



Microsoft and Netflix are among those who have used Vietnam's new tax portal already

# Tech giants complying with new tax system

By Linh Le

A range of multinationals have already complied with Vietnam's new foreign supplier tax portal – subsequently, these groups are now adjusting their tax policies, which may affect companies and individuals who generate income from digital platforms.

According to the General Department of Taxation (GDT), three months into deploying the Tax Portal for Foreign Suppliers, 26 multinational organisations registered and paid a total amount of about \$20 million in tax.

Vietnam is now one of the first four countries in Southeast Asia to successfully assert the right to control taxes for foreign enterprises in e-commerce and other digital platforms.

Launched on March 21 by the Ministry of Finance, the tax portal aims to modernise the tax procedures for foreign suppliers without permanent establishments in Vietnam. These can register, declare, and pay taxes from anywhere in the world, thereby creating favourable conditions and transparency in taxation. So far, through the portal, Microsoft has paid \$500,000, TikTok paid around \$1.5 million, and Netflix has paid over \$330,000 in tax.

“From a policy implementation perspective, at the moment, the key factor is that we have seen the foreign contractors start paying tax under the

newly launched portal and the procedures are convenient for them. Hence, we believe that the tax revenue from this source will increase, in line with the growth of the Vietnamese economy and cross-border transactions,” said Hoang Viet Dung, tax director at Grant Thornton Vietnam.

Data from the GDT also shows that, from 2018 to July this year, the average revenue from e-commerce activities for cross-border goods and services, usually paid by Vietnamese organisations on behalf of counterpart foreign companies in the form of foreign contractor tax (FCT), reached roughly \$233 million.

The average revenue was about \$51 million per year, with an annual growth rate of 130 per cent. On top of the list are tech giants including Facebook, Google, and Microsoft. The revenue in the first six months of 2022 alone was over \$32 million and this number is forecasted to grow as the year progresses, as more foreign providers will register to pay taxes via the portal.

Nguyen Thi Hong Duong, senior associate at Indochine Counsel said, “In terms of legality, Vietnam's FCT regulations have been around for a long time. However, the application previously only aimed at foreign contractors in the field of construction or management for tangible projects, basically products that tax authorities can see and touch. Taxation was, therefore,

controlled through existing legal entities in Vietnam while in fact, digital platforms like Facebook, Tiktok, Google, and others offer the same service, usually in advertising and e-commerce.”

Duong continued, “As the economy progresses, more and more platforms like this will be subjected to FCT at different rates depending on the type of goods and services.”

In response to the recent changes in tax regulations, digital platforms are also revising their tax policies to better fulfil their tax obligations. Facebook's parent company Meta in March announced that it would charge 5 per cent VAT on all advertisers who choose Vietnam as their “sold to” country on the platform, starting June 1.

Even though the new policy had stirred opposite reactions from Facebook's enormous pool of advertisers, the general consensus amongst experts is that policies like this would likely be more widely adopted by platform providers.

Tran Cong Thanh, CEO of media company UpTeam explained, “In the past, many individual advertisers and businesses had to process Facebook payments by assigning them to other costs such as equipment and personnel or they had to pay the 10 per cent contractor tax themselves for these expenses to be recognised as reasonable expenditures in the financial statements.

Now they will only have to pay 5 per cent because the other 5 per cent will be covered by Facebook.”

Dung of Grant Thornton added, “This seems to be part of Meta's compliance cost to Vietnam's new digital tax regulations which was not taken into account before. We saw a similar reaction from another car-hailing firm in the past in response to a new tax requirement from local authorities.”

Dung also thinks that “the reaction will be different among different firms, since there is a strategic business decision for their management to consider and how they will share the new compliance cost with the customers since this will impact their business situation in Vietnam.”

As for how these recent tax policy changes will impact individual businesses, experts assessed that as tax declaration becomes more

transparent due to the new portal, individual businesses would be pressured to declare and pay tax for their incomes generated from such platforms. As the authorities gain more insights from their digital database, they will be able to better manage the business situations of these individuals and increase the tax recollection budget accordingly.

“We should also note that recently, the GDT has issued Official Letter No.1305/TCT-KK to request all commercial banks provide taxpayer's information, including name, account number, and activate date on a monthly basis. This indicator shows that the local authorities are now ready to take action in order to manage and monitor the tax revenue resources both locally and internationally,” Dung noted. ■

