private enterprises. The trade deals also assist with efforts to improve infrastructure, push forward administrative reforms and remove market obstacles.

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



Current FTAs in Vietnam			
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, South 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, South 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	ASEAN, Hong Kong (China)
13	EUVNFTA	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
Signed FTAs, not yet in effect			
15	RCEP	Signed on November 15, 2020	ASEAN, China, Korea, Japan, Australia, New Zealand
FTAs under negotiation			
16	Vietnam - EFTA	Negotiations commenced in May 2012	Vietnam, EFTA (Switzerland, Norway, Iceland, Liechtenstein)
17	Vietnam – Israel FTA	Negotiations commenced in December 2015	Vietnam, Israel

# Banking and Capital markets

## Capital markets

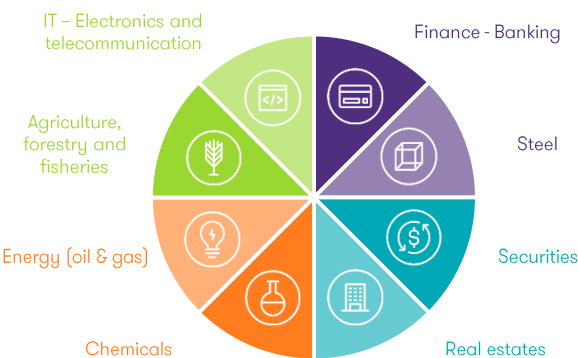
The Vietnam securities markets are monitored and regulated by the State Securities Commission. There are two centralised securities markets, the Ho Chi Minh City Stock Exchange (HOSE) and the Hanoi Stock Exchange (HNX). There is an official plan for HNX to merge with HOSE. From 31st July 2023, HNX will stop accepting the new listings, and all securities will be traded on HOSE by June 30th.

VN-Index has broken many records and the top performing world market. From the beginning of 2021 to the end of July, VN-Index increased by 15.8%, becoming the best performing index compared to those in the U.S and Europe, Asia Pacific (excluding Japan), and Southeast Asia, which has growth rates of 11%, 3.2%, and -2.9% respectively.

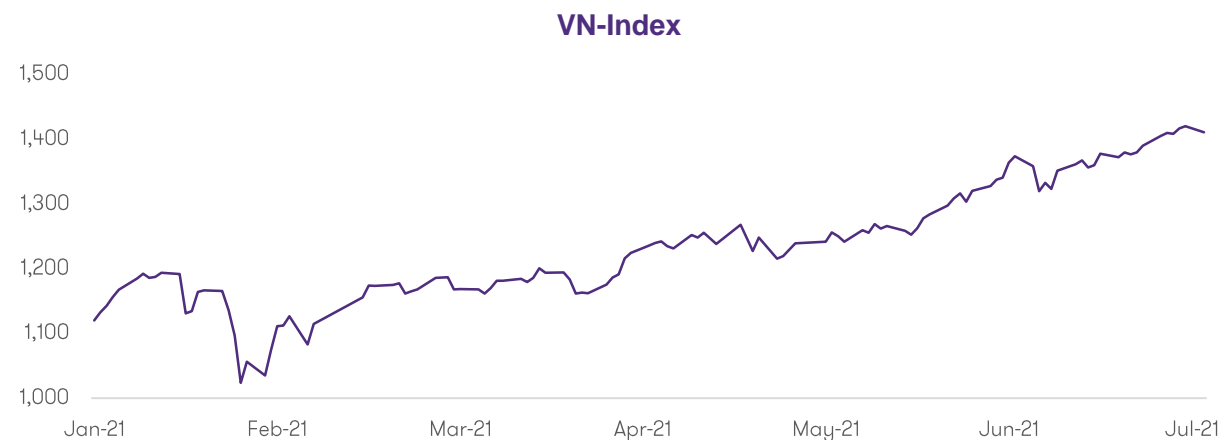
According to Vietnam Report, stocks have surged in finance-banking, steel, and securities industries. Coming next were the real estate and building materials industry thanks to the focus on public investment from the government. Information technology – telecommunication also benefited because of social distancing and digital transformation. The growth of the electronics industry also led to the development of the chemical sector, especially in producing semiconductors. The increasing demand for detergents leveraged the growth of stocks in the chemical field. Furthermore,

the demand for food increased sharply, leading to a rise in stocks of agriculture, forestry, and fishery. Finally, oil and gas stocks also witnessed some positive outcomes.

Top 8 industries with best growth stocks



The number of new accounts in Vietnam’s stock market significantly increased, along with active involvement from individual investors. According to the Securities Depository Center, Vietnam currently has around 3.3 million accounts and the first 6 months of 2021 saw an increase of some 500.000 new accounts. It was considered the highest number of new individual investor accounts, which increased 27.3% from the whole year 2020.





# Banking System

Vietnam's banking system was divided into a two-tier structure in 1988, when the State Bank of Vietnam (SBV) assumed the regulatory and supervisory roles for the banking sector, with commercial activities shifting to credit institutions. The SBV acts as both the Central Bank and as a Government Agency of the Socialist Republic of Vietnam. Operating under the tight direction of the Government, the SBV is subject to the Government's or the Prime Minister's approval for key areas of operation. Since dividing into a two-tier system, the Vietnam banking system has expanded rapidly. Vietnam's credit institutions comprise state-owned commercial banks (SOCBs), joint-stock commercial banks, joint-venture banks, 100% foreign-owned banks, branches of foreign banks, credit cooperatives, finance leasing companies and finance companies.

The SOCBs accounted for around 41.56% of total banking system assets; however, the domination of these banks has been on a significant downward trend due to the strong growth of private banks and foreign banks.

According to Decision 242/QĐ-TTg, approving the Scheme for "Restructuring Securities and Insurance market by 2020 and Vision to 2025", all joint-stock commercial banks shall list their shares and register to have their shares traded by the end of 2020. Despite that and the Government's efforts, currently there are only 23 out of 31 banks listed. The authority is considering serious disciplinary action so that to have all banks listed in 2021.

Over the last decade, foreign banks have expanded their presence in Vietnam. Up to now, there are 50 foreign bank branches; two joint-venture banks, and nine 100% foreign-owned banks in the country. Also

there are two new foreign bank branches and one branch of the United Overseas Bank in liquidation stage.

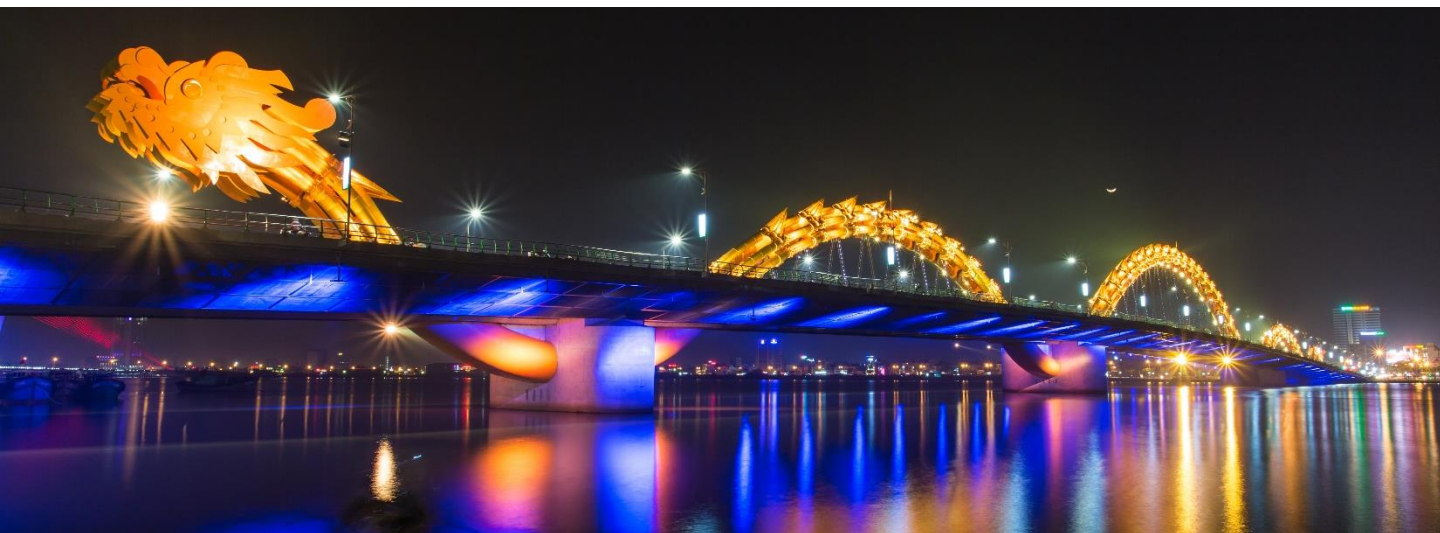
Current legislation states that the total foreign shareholding in local Vietnamese banks is not to exceed 30 percent. Within this limit, the maximum shareholding permitted to a foreign bank as a strategic partner is 20 percent, while a non-strategic investor can own 15 percent. Individual investors may hold no more than 5% of the shares. These regulations have reduced the attractiveness of Vietnam banking system investment to foreign investors.

## Legal treatment

Under the current regulations, credit institutions are permitted to provide a wide range of products and services from traditional banking to fund management or securities services. In practice, due to licensing restrictions, the non-traditional banking services are generally provided by banks through separate legal entities. In accordance with Vietnam's commitments to the WTO, the government has committed to providing a level playing field for both domestic and foreign credit institutions.

## Foreign investor banking services

Generally, all foreign investors are required to open a bank account to conduct business in Vietnam. Foreign investors are permitted to open accounts in Vietnamese Dong and some other foreign currencies. Foreign invested enterprises should note the requirements to open a capital account for all capital and dividend transactions.



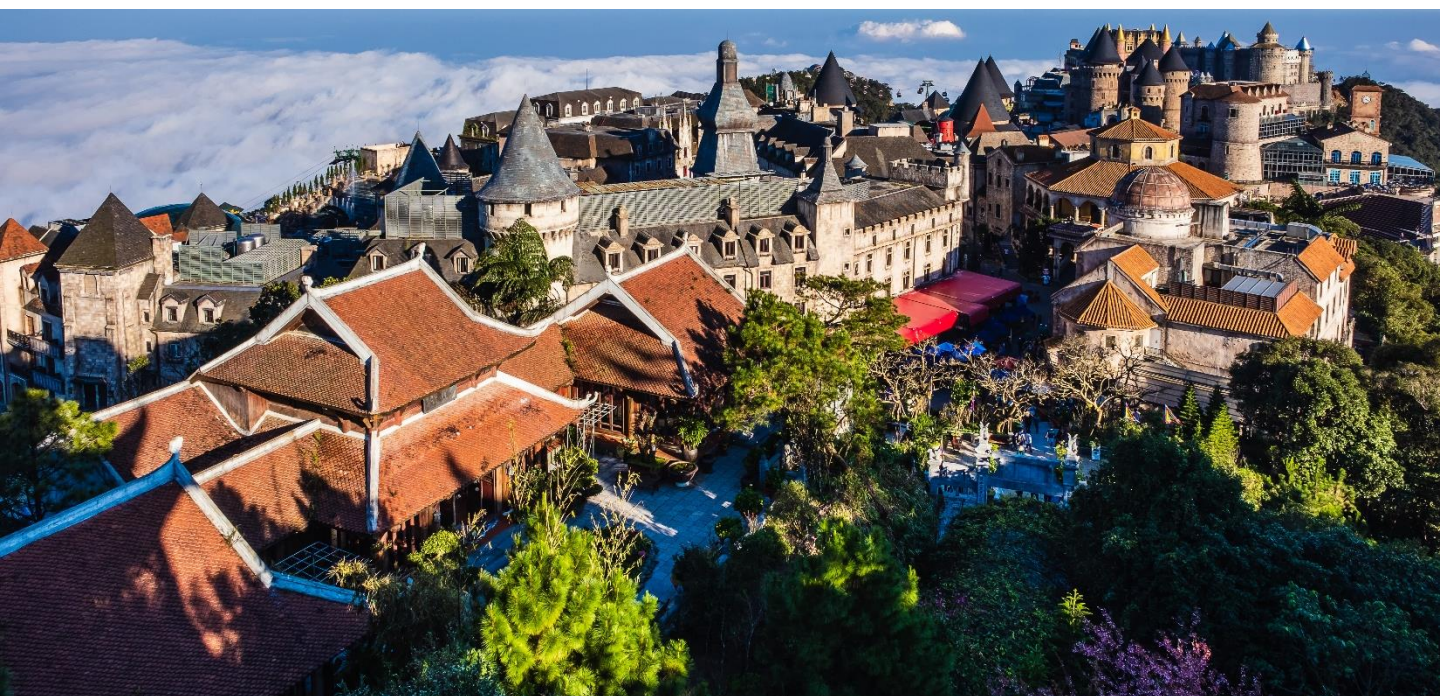
## Private Equity investment opportunities

Despite the lockdown caused by Covid-19, Vietnamese Private Equity Investment in the first half of 2021 still showed no signs of slowing down, which mirrors an expected strong recovery and growth of the economy.

There were 51 closed transactions with total disclosed value of USD1,040 million from the beginning of the year to August 24 (Capital IQ and Grant Thornton). There were 4 transactions with value of at least USD100 million. The largest deal recorded was USD400 million in CrownX JSC from Alibaba Group and Baring Private Equity Asia. Two investments of USD250 million and one of USD100 million went into 2 largest competing Fintech companies: VNLIFE (which

owns VNPAY) and M-Service JSC (which owns MoMo). The other transaction of USD100 million belonged to EQuest – an education group with multiple brands and great application of technology.

The pandemic has obviously brought with it multiple challenges to businesses. We have seen transactions put on hold due to different reasons such as unexpected poor performance impacting prospects and valuation, limitation in travelling, and in some other cases the PE and investment funds shifted their focus toward stabilizing existing portfolio companies and providing operational support.



On the other hand, challenges bring about opportunities. If in 2020 many companies thought they could endure through the hardship of Covid-19 and expected a recovery in 2021. The prolonged and unpredictable pandemic probably has forced many companies to the point of needing funds today. Private Equity Funds can now have access to the companies on their watch list, bring capital to the table and negotiate for favorable prices. Moreover, notably, Covid-19 has speed up digitalization and technology transformation. With this re-shaping, many investors have turned their attentions to companies with innovative technological solutions, such as Edtech, Fintech, E-commerce, Health-tech, Prop-tech, etc.

With the need for “everything must go online” these days, there is no longer a clear definition between E-commerce and the retail sector. There were 8 transactions with total disclosed value of USD40 million in this E-commerce/ retail sector, in which Tiki received the largest amount of USD20 million with post-money valuation of USD740 million. Following suit was USD12 million in Lozi, bringing its post-money valuation to USD100 million. Hasaki Beauty & SPA Co. and HSV Group – two retail beauty chains with strong online selling platforms – also received investments from two prestigious funds, Excelsior Capital Asia (HK) Ltd and Mekong Enterprise Fund IV of Mekong Capital.



# Attractive sectors for investment in Vietnam





Since the start of 2021, Vietnam has launched various incentives to attract FDI investors, along with many new opportunities from newly signed Free Trade Agreements. The Government encourages the investments and there have been several new joint ventures, capital contributions and share acquisitions by FDI enterprises in projects using high and new technologies and supporting industries to master technology, manage and develop national products.

Priority will be given to high-tech, innovation, research and development, projects that create favourable conditions for Vietnamese enterprises to participate in the supply chain, as well as those related to promoting digital economy and actively contributing to the country's sustainable socio-economic development. Notably, those following sectors have lured a high number of FDI investors for many years.





# Manufacturing sector

Manufacturing sector continued playing a key role in leading the overall growth of industrial development and the whole economy of Vietnam, although the pandemic situation continued to evolve complicatedly in the country and in the world.

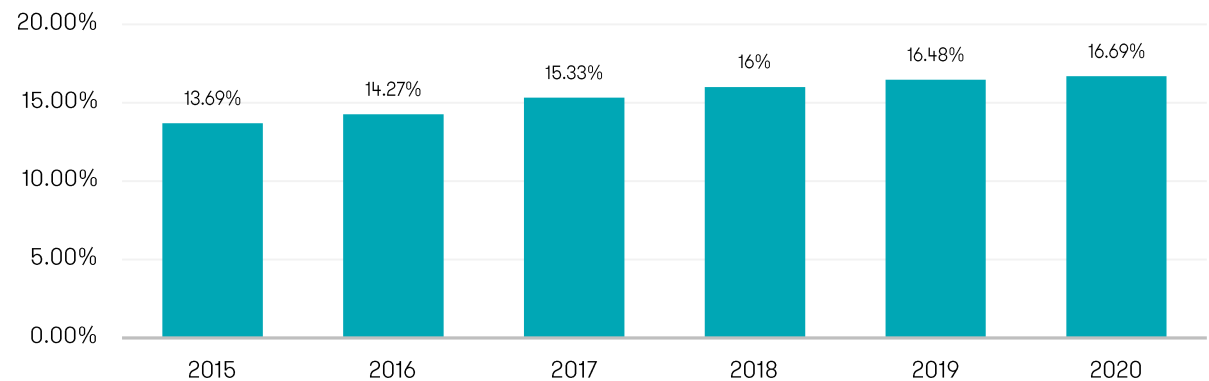
Contribution to GDP of the manufacturing sector in Vietnam from 2015 to 2020 steadily increased each year, especially in 2020 the sector accounted for 16.69 percent of the country's total GDP. In that year, Vietnam was among the countries with the highest GDP growth in the world with an estimated GDP of over USD 340 billion (an increase of 2.9% over 2019).

According to General Statistics Office of Vietnam (GSO), generally, for the whole year 2020, the added value of the industry increased by 3.36% compared to 2019, of which the manufacturing increased by 5.82%.

In the first quarter of 2021, manufacturing, with an increase of 9.45% compared to the same period last year played a driving force in the growth of the economy.

The Industrial Production Index (IIP) in July and seven months of 2021 recorded a growth rate of 5.6% year over year, and the manufacturing sector, recorded a rate of 7% still maintaining its key role in economic growth.

## GDP Share



Source: Statista 2021

## Industrial production for 8 months of 2021

IIP growth rate over the same period last year

▲ **5.6%**  
WHOLE  
INDUSTRY



**7.0%** ▲  
Manufacturing



**4.4%** ▲  
Water supply, waste and  
wastewater management



**6.6%** ▲  
Electricity production



**6.2%** ▼  
Mining

Source: General Statistics Office (GSO) of Vietnam

The Economist Intelligence Unit (EIU) Report, highlights that Vietnam will continue to offer generous arrangements for international firms with incentives for investment despite facing many difficulties and competition.

In September 2020, the government issued an action plan implementing Resolution No 23/NQ/TW with six main goals. Those goals include plans that manufacturing and processing will account for 30 percent of Vietnam’s GDP by 2030 with the value proportion of high-tech production from the manufacturing and processing industries reaching at least 45 percent. In addition, as Vietnam is part of several free trade agreements it has to ensure that any product it manufactures uses materials processed within its border to qualify for tariffs reductions under the different Rules of Origin. While Vietnam’s PMI has fluctuated in recent months, the

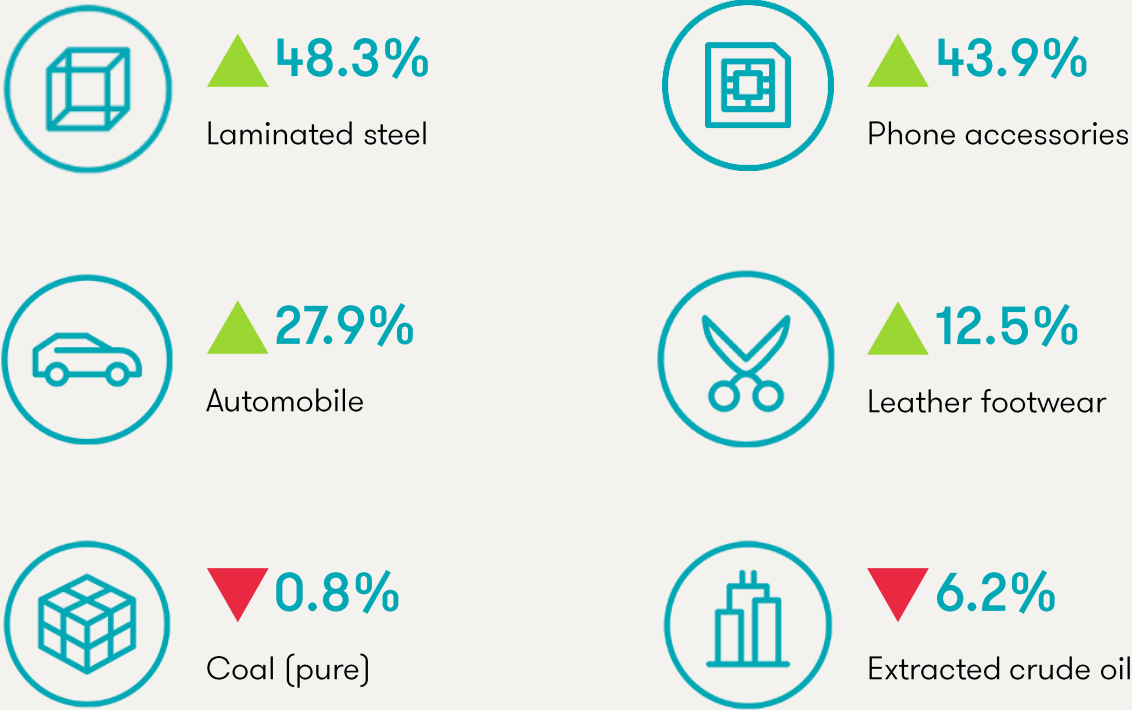
government remains committed to the industry and remains keen on high-tech manufacturing becoming a hub for big businesses.

In recent years, many manufacturing sectors have seen rapid development, such as electronics, textiles, and footwear with high export value.

However, the current wave of the Covid-19 pandemic in Vietnam has led to disruptions across the manufacturing sector in the third quarter of 2021. This has caused rates of output to decline due to social distancing restrictions, limits of staff numbers, and temporary company closures.

Some major industrial products in 8 months of 2021 increased sharply over the same period last year: Laminated steel (48.3%); Phone accessories (43.9%); automobiles (27.9%); leather footwear (12.5%); coal (pure) (0.8%), extracted crude oil (6.2%).

Growth rate of some major industrial products



Source: General Statistics Office (GSO) of Vietnam

# Renewable Energy and Cleantech

## Potential Market



**8.5% per year**

The growth rate of Vietnam Power Demand during the year 2021 - 2025



**27.7 billion kWh**

Shortage of power in 2025



**186 billion kWh**

Target production from renewable energy sources in 2030



Vietnam Renewable Energy is still one of the sectors receiving high attention from the both local and international investors. More than US\$ 5.1 billion flowed to the sector in 2020 , accounting for 18% of total registered FDI.

## Installed capacity by June 2021



Solar Power

**18,783 MW**

In which 9,583 MW industrial rooftop solar and 9,200 MW agrisolar



Wind Power

**4,099.13 MW**

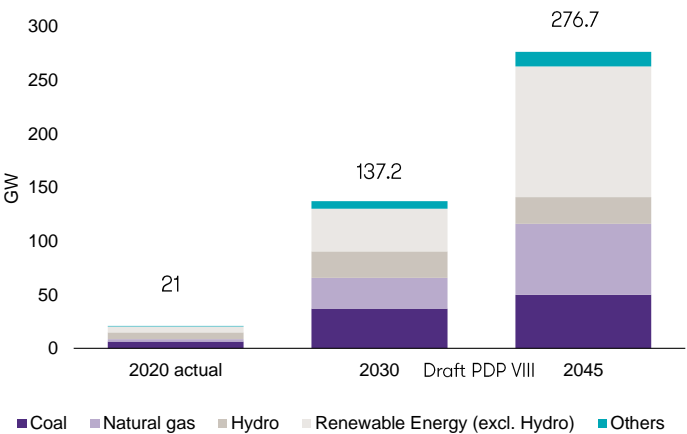


Biomass

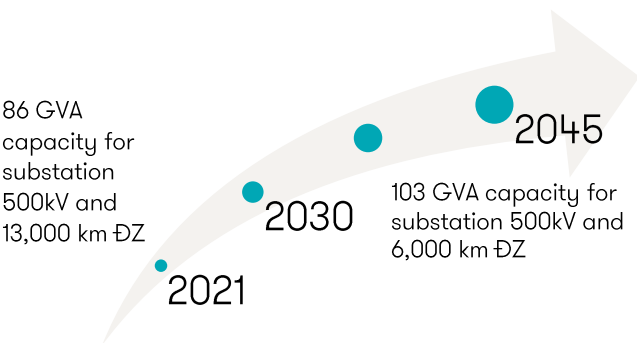
**500 MW**

## Vision 2030 - 2045

According the Draft Power Development Plan VIII, the government has increased the power capacity from renewable energy to 29% in 2030 and continuously to 45% in 2045.



To support for 2030 - 2045 target, the government also planned to enhance grid capacity.





Incentive policies from the Government



Feed-in Tariff Rates

Feed-in Tariff Rates	
Floating solar	7.69 US cents/ kWh
Ground-mounted solar	7.09 US cents/ kWh
Rooftop solar	8.38 US cents/ kWh
Offshore wind project	9.8 US cents/ kWh
Onshore wind project	8.5 US cents/ kWh
Small hydro power (<30MW)	5 US cents/ kWh for subject to avoid costs regime
Biomass	7.03 US cents/ kWh for combined heat and power
Biomass	8.47 US cents/ kWh avoided cost tariff for other technologies
Solid domestic waste	10.05 US cents/ kWh for waste incineration
	7.28 US cents/ kWh for combustion of landfill gas



Power Purchase Agreement with State utility off take for 20 years



Import duty exemption for imported goods to establish fixed assets, materials and semi-finished products



Preferential CIT rate: 10% for 15 years, exempt for 4 years and reduction of 50% for following nine years



Land rental exemption

Currently the Pilot DPPA program has been launched for a scale ranging from 400MW to 1,000MW to be implemented from 2021 to 2023.

Foreign investment in Renewable Energy

There is no restriction for foreign investment in the renewable energy sector. We have observed there was an investment trend through merger and acquisition for foreign investors.

Investors	M&A transactions
Gulf Group	90% stake of 2 solar farms in Tay Ninh
Gulf Group	95% stake of 2 wind farms in Gia Lai
Super Energy	Majority stake in solar farms in Binh Phuoc
Sungrow Power (Singapore) Pte Ltd	70% stake in 3 wind farms with capacity of 300MW in Dak Nong
Asian Wind Power 2 HK Ltd (Hong Kong)	Invest in 2 wind projects in Binh Thuan



# Real estate

Vietnam is emerging as a thriving and fast-growing real estate market in Southeast Asia. Real estate industry contributed about 4.42% to GDP in 2020 (Vietnam Ministry of Construction). The big cities like Ho Chi Minh City and Hanoi have been well developed to meet the surging demands of the population and high growth for many years ago.



**4.42%**  
of GDP in 2020



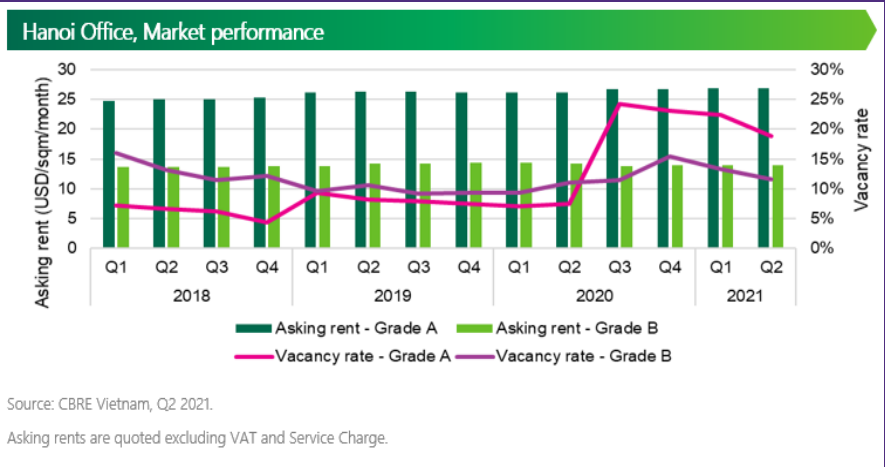




## Hanoi Office Market

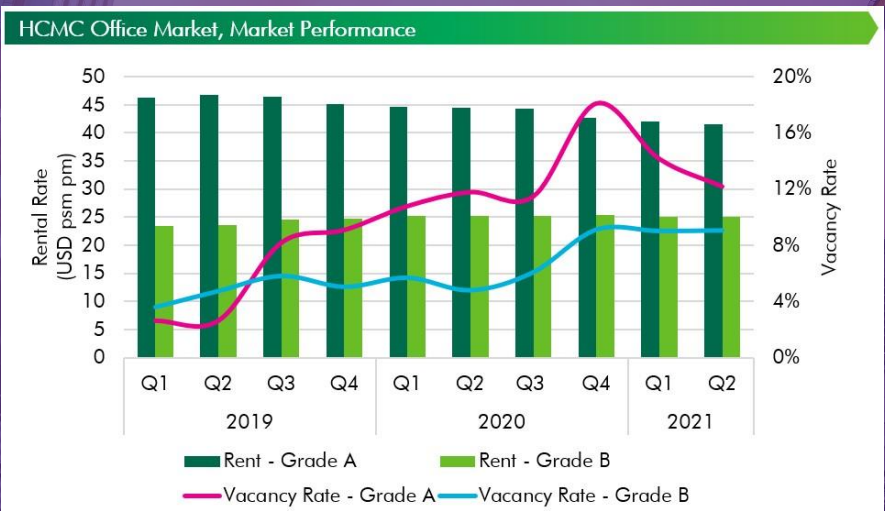
There were no new projects in the Hanoi office market in H1 2021. The overall office supply in Hanoi remained at 1.5 million square meters NLA in both grade A and B, with Grade A projects accounting for 35% of total supply.

Although the Vietnamese economy is still being impacted by the COVID-19 pandemic, the office market in Hanoi and HCMC showed indications of recovery in H1 2021. The net absorption of the office markets in Hanoi and HCMC in H1 2021 was 60,000 and 33,000 square meters, respectively. Compared to H1 2020, when the pandemic first hit the market, these numbers have improved substantially (absorption rates in Hanoi and HCMC in the H1 2020 was negative 17,000 sqm and negative 3,800 sqm respectively).



## HCMC Office Market

In the second quarters of 2021, a new wave of COVID-19 emerged, with recent cases reaching an all-time high since the first epidemic. Many businesses were more receptive to working from home or implementing a rotation strategy. According to the CBRE APAC Survey, the number of firms that prefer a 1-4 days/month policy for working from home has increased in the short term, while the number of companies that need working at the office at all times has decreased. In HCMC, landlords provide assistance on a case-by-case basis, such as free rent and/or service charges for businesses forced to close due to the epidemic, and a more liberal approach for contract renewals.



## Industrial Real Estate Market

Despite the impact of COVID-19 in the first half of 2021, the industrial land market remained favorable in terms of rents and occupancy rates. The average occupancy rate in key Northern industrial provinces and cities (Hanoi, Bac Ninh, Hung Yen, Hai Duong, and Hai Phong) was about 80% in the second quarters of 2021. The average occupancy rate of industrial land remained at 69% when surrounding provinces were included (Thai Nguyen, Vinh Phuc, Quang Ninh, Ha Nam, Nam Dinh, Ninh Binh, Bac Giang).

In both the southern and northern areas of Vietnam, the rental growth rate has decreased compared to 2020. In the first half of 2021, the rental growth rate in the key Northern industrial provinces and cities varied from 0% to 5%, down from 4% to 13% in 2020. Except for a few projects in good locations in Bac Ninh, Hai Phong, Binh Duong, Dong Nai, and Long An, where

asking rents increased by 5% to 10% in H1 2021, most industrial parks' asking rents were steady compared to Q4 2020.

The performance of the ready-built industrial and warehouse sector has been consistent year over year. Due to restricted new supply, the average occupancy rate in Northern cities and provinces was above 90% in H1 2021. In H1 2021, asking rents for warehouses and ready-built factories were steady compared to H1 2020.

Demand for industrial real estate mainly comes from electronic components, automobile, packaging and logistics companies. The rapid development of logistics firms since the outbreak of COVID-19 has raised the need for storage space and increased the demand for land bank to construct logistics facilities, with the share of logistics land inquiries growing from 30% in 2020 to 39% in H1 2021. (Source: CBRE Vietnam).





# Business entities





# Establishing a company

The Law on Enterprises (LoE) was passed by Vietnam's National Assembly on 17 June 2020 and took effect on 01 January 2021. The Laws provide four types of legal forms of corporation for business entities, comprising:

- Limited liability company (LLC)
- Joint-stock company (JSC)
- Sole proprietorship
- Partnership

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 an existing domestic enterprise, subject to certain ownership restrictions which are varied depending on the sectors.

Foreign investors who wish to establish an entity in Vietnam for conducting their investment 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 to carry out its investment activities in a specified area and for a specified duration of time. Documents must also be supplied, attesting to the legal status of the investor, report on the financial capacity, and proposal for investment preferential treatment. 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") 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.

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

- Announcing the establishment information on the National Business Registration Portal
- Carving and notifying the Company seal(s) with the licensing authority
- Opening bank accounts
- Registering salary scale with the labour office
- Registering to join the social insurance with social insurance department

- Registering and paying Business License Tax to the competent tax authorities
- Submitting the proposed accounting system to the competent tax 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 regulated by the Ministry of Finance.

Companies are obliged to submit financial statements within 30 days for sole proprietorship and partnerships and within 90 days for other type of enterprises from fiscal yearend.

Audited financial statements by third parties are mandatory requirements for foreign invested companies, public companies, securities firms, credit institutions, financial institutions, insurance enterprises/brokers.



## 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 one 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 accordance with the laws.

### Management structure

The management structure of a limited liability company will depend on the number of the authorized representatives of the Company to create the mechanism of Chairman or members' council.

In the case of a "Chairman mechanism mode", the management structure will consist of one authorised representative appointed by the owner as the general director.

In the case of "members' council mechanism mode", the management structure comprises the members' council, the chairman of the members' council and the general director. The general director is appointed or hired by members' council to manage the daily business operations of the company. The chairman of the Members' council, who is also elected by members, can be concurrently the company's General Director. The General Director will be the legal representative.

For a company whose total members exceed 11, a Supervisory Board must be established to supervise the management and direction of the company handled by a board of directors and the General Director.



## 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 one 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 for shares in the company. It is required to have at least 3 shareholders, with no maximum stipulated by law.

The founding shareholders of a JSC must subscribe 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, 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.

### Management structure

The management structure of a JSC comprises the general meeting of shareholders, the board of management, the general director and the board of supervisors (where the company has more than 11 individual shareholders and shareholders being organizations holding more than 50% of total shares).

The Board of Management should consist of at least 3 members but no more than 11. Its members are elected by the General Shareholder Meeting for terms of up to 5 years. The Board of Management has authority to make decisions, exercise the company's rights and perform the company's obligations on behalf of the company.

## 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:

- The foreign parent company must be in operation for at least 01 year to be allowed to establish an RO in Vietnam;
- Licenses for ROs 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). RO is only permitted to act as 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.

## Partnership

Partnerships can be established in Vietnam providing 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.

## 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.

## Branch

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

- 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 five 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

## 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. The 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.





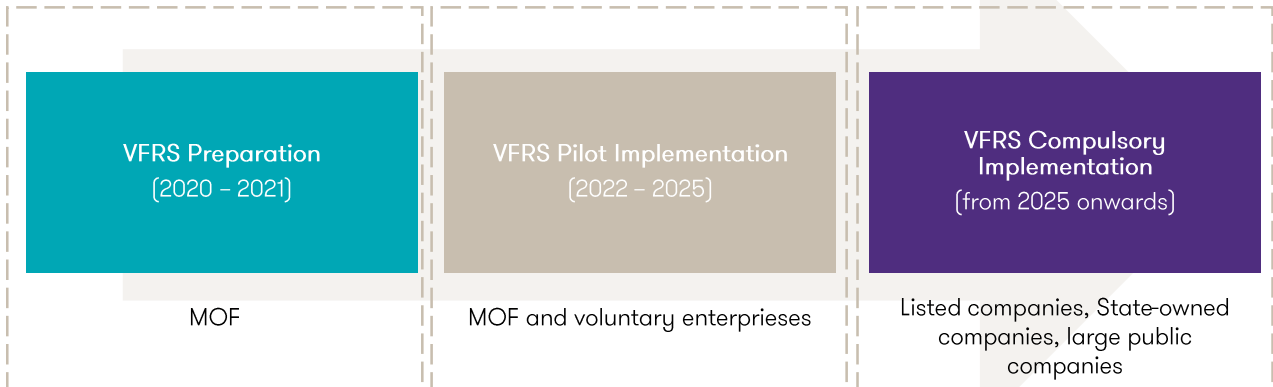
An aerial photograph of a tropical coastline. The left side of the image shows clear, turquoise water with visible coral reefs and rocks. A narrow strip of white sand beach runs diagonally from the top center towards the bottom right. To the right of the beach is a dense, lush green forest. A semi-transparent purple rectangular box is overlaid on the left side of the image, containing the title text. A solid teal horizontal bar is positioned below the text box.

# Financial reporting and audit



# Vietnamese Financial Reporting Standards (“VFRS”) process

On 16 March 2020, MOF issued the Decision 345/QĐ-BTC to approve “Approving scheme for application of Financial Reporting Standards in Vietnam”.



## Auditing regulations





# Accounting system

## 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 on Vietnamese Accounting Systems (“VAS”) and the application of and 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 system 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.

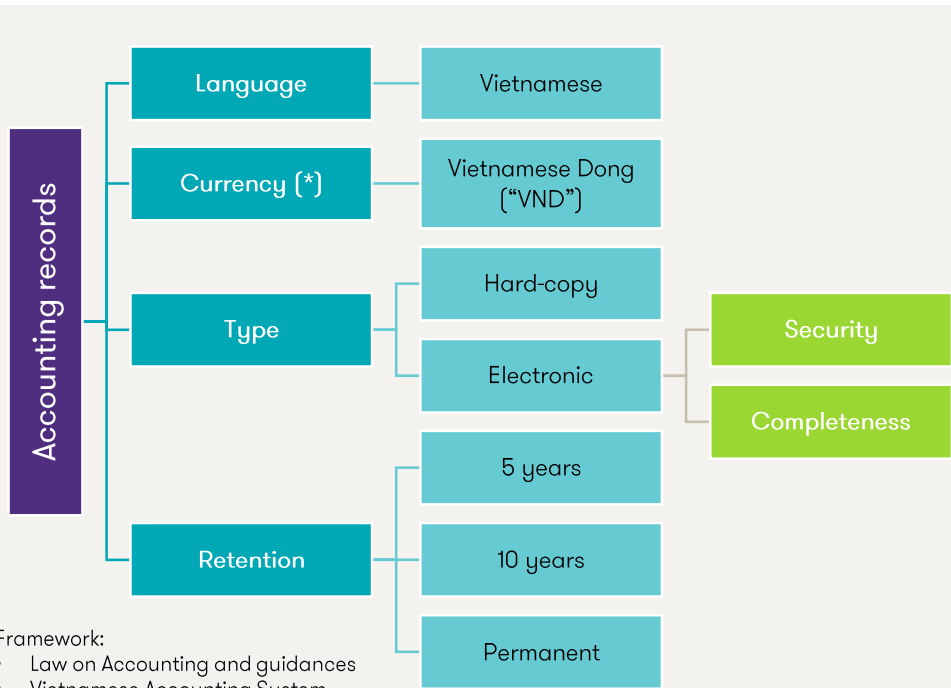
### Circular 132

**Circular No 132** which 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 chief accountant services. In addition, a microenterprise paying 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 accounting regulations under either the Circular 132 or the Circular 133 on accounting regulations for SME’s.

### Circular 210

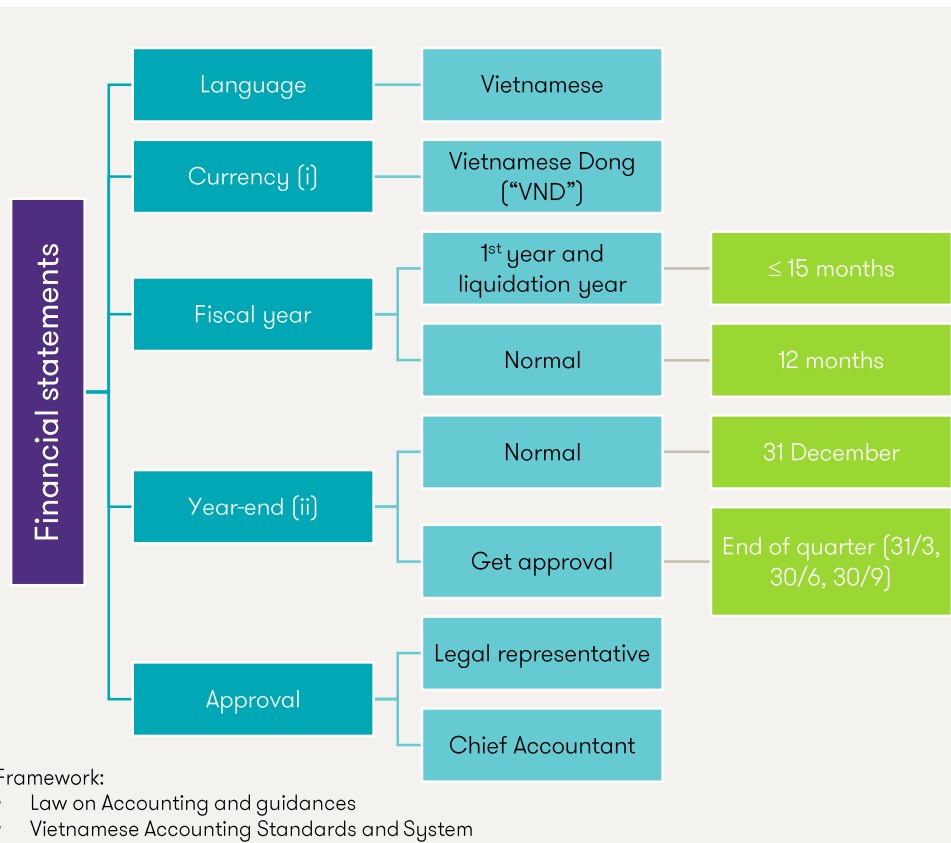
**Circular 210** provides guidance on accounting systems applicable to securities companies. Circular 210 provides a number of amendments related to the chart of accounts, accounting methods, forms of accounting books and methods of preparation and presentation of financial statements applicable to securities companies established and operating under the provisions of the Vietnamese Securities Law. Circular 210 is applied for securities companies’ 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 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 its accounting records and preparing its financial statements, its financial statements are required to be translated into VND for statutory reporting purposes.

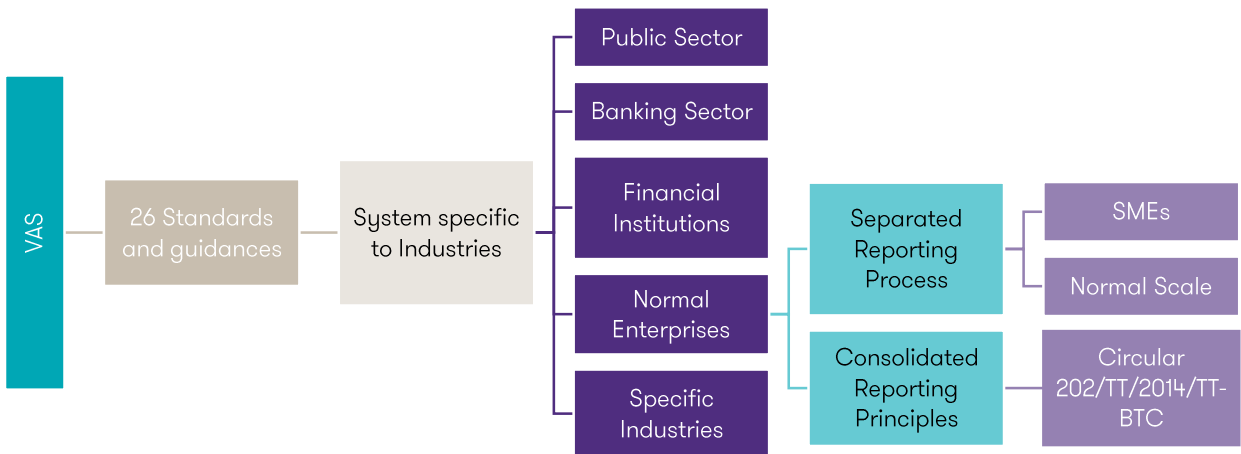
(ii) VAS specified some requirements for financial statements of change in fiscal year.



# Accounting regulations



## Vietnamese Accounting Standards and System (“VAS”)




### Main characteristics of VAS:


- Vietnamese Accounting Standards for normal enterprises were issued from 2000 to 2005, They have been were 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 or 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 for the standardised financial statements, accounting treatments, accounts mapping, accounting ledgers/vouchers, etc.

# Key audit requirements

## Compulsory annual audit


Public interest entities: are required to submit “reviewed” semi-annual financial statements and “audited” annual financial statements. There were 40 audit firms in the list of firms who are approved and authorised by the MOF in 2021. This was updated from MOF and VACPA report.


 Listed companies

 State-owned enterprises

 Banks

 Securities companies

 Financial institutions

 Insurance firms

Foreign direct investment enterprises: are required to have their annual financial statements audited. There were 207 audit firms in the list of firms who are approved and authorised by the MOF in 2021. This was updated from MOF and VACPA report.

Any other entities involved in special circumstances such as mergers and acquisitions, changes in ownership, termination 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 deadline

Audited annual financial statements must be completed and submitted/filed with the applicable licensing body, Department of Finance in province and city under the jurisdiction of the central government where such enterprise’s head office is located, and 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 half-year reviewed financial statements and year-end audited financial statements within 45 days and 90 days, respectively, from the balance sheet date.

## 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 by 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.

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.





# Tax system





“

Most business activities and investments in Vietnam are likely to be subject to 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)

Other various 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)

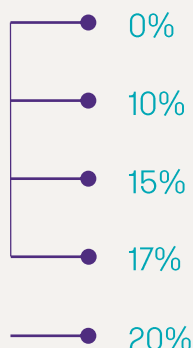


# Corporate Income Tax (“CIT”)

## Incentive rate

(subject to application and approval at the time of licensing)

## Standard rate



## 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.

### Based on

#### Location

Qualifying economic and high-tech zones, certain industrial zones and areas with difficult socio-economic conditions



#### Sector

Education, healthcare, sport/culture, high technology, environmental protection, scientific research, infrastructural development, renewable energy and software manufacturing



#### Scale of investment

Large manufacturing projects meeting requirements of investment capital, minimum revenue, minimum headcount



Summary of CIT rates

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 hi tech zones	Up to 15 years	4 years	9 years
	(2) Income from new investment projects in: <ul style="list-style-type: none"><li>• Scientific research and technology development; investment in the development of specially crucial infrastructure works as prescribed and software production</li><li>• Manufacturing composite materials, light construction materials, precious and rare materials; manufacturing reproduction energy, clean energy, energy from destroying waste; developing bio-technology</li><li>• Environmental protection.</li></ul>	For the newly invested projects in s Item (2), the applicable period might be extended for an additional 15 years maximum, subject to the Government's decision		
	(3) Income of hi-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 VND6,000 billion and being disbursed in under 3 years from the date of investment certificate, and <ul style="list-style-type: none"><li>• Having total minimum revenue of VND10,000 billion/year no later than 3 years from the first year of generating revenue; or</li><li>• Employing more than 3,000 fulltime employees no later than 3 years from the first year of generating revenue.</li></ul>			
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





## 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 VND20 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 organizations exceeding 1.5 times the interest rate set by the State Bank of Vietnam
- Certain interest expenses exceeding the cap of 20% 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 for the poor;
- Administrative penalties, fines, late payment interest;
- Contributions to voluntary pension funds and life insurance premiums and 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 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 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. 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.

The provisional tax paid amount of the first 3 quarters of the relevant tax year could not be less than 75% of annual tax payable amount per year-end CIT finalization return. Otherwise, the shortfall is subject to interest for late tax payment counting from the following day after the deadline of 3rd quarter CIT payment to the actual payment date. This regulation is applied for tax year of 2021 onwards.

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 exempt 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 that effect can be found in the regulations on foreign loans and corporate income tax (permitted borrowing capacity and excessive interest rates).

## Profit Repatriation

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

Foreign investors or their investee companies upon the foreign investors’ authorization are required to notify the local tax authorities of the plan to repatriate profits at least 7 working days prior to the scheduled repatriation.







## Transfer Pricing (“TP”) in Vietnam

TP Regulations apply if:

- i. One party participates directly or indirectly in the management, control or equity of the other, or puts investment in the other;
- ii. 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 Organization for Economic Co-operation and Development (OECD). Further several interpretations and improvisation from the local lawmakers were applied and enforced under Decree 132, which results in a divergence of the local TP regulations in comparison with the original guidelines and making it impossible for entities applying general OECD guideline in home jurisdiction to adapt the local regulations without professional advices.

In terms of compliance documents, Vietnamese taxpayers who entered 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 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 purpose.

At the same time, the Vietnamese TP regulations also provide threshold for TP filing simplification in which small and medium taxpayers who satisfy threshold conditions could be exempted from the preparation of TP Documentation report for the respective tax year.

Last but not least, Circular 45/2021/TT-BTC (Circular 45) has been recently issued on 18 June 2021 in order to provide guidance toward the application of Advance Pricing Agreement (APA) mechanism. Circular 45 has replaced Circular 201/2013/TT-BTC and shall take effective from 3 August 2021 onward. Circular 45 has provided several clarifications toward APA matters in terms of declaration, processing, authorization procedures as well as shorten the APA duration to 3 years from the maximal 5-year period mandated under the precede regulations.

# Value Added Tax (“VAT”)

 <b>Not subject to VAT</b>	 <b>0%</b>	 <b>5%</b>	 <b>10%</b>
Certain agricultural products, supply of fertilizer/ feed for livestock/ seafood and other animals, transfer of land use rights, financial derivatives and credit services, various securities activities, etc.	Exported 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), etc.	Essential goods and services, such as clean water, teaching aids, books, medicine and medical equipment, various agricultural products and services, technical/ scientific services, social housing, etc.	Standard VAT rate

## VAT rates

### VAT rate: 0%

This rate applies to exported 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 exported 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 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 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); sale of VATable mortgaged assets by a borrower under the lender’s authorization, 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;
- Exported 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 are 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 rendered by a foreign organization which does not have a PE 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 to overseas; brokerage activities for the sale of goods and services overseas, training, certain international telecommunication services;
- Sales of assets by non-business organizations or individuals who are not registered for VAT;
- Transfer of investment projects;
- Sale 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 sale of exempt goods/services.

## 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 invoice 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 organizations 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.

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

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% his rate 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. Also, branches must 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

Entities may use pre-printed invoices, self-printed invoices or electronic invoices to declare their VAT liability. There are stipulated items that must be included and strictly reflected onto the invoice.

Since 24 December 2014, the General Department of Taxation regulates that invoices, contracts, payment vouchers and the related documents must be consistent and the payment vouchers must state clearly the payment for the reference contract. Otherwise, it shall not be creditable for VAT purposes.

According to Decree 119/2018/ND-CP dated 12 September 2018 prescribing electronic invoices for sale of goods and provision of services, e-invoices will now be mandatory for businesses from 1 November 2020.

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, medicals, e-commerce, supermarkets, trading etc., and companies which deal with the tax authorities electronically and maintain technology infrastructure, accounting software, e-invoice software as regulated.
- E-invoices with a verification code from the tax authorities are applicable for enterprises other than the above and individuals and enterprises in 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.
- Newly established entities in the pre-operation investment phase may claim VAT refunds on a yearly basis or where the accumulated VAT credits exceed VND300 million.

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.

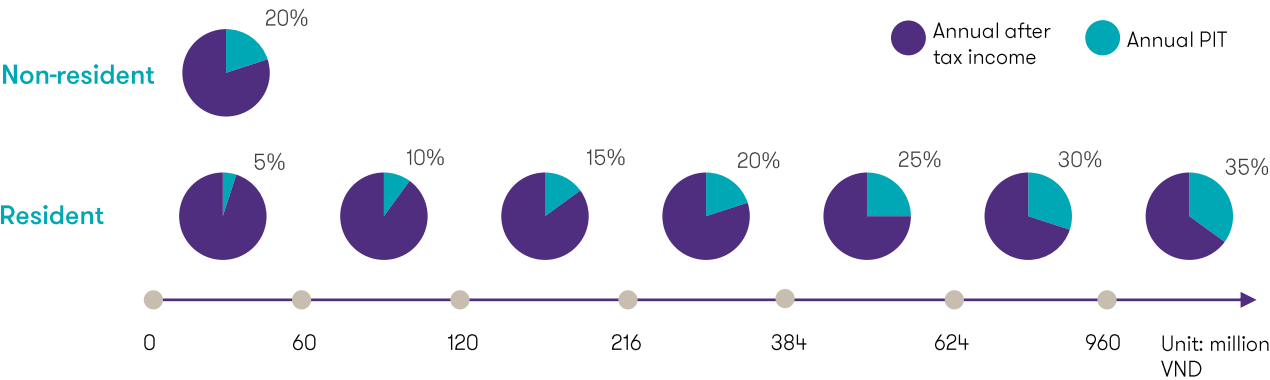


Tax residents are taxed on world-wide income, whereas non-tax residents are taxed on Vietnam-sourced income.



Depends on nature of income and tax residency

## Employment income



## Business income



0.5%

Goods distribution / Supply



5%

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



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: VND 11 million/month
- Family relief: VND 4.4 million/ month/ qualified tax dependent



### Compulsory insurance contribution

Social Insurance (SI), Health Insurance (HI) and Unemployment Insurance (UI)<sup>(\*)</sup>

(\*) 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 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; and
- Income of Vietnamese vessel crew members working for foreign shipping companies or Vietnamese international transportation companies.

To apply the PIT exemption on 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 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. For individuals with taxable non-employment income, they 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 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 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 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 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 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 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 in another Vietnamese entity is 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.

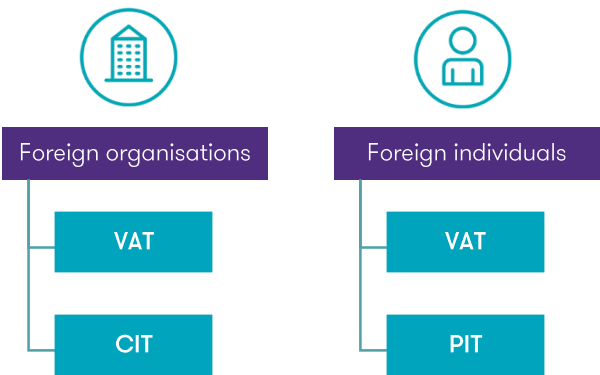
The taxable gains are determined as the excess of the transfer price less the purchase price of transferred capital/ securities less the deductible transfer expenses.



# Foreign Contractor Tax (“FCT”)

FCT imposed on foreign business individuals and foreign organisations earning Vietnam-sourced income (herein referred 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.

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



## FCT Payment Methods

### Deduction method

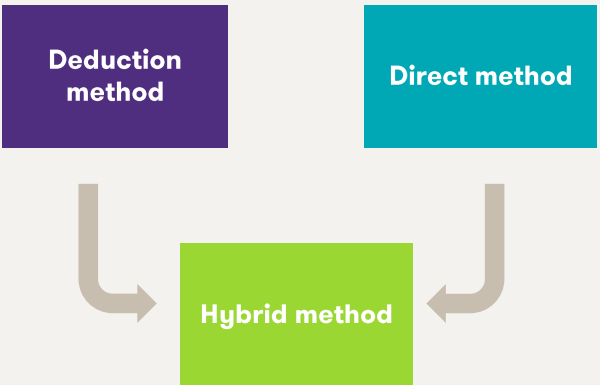
This method allows the FC declaring: (i) VAT under the approach of crediting the input VAT against the output VAT, and (ii) CIT based on the declaration of revenue and expense similar to the local enterprises’ application. Of note, FC is required to meet some criteria, including FC’s adoption of the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

# Avoidance of Double Taxation Agreement (“DTA”)



Vietnam has entered into DTAs with approximately 80 countries

Vietnam has entered into DTAs with approximately 80 countries.

CIT/PIT portion of the withholding tax maybe 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.

Although the DTAs follow Organization 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.





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# Other Taxation

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## 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 or 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 per cent 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 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”)

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 include: cigarettes, cigars and other products processed from tobacco; spirits and beer; certain passenger vehicles; two-wheel motor vehicles with a cylinder capacity above 125cm<sup>3</sup>; 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 include: dancehalls, massage lounges and 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 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 multiplied with the SST rate.

## Environmental protection tax

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 tax.

To support the airlines impacted by covid-19 pandemic, the government reduce 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 organizations which are allocated land by the State to develop infrastructure for sale or for lease and who are subject to the payment of 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.
- 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 in 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 per cent to 40 per cent, 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 inspection of any taxpayer. Tax inspections can be conducted on a regular basis but no more than once a year. Tax inspection durations 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, are to pay the full amount of the undeclared tax or return the excess refund, and will also 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 tax is 10 years and for penalties is 5 years.





# Labour





From 1 January 2021, the Labour Code 2019 (No.45/2019/QH14) was officially effective and replaced the Labour Code 2012. Compared with the Labour Code 2012, the Labour Code 2019 adjusts some important points related to labour contracts, probation periods, retirement age, overtime, public holiday, fully paid personal leave, etc.

Alongside the Code, there are specific implementing decrees to help guide organizations to comply with the provisions of the current Labour Code, for example, the decrees on labour contracts, on labour disputes, and salary.

## Employment contracts

In Vietnam, employment relationships are governed by the contractual agreement entered into between employer and employee. Contracts may take one of the following forms:

- Written labour contracts including electronic form; and
- Verbal labour contracts are applicable for some cases with less than 1 month term;

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

- Indefinite-term labour contract
- Definite-term labour contract - the duration of which is defined by the two parties but does not exceed 36 months from the date of its conclusion.

A definite-term labour contract can only be renewed once. In case the employer does not wish to renew the

labour contract with the employee, the employer must inform the employee of the termination of his/her labour contract by written notice.

Contracts must comply with a prescribed form published by the Ministry of Labour, War Invalids and Social Affairs (MOLISA). The labour contract must have principal contents: The employer’s name, address, full name and position of the person who concludes the contract on the employer’s side; full name, date of birth, gender, residential address, ID number of the employee’ side; job and work place; term of the labour contract; wage, form of wage payment; deadline for wage payment; regimes for promotion and wage raise, working time; social insurance and health insurance; training.

The Labour Code allows an employer to require an employee whose work is related to business or technological secrets to enter into a separate agreement on confidentiality and nondisclosure of those secrets. The confidentiality agreement may contain a clause on financial penalties, in case of breach of contract.

The Labour Code prohibits employers from keeping employees’ original identification cards, diplomas and certificates and requesting employees to make deposits in cash or property as security for the performance of the labour contracts, when signing and performing labour contracts.

The Labour Code no longer allows the employers and employees to use the annex to the labour contract to modify the terms of the labour contract.

A contract must be signed by the legal representative of the employer or an authorised person before the employment begins.

### Forms of employment contract

### Types 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



## Minimum regional wages

The minimum regional wage is determined to be the lowest level as a basis for employers and employees to reach agreement on wage. For employees doing jobs requiring vocational training and vocational skills, their salaries must be at least 7% higher than the minimum regional wage.

According to the Decree No. 145/2020/ND-CP, the minimum regional wage from 1 January 2021 which prescribed in Decree 90/2019/ND-CP dated on 15 November 2019 are as follow:

- Enterprises located in region I: VND 4,420,000/ month;
- Enterprises located in region II: VND 3,920,000/ month;
- Enterprises located in region III: VND 3,430,000/ month;
- Enterprises located in region IV: VND 3,070,000/ month.

The above are the regional minimum wage rates which are the lowest rates used as the basis for any arrangement between enterprises and employees on salary and salary payment, in which the wage rate to be paid to employees who work under normal working conditions, meet monthly working hour standards, and fully discharge their obligations for predetermined labour productivity norms or agreed worked duties, but these rates must be:

- a) Equal or higher than regional minimum wage rates paid to unskilled employees who perform simple tasks;
- b) At least 7% higher than the regional minimum wage rates paid to skilled/trained employees.

## Normal working hours, overtime and leave



8am to 5pm

Business and Banking hour

### Normal working hours

Under the Vietnamese Labour Code, normal working hours should not exceed 8 hours per day or 48 hours per week. This may be extended through an agreement between the employer and employee but the normal working time cannot exceed 10 hours per day, or 48 hours per week.

### Overtime

Employers can request the employees to work overtime with the condition that the employer obtains the employee's consent. The employer must ensure that the number of overtime working hours does not exceed 50% of the normal working hours per day; (in case of applying regulations on weekly work, the total of normal working hours and overtime working hours must not exceed 12 hours per day); must not exceed 40 hours per month and the total of overtime working hours must not exceed 200 hours per year, except some special cases as stipulated by the Government in which overtime working hours must not exceed 300 hours per year.

Employees who work overtime are entitled to additional wages. Wages for overtime work on normal days is at least equal to 150% of his/her current wage unit. Wages for overtime work on weekly days off is at least equal to 200% of his/ her current wage unit and for public holidays and paid leave days, the overtime wage is at least equal to 300% of his/her current wage unit. Furthermore, an employee who works at night will be paid an additional amount at least 30% of the normal salary and at least

20% of the day work salary of a normal day, weekend or public holiday if the employee works overtime at night.

### Leave

According to Article 137, Labour Code 2019, whenever an employer is informed of the pregnancy of a female employee who is doing a laborious, toxic or dangerous work, a highly laborious, toxic or dangerous work or any work that might negatively affect her maternity, the employer shall assign her to a less laborious or safer work, or reduce the working hours by 01 hour per day without reducing her salary, rights or benefits until her child reaches 12 months of age.

According to Article 146, Labour Code 2019, the working time of minor employees aged from 15 years to under 18 years must not exceed 8 hours per day and 40 hours per week. They may work overtime or at night in some occupations and jobs stipulated by the Ministry of Labor, War Invalids and Social Affairs.

Employees who have been employed for 12 months are provided with a minimum of 12 days of paid annual leave (vacation) per year, alongside the 11 days of public holiday each year. Employees who work in dangerous jobs or those that reside in areas with harsh living conditions may be entitled to up to two to four extra days off. Furthermore, workers are generally entitled to an extra day of holiday for each five years of service with a company. Employees are entitled to sick leave, although this is not paid for by the employer. The Social Insurance Fund covers sick-leave allowances for employees and also for female employees taking care of their sick children. The maximum time granted per year for sick leave is 60 days (in most industries and professions and depending on the period that they paid social insurance premiums), and 15 days to 20 days permitted for taking care of sick children (depending on the age of their children). The allowance granted in lieu of salary is equal to 75 per cent of the salary.

# Social security

Vietnam’s compulsory social, health & unemployment insurance (“SHUI”) regime covers sickness, maternity, work-related accidents, unemployment, retirement and survivorship allowance. The employers and Vietnamese employees are required to contribute compulsory social insurance, health insurance and unemployment insurance on a monthly basis to the social insurance fund.

The SHUI contribution is computed on the factors of salary and mandatory rate.

The mandatory contribution rate by employee and employer are as following.

	Social insurance	Health insurance	Unemployment insurance	Total
Employee	8%	1.5%	1%	10.5%
Employer	17.5%	3%	1%	21.5%
Total	25.5%	4.5%	2%	32%

Since 1 January 2018 onwards, it is compulsorily required to contribute the SI for the employees with labour contracts of 01-month term and above, contribute the HIUI for the employees with labour contracts of 03-month term and above.

According to Decree No. 38/2019/ND-CP, effective from 1 July 2019, which regulates the statutory pay rate for public officials, public employees, working employees and workers, the common minimum salary was increased to VND1,490,000 per month. Resolution No.86/2019/QH14 dated November 12, 2019, regulates that from July 1, 2020, the common minimum salary will be increased from VND1,490,000/month to VND1,600,000/month. However, due to Covid-19 pandemic having already had a significant impact on businesses and social activities, the Government decided to postpone the basic salary increase up to now.

With the effect of the changes in the said Decree, the maximum wages base to determine Social Insurance (“SI”), Health Insurance (“HI”) and Unemployment Insurance (“UI”) contribution are as follows:

- The salary base to determine SI and HI contribution shall not exceed 20 times of the common minimum salary, which from 1 July 2019 is VND29,800,000 per month (i.e. the common minimum wages of VND1,490,000 x 20 times); and
- The salary base to determine UI contribution shall not exceed 20 times of the regional minimum wages, from 1 January 2020 is VND88,400,000 per month for employees working in Ho Chi Minh City (i.e. the regional minimum wages VND4,420,000 x 20 times).

Retirement benefits are provided under the compulsory social insurance regime.

Monthly pensions are provided from the Social Insurance Fund where an individual has contributed social insurance for more than 20 years and when they reach the retirement age specified in Clause 2 Article 169 of the Labour Code 2019.

Specifically, from 2021, the retirement ages of employees in normal working conditions shall be 60 years 03 months for males which is increased by 03 months per year till 62 years of age reached in 2028 and 55 years 04 months for females which is increased by 04 months per year till 60 years of age reached in 2035.

A deduction of up to VND3,000,000 per month is permitted for contributions to supplementary pension schemes. Though still in its infancy, it is expected that a greater number of providers will offer supplementary schemes. With these schemes, the employees will have a better support in and the means to save for retirement, diversify the sources of their pensions and will provide employers with a means to retain key employees (ref to: Circular 25/2018/TT-BTC on guidelines Decree 146/2017/ND-CP).

Regarding to Decree 143/2018/ND-CP, effective from 1 December 2018, employees who are foreigners working in Vietnam shall be required to participate in the compulsory SI program if they obtain work permits, practicing certificates, practicing licenses issued in Vietnam and have definite-term employment contract which is valid for at least one year with employers in Vietnam. Social insurance contribution rate by employee and employer for foreigners working in Vietnam as follows:

	Social Insurance	Effective date
Employee	8% of monthly pay to the retirement and death benefit fund	01-Jan-22
Employer	3% of the above mentioned of salary paid into the sickness and parental insurance benefit fund	01-Dec-18
	0.5% of salary paid into the occupational accident and disease benefit fund	01-Dec-18
	14% of salary into the retirement and death insurance benefit fund	01-Jan-22





# Healthcare and benefits

## Health care

Basic health care is covered by the Social Insurance Fund. However, private schemes are becoming more popular especially schemes from Insurance companies.

## Health insurance benefits of employees

As mentioned above, the current common minimum salary is VND1,490,000 per month and health insurance benefits calculated based on the common minimum salary will remain unchanged from 2020.

Specifically, the level of entitlement to health insurance is specified in Clause 1, Article 14 of the Government’s Decree No.146/2018/ND-CP dated October 17, 2018 detailing and guiding measures to implement some article of the Law on health Insurance as follows:

Participants of health insurance are entitled to 100% reimbursement for medical examination and treatment expenses of the health insurance if they meet the following three criteria:

- Having participated in health insurance for 5 consecutive years
- Having received treatment at the approved hospital
- Having paid the sum of money for annual treatment at the hospital being excessive of 6 months of common minimum wage.

## Workers’ compensation

Labour accident and occupational disease regimes

According to Law on occupational safety and hygiene No. 84/2015/QH13, Article 38, employees are entitled to be covered under the labour accident regime and will be covered for a lump-sum allowance and monthly allowance by the Social Insurance Fund based on the working capacity decrease.

An employee who suffers an occupational accident or disease not due to the fault of the employee and reduced working capacity from 5% or more shall be compensated by the employer at the following rates:

- a) At least equal to 1.5 month’ salary under the labour contract if the employee is reduced from 5.0% to 10% of his working capacity and then every 1.0% increase, an addition of 0.4 months of salary under the labour contract if reduced working capacity from 11% to 80%;
- b) At least 30 months’ salary under labour contract for an employee who suffers reduced working capacity from 81% or more or for the death of the employee from occupational accidents.

Where due to the fault of the employee, he also receives an allowance of an amount at least equal to 40% of the rate prescribed above.

## Probation

Compared to Labor Code 2012, the Labor Code 2019 changed a lot of terms on probation regulations.

The probationary content can be stated in either the labour contract or a separate probationary contract.

Probation is not allowed if the employee works under an employment contract with a duration of less than 01 month.

Regarding the probationary period, the Labor Code 2019 stipulated the maximum days of probation based on working positions and qualifications of employees as the table belows:

Type positions	Probationary period (days)
Enterprise executive prescribed by the Law on Enterprise, Law on management and use of state investment in enterprise	Do not exceed 180 days
The positions that require a junior college degree or above;	60
The positions that require a secondary vocational certificate, professional secondary school; positions of or for technicians, and skilled employees;	30
Other positions	06

The probationary salary shall be negotiated by both parties but shall not be lower than 85% (percent) of the offered salary.

## Dismissal

A new point in the Labor Code 2019 is that the employee can unilaterally terminate the labor contract without a reason, just needs to ensure the notice period. Meanwhile, the employer is still only entitled to unilaterally terminate the labor contract in certain circumstance specified in the Labor Code; These includes failure of employees to carry out their tasks, breach of discipline or serious injury of illness. Termination may also occur due to financial problems or the advent of technology rendering the employee’s job obsolete. Termination must be made in writing.

In some cases, the employer is required to discuss the termination and reach an agreement with the executive committee of the trade union. Where the employer or employee is terminating a contract, advance notice must be given and will be based on contract type.

## Protection from termination

While Vietnam has not yet developed a set of laws and regulations to deal with employment discrimination issues, labour law prescribes the prohibition of discrimination based on race, skin color, nationality, ethnicity, gender, age, pregnancy, marital status, religion, opinion, disability, family responsibility, HIV infection, establishment of or participation in trade union or internal employee organization in a manner that affects the equality of opportunity of employment.

Therefore, no employee can be dismissed based upon these factors. Furthermore, the Labour Code specifically provides that no female employee can be dismissed because she is getting married, pregnant, taking maternity leave or nursing a child.

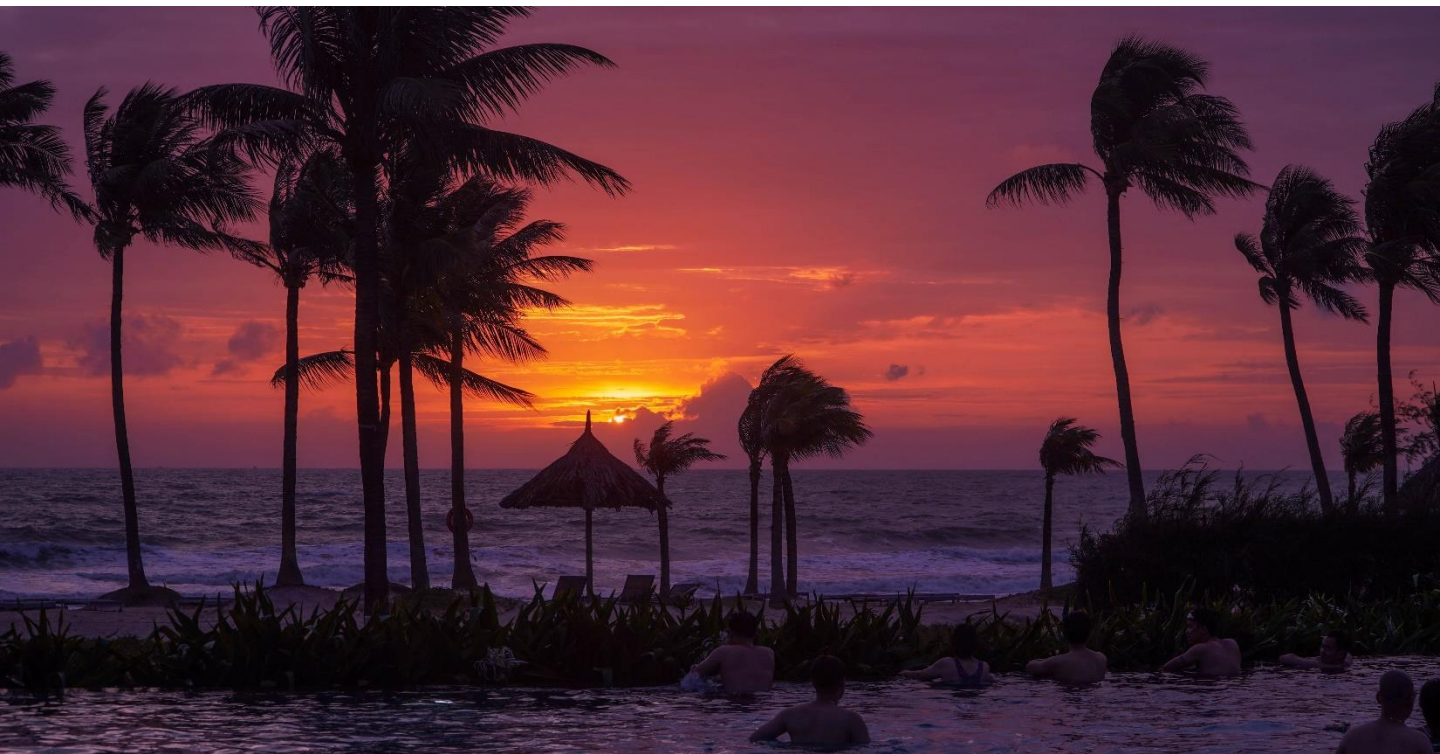
## Collective redundancies

Employers are restricted in the situations that they are permitted to make mass redundancies. For example, natural disasters, fire or other major force majeure events, as set out by the Government. If the employer intends to undergo mass redundancy, they must consult with the trade union and appropriate state authority. They must also provide severance payments, where applicable.

## Severance redundancy payments

The employer shall give redundancy pay to employees regularly working for 12 months or more but losing their jobs due to technological, structural change or economic reasons or a merger, amalgamation, split or separation of enterprise or cooperatives. The redundancy pay will be one month's salary for each year of employment, with a minimum of least two months' salary.

Where a labour contract is terminated, the State Unemployment Agency will pay the severance allowance for the period employees participated in unemployment insurance, and the employer is responsible for paying severance allowance for any period not covered by unemployment insurance for employees who have worked on a regular basis for a period of at least 12 months. Each year of work will have an entitlement of half a month's salary. The qualification 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 (i) the period over which the employee participated in the unemployment insurance as prescribed by law and (ii) the period which severance allowance/redundancy allowance has been paid.





# Employment of nonresident employees

Where employment positions require specialist skills or senior management responsibilities that Vietnamese residents cannot fill, organisations are authorised to recruit foreigners to fill that position. However, the employer must have a plan or program of training to enable a Vietnamese national to take over the job and replace the foreigner, at a point in the future. For most positions, foreign employees must provide original copies of relevant educational qualifications in order to obtain a work permit.

Foreigners who work in Vietnam are required to obtain a work permit or to obtain confirmation from the local Labour Department that he/she is exempted from a work permit.

Work permits are issued for the same duration as the term of the labour contract; a work permit can be issued for a maximum of 24 months and is allowed to be renewed only once with the same duration.

All foreigners are required to apply for a work permit, except for the following cases (According to Article 154, Labor Code 2019 and Article 7, Decree 152/2020/ND-CP):

- He/she is the owner or capital contributor of a limited liability company with a capital contribution value of at least 3 billion dong;

- He/she is the Chairperson or a member of the Board of Directors of a joint-stock company with a capital contribution value of at least 3 billion dong;
- He/she is the manager of a representative office, project or the person in charge of the operation of an international organizations or a foreign non-governmental organization in Vietnam;
- He/she enters Vietnam for a period of less than 03 months to do marketing of a service;
- He/she enters Vietnam for a period of less than 03 months to a resolve complicated technical or technological issue which (i) affects or threatens to affect business operation and (ii) cannot be resolved by Vietnamese experts or any other foreign experts currently in Vietnam;
- He/she is a foreign lawyer who has been granted a lawyer’s practicing certificate in Vietnam in accordance with the Law on Lawyers;
- He/she in one of the cases specified in an international treaty to which the Socialist Republic of Vietnam is a signatory;
- He/she gets married with a Vietnamese citizen and wishes to reside in Vietnam;
- Others circumstances specified by Government.

Companies are required to contribute into a trade union fund



2%  
of total salary  
expenses

## Trade Unions and international employee organisations

All companies, with either Vietnamese or foreign owned capital, must permit their employees to join a trade union and/or internal employee organisations. Disputes between employers and employees should be resolved through negotiations. If a resolution is not reached then the Ministry of Labour, War Invalids and Social Affairs or Labour Tribunal may be asked to intervene to settle the dispute.

Companies are required to contribute 2% of total salary expenses into a trade union fund.

# 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



**28 years**

Established in Vietnam



**2 offices**

in Hanoi and Ho Chi Minh City



**264**

employees in Vietnam



**13**

partners in Vietnam

### AUDIT and ASSURANCE

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• Review of financial statements  
• Compilation of financial information • Cross-border audit  
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For additional information about Doing Business in Vietnam report and our services, please contact us.



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# 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.



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## 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. Our services are included: Audit, Tax, Advisory and Business Process Solutions.



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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.



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