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Doing business in Vietnam 2014

Content

"Welcome to our Doing Business Guide which we hope will assist you in navigating this exciting but sometime difficult environment"

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Foreword

Vietnam is a unique country providing extensive opportunities for those willing to spend time to understand the market. Although not without its problems, Vietnam's economy continues to expand and modernise, and with the opening up of previously restricted industries and sectors to meet WTO commitments; opportunities continue to develop.

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. This guide contains only brief notes and includes legislation in force as of 28 January 2013.

We hope this guide helps you in learning about and understanding business in Vietnam. Should you require professional assistance we will be only too willing to meet you to see if we can help.

Country profile

Summary

Vietnam is a rapidly developing country with a dynamic and emerging market economy. Located in South East Asia, the country has positioned itself as a focal point for investment, boasting an average annual GDP growth rate of 6.7% over the last ten years. GDP growth in 2013 was 5.4%. and is expected to rise to 5.6% in 2014.

Vietnam comprises a landmass of 331,210 km^2, a vast sea area including a large continental shelf, and a string of archipelagos stretching from the Gulf of Tonkin in the North to the Gulf of Thailand in the South.

Vietnam is an elongated "S" shape with a long borderline from China in the North, Laos in the West and Cambodia in the West and South West. Vietnam has a diversified topography of plains, midlands and mountains.

The capital of Vietnam is Hanoi, which lies in the north of the country. Other major cities include Ho Chi Minh City (often abbreviated to "HCMC" and also referred to as Saigon) and Can Tho in the South, Hai Phong in the North, Hue, Da Nang, and Nha Trang on the Central and South East Coast, and Da Lat in the Central Highlands.

The more recent external economic challenges faced globally during the world-wide financial crisis posed a threat to Vietnam's growth and poverty reduction ambitions. However, unlike many other economies, the country continued to experience real positive growth during this period, albeit at a slightly lower level than in preceding years.

Obtaining full membership of the World Trade Organisation (WTO) on 1 January 2007 provided a major confidence-boosting impact to the economy; particularly as regards foreign direct investment; manufactured exports and property (real estate). The results of which will continue to be felt as more sectors are opened up to foreign investment and competition

Population and demographics

Vietnam has the third largest population in South East Asia (after Indonesia and Philippines) and is ranked 14th in the world in terms of total population, reaching 90 million in November 2013. The rural population accounts for approximately 70%.

The city of Hanoi covers a large urban and rural area in the north of the country. The registered population was around 7.15 million as at December 2013.

Ho Chi Minh City, the primary economic hub for Vietnam, had a population of around 7.9 million as at December 2013. However, the actual population of Ho Chi Minh City (and Hanoi, to a lesser extent) is likely to be significantly higher due to unrecorded migration from rural areas. In addition, Ho Chi Minh City is also bordered by the established industrial and urban areas of Binh Duong, Dong Nai and Long An Provinces, which arguably extend the City's limits into these provinces.

Climate and weather

Vietnam lies in the tropical monsoon zone, characterised by warmth, humidity and abundant seasonal rainfall. There are, however, distinctive differences between Northern Vietnam and Southern Vietnam.

Southern Vietnam has a subequatorial climate, having two seasons with an average annual temperature of 28 degrees Celsius:

- Rainy/ Wet season (May to October)
- Sunny/ Dry season (November to April)

Northern Vietnam has a sub-tropical climate, with four distinct seasons and great fluctuations in temperature between the warmest and coolest periods.

- Spring (March to April) with temperatures of between 17 and 23 degrees Celsius
- Summer (May to August) with temperatures of between 30 and 39 degrees Celsius
- Autumn (September to November) with temperatures of between 23 and 28 degrees Celsius

Winter (December to February) with temperatures of between 7 and 16 degrees Celsius

Language

Vietnamese is the country's official language. Foreign languages such as English, French, Russian, Chinese, Japanese and German are also used to varying degrees. English, however, is by far the most widespread foreign language and is commonly used alongside Vietnamese in legal documents relevant to foreign trade and foreign direct investment. English is also featured on the websites of many businesses (both local and foreign-owned) and Government agencies.

Political and Legal Environment

The Constitution in general establishes the rights of the people under the leadership of the Communist Party. The power of the people is exercised through the National Assembly at a central level and through People's Committees at a local level.

The National Assembly is the supreme representative and legislative body and determines domestic and foreign policies, socio-economic tasks, national defence and security issues.

The Head of State is President Mr Truong Tan Sang. He is elected by the National Assembly and represents the Nation in internal and foreign affairs.

The highest executive body in Vietnam is the Government, formerly known as the Council of Ministers. It is in charge of the general management of the economy and the State. The court and prosecution system in Vietnam has a structure similar to the administrative system. At a central level, the Supreme People's Court is the highest judicial body in Vietnam. At a local level, courts exist at provincial and district levels.

Legal system

The Vietnamese legal system consists of a constitution, codes, laws, ordinances, decrees, decisions, circulars, directives and official letters. Although all have the force of law, only laws passed by the National Assembly are referred to as such.

Ordinances are issued by the Standing Committee of the National Assembly to regulate an area where a law is not yet promulgated or regulated. On matters the National Assembly has entrusted to the Government, it issues decrees, decisions, circulars or directives to implement the issued laws or ordinances.

Decrees, decisions and circulars are normally issued by individual ministries and other State agencies, including People's Committees, with respect to subjects within their sphere of responsibility and the force of subordinate legislation.

It should be noted that while codes, laws and ordinances are referred to by name; decrees, decisions, circulars and

Living standards

Local living standards have improved since Doi Moi ("reform" or "new thought") in 1987, with an increasing Gross Domestic Product (GDP) per capita over the past twenty years. However, the increase in living standards between urban and rural areas has not been equal, with a widening gap in living standards between these two areas. The national poverty rate fell from 37.4 per cent in 1998 to 9.9 per cent in 2013. The poverty rate in urban centres is higher than in rural areas due to higher living costs.

For foreigners, living standards can be considered reasonably good with a relatively low cost of everyday living. Good education, accommodation, easy local and international travel, and modern media and communications are all available to reasonable standards in major cities and in important economic regions.

Labour Matters

Employers have the right to recruit labour directly or through employment service agencies. They can also increase or reduce the number of employees in accordance with business requirements and in compliance with the provisions of the law.

Employers must enter into labour contracts with employees. The contract should provide for either a definite term, an indefinite term or for work on a seasonal or limited basis. However, definite term contracts can only be renewed twice before automatically becoming indefinite term. Labour contracts must comply with a prescribed form published by the Ministry of Labour, War Invalids and Social Affairs (MOLISA).

Employers and employees may agree on a probationary period which must not exceed 60 days for work that requires special or highly technical skills and 30 days for other work. A probationary employee must not be paid less than 85% of the normal wage for that job.

Employers may recruit foreigners for jobs requiring special expertise, which Vietnamese workers cannot perform. Foreigners who work for Vietnamese enterprises, organisations, or individuals must generally obtain a work permit from the local Labour Department. Work permits require specific documentation and can take some time to arrange, so they need to be planned in advance to ensure employment obligations are met. Additional requirements for work permits include appropriate academic or vocational qualifications for the position the work permit is being applied for, or specific identifiable experience in a particular field.

It is noted that foreigners are not required to obtain work permits in certain specific cases, such as where they are providing technical assistance for short periods of time. However there are usually other requirements that need to be met to satisfy these exceptions.

Work hours/Time zone

Normal working hours in Vietnam are 8 hours per day and 6 days a week. However, the standard working week for officials and public employees and employees in administrative organisations is 40 hours (5 days). Other organisations are encouraged to apply the standard working week of 40 hours. The total number of overtime hours should not exceed 4 hours a day, 30 hours a month or 200 hours a year. In special circumstances, and subject to the government's allowance, the total number of overtime hours can be extended to a limit of 300 hours per person per year.

Public Holidays in Vietnam

Public Holiday	Date	No of days
New Year's Day	1-Jan	1 day
Tet holidays	Lunar new year (varies)	5 days
Hung King's Anniversary	10th day of 3rd lunar month (varies)	1 day
Victory Day	30-Apr	1 day
International Labour Day	1-May	1 day
Independence Day	2-Sep	1 day

Employees who have been employed for 12 months are provided with a minimum of 12 days of paid annual leave (vacation) per year.

Business etiquette and travel

Business cards

Always carry business cards when you visit Vietnam and distribute them at every business meeting. When you meet someone for the first time in Vietnam, it is polite to offer your card with both hands. Upon receiving a card, do not stuff it into your pocket. Take a minute to look at the person's card, take care to pronounce their name correctly and acknowledge their title to show your counterpart that you value the opportunity to meet them. When you have finished engaging with the individual, place the business card in your wallet or purse, to show respect.

If you have a business card that is in English and Vietnamese, it is good etiquette to present the card with the Vietnamese side facing upwards.

The order for a Vietnamese name is family name, middle name and given name. Vietnamese names list the surname first, so when referring to a Vietnamese person, use their given name, prefixed by the appropriate term of reference. Hence, the Prime Minister of Vietnam, Nguyen Tan Dung should be referred to as Mr Dung.

Language hints

Keep in mind that many Vietnamese have learnt English at high school or university and may not necessarily have had any particular level of contact with native English speakers. Thus you will need to speak slowly and concisely. Remember to avoid using words in English that are specific to a particular country or region, and if someone does not understand certain words, try using a different version (eg footpath, sidewalk or pavement).

It is impolite to undermine the authority of a more senior Vietnamese person by directing questions or responding to a more junior person whose English skills may be better. When using interpreters, it is polite to talk directly to the person you are dealing with and maintain eye contact.

Business attire

The climate in Vietnam can be quite hot all year round, particularly in the south so it is advisable to make allowances for this when selecting your business wardrobe. Probably the most suitable business attire is a lightweight suit for both men and women or smart trousers with a collar and tie for men, skirt and blouse for women.

Handshakes

Handshakes are used upon meeting and departing. Handshakes only usually take place between members of the same sex. Some Vietnamese use a two-handed shake, with the left hand on top of the right wrist. Always wait for a woman to extend her hand. If she does not, bow your head slightly.

Business notes

Vietnamese are a polite people and will often smile and agree with you when in fact they may not have fully understood what you have said. The smile and nod are usually to acknowledge that you have spoken, and may not always indicate a firm agreement.

It is often advisable to have bilingual sales literature, including business cards and product manuals, available for more complex negotiations. It is useful to have an agenda and relevant papers translated into Vietnamese prior to the meeting so both sides are clear on what they wish to discuss.

Eating and drinking is a major part of doing business in Vietnam. Toasting at banquets and karaoke are common after-dinner activities. Many Vietnamese men may smoke during the meal. When cognac or whisky is served at a meal, the custom is for individuals to drink only after a toast is made. The glass should be held in the right hand, which is supported by the left.

Returning a toast is standard practice. Common toasts are "Tram Phan Tram" (100% Bottoms Up) and "Chuc Suc Khoe" (Good Health).

Business meetings

Hierarchy and face manifest themselves in different ways at business meetings. For example, the most senior person should always enter the room first. Silence is also common in meetings where someone disagrees with another and remains quiet, so as not to cause a loss of face.

Relationships are critical to successful business partnerships. Always invest time in building a good relationship based on both personal and business lines. Any initial meeting should be used solely as a "getting to know you" meeting.

Currency

The official Vietnamese unit of currency is the Vietnamese Dong, often abbreviated as Dong or VND. Current regulations require businesses to advertise prices in VND only. Businesses that require the flexibility to operate in foreign currencies may apply for the right so to do.

When visiting Vietnam, it is still advisable to carry a supply of foreign currency, usually US dollars. Large bills receive better rates than small bills for currency conversions. Travellers' cheques in US dollars can be exchanged at certain banks.

Automated Teller Machines (ATM's or cash dispensers) have experienced dramatic growth in recent years, with more than 14,410 machines and 110,021 POS machines located across the country. These provide a safe and cheap way to obtain Vietnamese currency. However, it is wise not to depend solely on ATM's when visiting areas outside of the main urban locations.

Tipping, although not customary in Vietnam, is appreciated with small tips becoming more common in recent years for the service industries.

Gifts

Gifts are not commonly exchanged when meeting for the first time. However a small token over dinner or at an appropriate moment is always appreciated. The gift is not as important as the sentiment sent with it.

A box of chocolates, a bottle of cognac (for a man), or a small souvenir from your country will show that you are a considerate person.

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. East Timor and Myanmar are exceptions at this point of time. Vietnam has also exempted citizens of Denmark, Finland, Sweden, Japan, South Korea, Norway, and Russia for citizens visiting Vietnam from requiring entry visas for visits of less than 15 days.

In order to obtain a business visa, a businessperson should be sponsored by an organisation in Vietnam. The sponsorship can be by the visitor's Vietnamese partner or the visitor's representative office or branch, a trade-support institution, a consulting firm or authorised agent. There is usually a visa handling fee in addition to the embassy stamping fee for this service.

Business people should send the following information to their sponsoring agency at least seven days before they wish to pick up their visa from the Vietnamese Embassy abroad:

- Full name
- Date of birth
- Nationality
- Passport number
- Name of company or organisation
- Port and date of entry and exit or tentative schedule
- Location of embassy and date for visa pickup
- Brief statement of the purpose of the visit

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.

A one-month renewable visa will generally be issued. Multiple entry-exit visas, which are valid for three to six months may be obtained for visitors who have regular business in Vietnam. Although at the time of writing visas beyond three months are not being issued to visitors. It is generally easier to apply for a business visa once in Vietnam, after having arrived on a tourist visa.

Visas can be pre-arranged through certain travel agents and collected upon arrival at Hanoi or Ho Chi Minh City airports, avoiding the need to visit a Vietnamese Embassy abroad.

In order to make the process of obtaining a visa easier for tourists and business travelers, the Vietnamese Immigration Department has allowed for E-visa or so called Visa upon arrival. E-visa allows the traveller to apply for an approval letter from the Vietnamese Immigration Department online. The visa label will be issued upon arrival at Vietnam international airport having paid the relevant fee. However Visa on arrival can be subject to delays of 30-120 minutes depending on the time of arrival, particularly in HCMC.

International airports and transport

Vietnam's three main points of entry by air are Ho Chi Minh City (Saigon), Hanoi and Da Nang. Ho Chi Minh City's Tan Son Nhat international airport is located approximately seven kilometres from the city’s downtown area. Allow around VND150-200,000 (approximately USD7-9) for the taxi fare into town. In Hanoi, the international airport is situated approximately 35 kilometres to the north of the city. The trip usually takes 45 to 50 minutes and costs VND350,000-450,000 (approximately USD15-US$20) by airport taxi. Da Nang International Airport, the third international airport in Vietnam, is an important gateway to access central Vietnam. The airport is 2.5 km southwest of the city centre and is about a five minute drive from Da Nang city.

Visitors should only use metered taxis in Vietnam, preferably from one of the reputable taxi operators such as Mai Linh, Vinasun and Phuong Trang. There are many illegal or copy-cat taxi operators throughout the country. So to avoid inflated fares look for newer vehicles with distinctive corporate lettering and identification. Visitors are advised not to use transport if it is not metered unless booked through a hotel or reputable company.

Entry and departure requirements

Visitors to Vietnam can bring with them unlimited amounts of foreign currency, objects made of gold, silver, precious metals and gemstones or plated with silver or gold. However these must be declared in detail on customs forms. Foreign and Vietnamese currency equivalent to under USD5,000 and VND15 million respectively need not be declared. There is no restriction on books or other printed matter apart from pornographic or politically sensitive material.

Books and other electronic media may be screened to ensure compliance with the law. It is illegal to bring letters, packages or correspondence for others into or out of the country. It is also illegal to export antiques or images of Buddha. All luggage is x-rayed on international arrival and for all departures. Remember to keep your baggage claim tag, as it is often requested when collecting baggage when travelling domestically.

Key trends and statistics

Overview

Vietnam's accession to the WTO in 2007 demonstrated that the Government is committed to continuing the opening up of the economy. This has created a positive impact on the economic growth in the past five years and further impetus to the expansion of the country's two-way international trade and has enabled a substantial reduction of trade barriers.

Import duties on inputs in the domestic manufacturing and services sector have been reduced.

There are still some goods that have restrictions, are prohibited for importation, have quantity controls, or require specific permits, such as explosive materials; cigarettes; firecrackers; certain children's toys; military technical equipment; used motor vehicles and parts; and used consumer goods.

Principal imports

In 2013, import turnover was USD131.3 billion, an increase of 15.4% compared with that in 2012.

Vietnam's Principal Imports
Source: Government Statistics Office (GSO)

Imports	2013	2012
	USD billion	USD billion
Machinery and spare parts	18.6	16
Electronics, Computers and spare parts	17.7	13
Fabrics	8.4	7
Telephones and spare parts	8	5
Petroleum	7	8.9
Steel	6.7	6
Plastics (in primary forms)	5.7	4.8

Principal exports

Vietnam attained 132.2 billion USD from exports in 2013, an increase of 15.4% against last year. The principal exports are detailed in the table below:

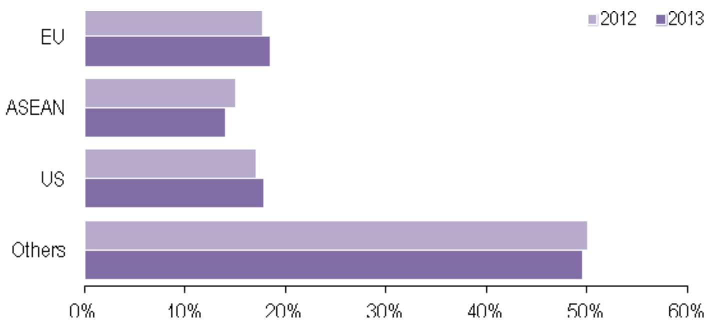
Vietnam's Principal Exports
Source: Government Statistics Office (GSO)

Exports	2013	2012
	USD billion	USD billion
Textiles	17.9	15
Telephones and spare parts	21.5	12.7
Crude Oil	7.2	8.4
Electronics, Computers and spare parts	10.7	7.9
Footwear	8.4	7.2
Seafood	6.7	6.2
Other machinery and equipment	6	5.5
Wood and wooden products	5.5	4.7

Telephones and spare parts, Electronics, Computers and spare parts increased by 69.3% and 35.4% respectively while textiles products increased by 19.3% and fell from the top to the second place in terms of export value Electronics including mobile phones and apps took over as the number 1 export in 2013. 2013 was a difficult year for agro sea-food product with a decrease in export revenues of crude oil, rice, coffee, rubber, coal and petroleum. However it should be noted that the drop in exports of crude oil were in part due to the coming on-stream of Vietnam's first oil refinery.

EU continues to be the largest export market of USD24.4 billion (increasing by 20.4% y-o-y) and the US retains second place with USD23.7 billion, increasing by 20.3% y-o-y.

Vietnam's Principal Export Markets (%)
Source: GSO



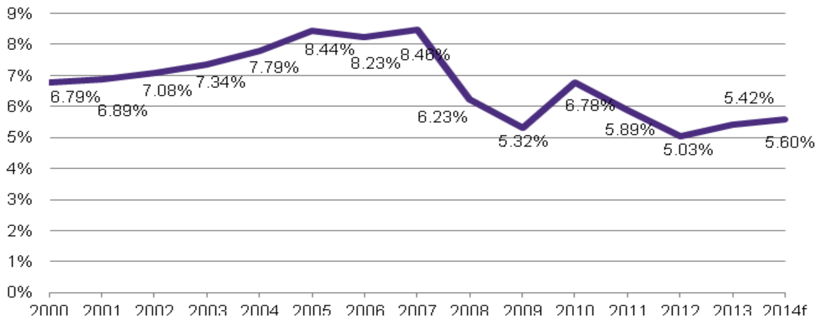
Economic environment

Gross Domestic Product (GDP) Growth

In 2013, the Vietnamese economy recorded an annual growth rate of 5.42% with the last quarter recording a positive 6.04% increase.

Vietnam's economic goals for 2013 were set to strengthen its macroeconomic stability, cut the level of bad debt, reduce inflation, and strive for GDP growth of 5.5% and a 10% increase in export turnover. In order to achieve these goals the government stated that among other things that it would have a flexible and effective monetary policy and a tight fiscal policy. It would also create favourable conditions for businesses to access capital, and would comprehensively restructure credit organizations. Additionally, the government would speed up the equitisation of SOEs; boost non-core divestment; shift from processing and manufacturing to production; deeply integrate into the global value chains. The government has also pledged to ensure social welfare and the improvement of people's living standards.

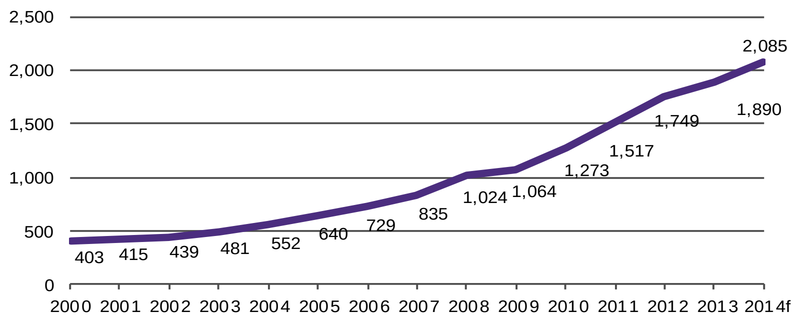
GDP Growth Rate (2000 - 2013f)
Source: GSO



GDP per capita

GDP per capita has improved steadily and in line with GDP growth since 2000. The graph below shows the average national GDP; however, the actual GDP in cities such as Ho Chi Minh City and Hanoi is significantly higher.

GDP per Capita USD (2000 - 2013)
Source: Ministry of Planning and Investment

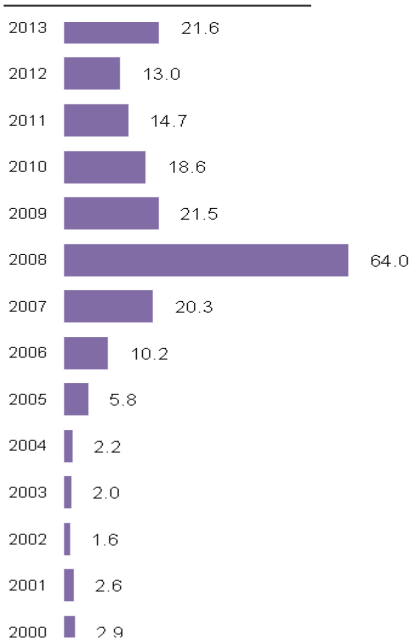


Contributions to GDP

Contribution from the services sector increased from 37.7% in 2012 to 41.7% in 2013. Construction and agricultural sectors contributed 38.6% and 18.4% of the GDP respectively, considered the second and the third largest sectors in Vietnam.

Foreign Direct Investment (FDI)

Registered FDI, USD billion (2000 - 2013)
Source: GSO



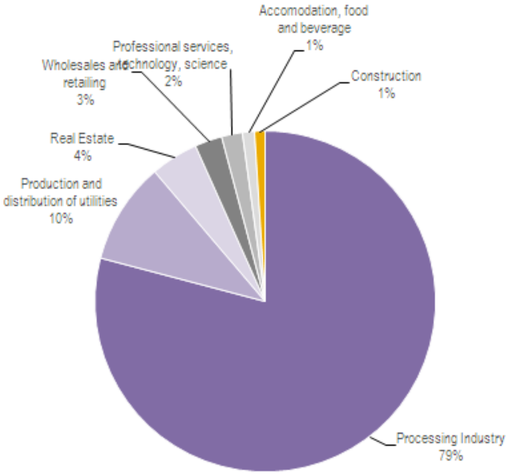
Total registered FDI in 2013 was USD21.6 billion, a significant increase on the total registered FDI of USD13.1 billion recorded in 2012. Out of the USD21.6 billion, USD14.3 billion represented new investments, accounting for 66%. The processing industry continued to attract the largest interest with over 70% of total registered FDI capital.

The total investment marks two successive years that Vietnam has achieved its FDI target after missing it the two previous years and despite the fact that the country's business environment was considered less competitive compared to some other Southeast Asian countries. Vietnam could face problems in the coming years if it continues trying to attract high-tech projects without upgrading its under-developed infrastructure and easing bureaucracy and administrative burdens.

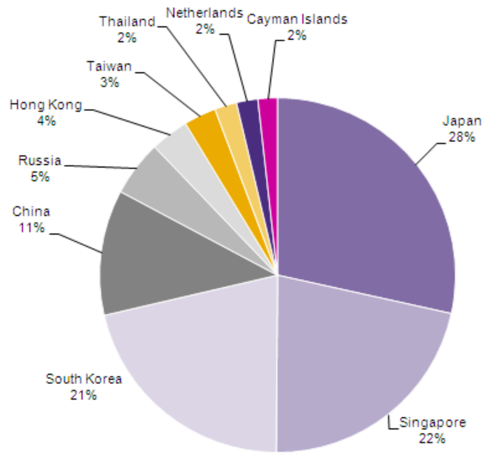
Investors from Asian countries continued to account for the major portion of new FDI. Though led by Japan, Japanese investment decreased from 52% to 28% in 2013. Nevertheless, investment from South Korea and Singapore increased significantly from 10% and 6% to 21% and 22% respectively.

Registered FDI by sectors, USD billion 2013

Source: Ministry of Planning and Investment



Registered FDI by countries and territories, USD billion 2013



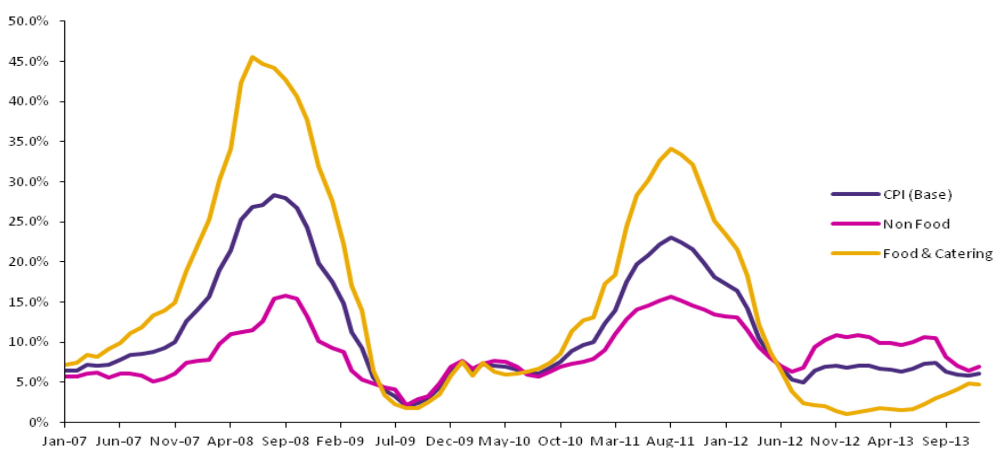
Inflation

Inflation in Vietnam averaged 7.33% from 1996 until 2013. While inflation peaked at 28.3% in August 2008, followed by inflation of 18.58% in 2011, the Vietnamese government successfully controlled the inflation at 6.6% in 2013, the lowest rate in a decade thanks to its monetary tightening policy.

The main contributors to inflation in 2013 were increases in the price of commodities, public services including electricity, oil and gas, education and health care. During the year, the price adjustment in the health care sector in 17 provinces contributed to an increase of 1.1% of the country's CPI.

It should also be pointed out that there is a disparity between the expenditure of the average urban resident versus that of a rural resident, with the impacts of price fluctuations affecting both groups differently. It is also important to remember that Vietnam is a net food exporter, with the majority of rural residents actually receiving a net benefit from the rising food prices, as they are net food sellers.

Vietnam Annualised Inflation (CPI) (2007 - 2013)
Source: GSO



Regulatory environment

Summary

Vietnam is a Socialist State. The political system is dominated by the Communist Party, the sole political party and the only body that can form a Government. The National Assembly is an elected body and the highest legislative authority, with a term of five years. The Assembly elects its Standing Committee, which consists of the National Assembly Chairman, Vice Chairmen and members: The Standing Committee manages the daily affairs of the National Assembly when it is not in session. The Government is the highest executive body of the State and is in charge of the general administration of the country. The Government includes the Prime Minister, Deputy Prime Ministers, Ministers and Chairpersons of agencies at the ministerial level.

Below the Central Government are People's Councils and People's Committees. People's Councils are directly elected by the people and People's Committees are elected by People's Councils. There are three levels of People's Committees and People's Councils: provincial, district and commune (or ward).

Restrictions on foreign ownership

There are currently foreign ownership restrictions on Vietnamese businesses in certain industries, such as those which are deemed sensitive to the state. However, to comply with conditions of WTO membership, Vietnam passed a range of laws opening up selected markets and industries to foreign investment that were previously restricted. Some of these restrictions were removed with immediate effect, whilst others are to be phased in by 2015.

100% foreign ownership in private companies is achievable in the majority of sectors, however, public companies are still currently limited to a maximum 49% foreign investment. Interest has been shown in discussions to raise the foreign investment cap.

Government approvals and registration

Foreign-invested and domestic businesses are both governed under the Law on Enterprises and the Law on Investment. Businesses require an Investment Certificate, specifying the business activities which it is approved to undertake. Investment Certificates ("IC") are issued following successful application to local offices of the Department of Planning and Investment ("DPI") and generally require in-principal approval from the relevant People's Committee. Dependent on the business lines being applied for, an IC is granted following registration, or evaluation for investments in conditional sectors, special projects, or large-scale investments.

Projects requiring evaluation are typically more time-consuming to implement than those which only require registration. Applications may take longer than the prescribed schedules in practice.

A number of post-licensing activities are also required, such as registration with the General Department of Taxation ("GDT") for a tax identification number, and registration of the corporate seal with the local police department.

Competition rules

Businesses in Vietnam are subject to the Law on Competition, which the Ministry of Trade is primarily responsible to implement. In practice, this may prevent certain merger and acquisition activity if the activity would result in a business controlling a significant portion of the market. Certain types of agreement are also prohibited under the Law on Competition, such as price fixing and collusion.

Import and export controls

As a member of the WTO and of the Association of South East Asian Nations ("ASEAN"), Vietnam has entered into agreements which serve to lower the import and export duties on a wide range of items.

However, certain items are not covered by such agreements, including explosive materials, cigarettes, certain children's toys, military technical equipment, certain vehicle parts and consumer goods. In such instances, these goods may be subject to restrictions, require special permissions or be totally prohibited from import.

Price controls

Vietnam generally operates a free market, though certain utilities and goods are subject to price controls. Items subject to price controls are typically found in industries which have historically been dominated by state owned enterprises (SOEs). As these SOEs have gradually been privatised or liquidated, so too has the scope of goods subject to price control diminished.

The relatively low cost of energy, which has attracted investment from many manufacturing businesses, is amongst the most significant of the price-controlled items: the low prices charged to consumers by the sole SOE operating the grid, and the low prices offered to on-grid suppliers are effectively making private investment in energy generation unattractive, with the knock-on effect of capacity shortfalls.

Use of land

Land and real estate remain significant issues in Vietnam. This is principally because land, according to Socialist doctrine, belongs to the people and is administered by the State. As such, individuals or entities cannot own land. Rather, they can only be granted "Land Use Rights" by the State. Buildings and fixtures, which are attached to the land, are therefore a critical issue.

However for Vietnamese nationals land use rights are now being issued with no finite time limit.

Exchange control

Use of foreign currencies in Vietnam is relatively tightly controlled. Businesses entering into transactions with foreign entities are permitted to list prices and accept foreign currencies (noting that in some cases, prices may be listed in foreign currency but payment must be made in Vietnamese Dong). Domestic transactions are generally required to be listed and conducted in Vietnamese Dong.

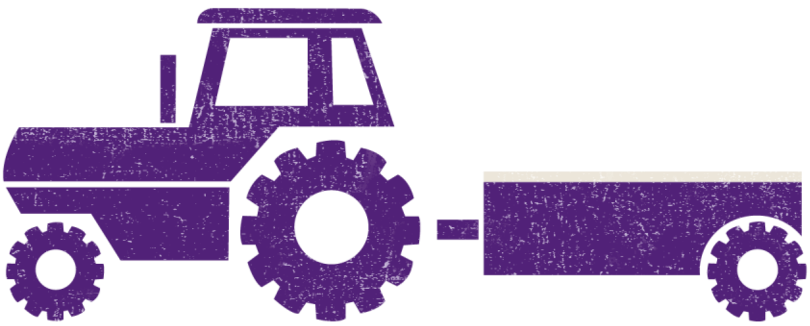
Government incentives

Incentives are available to businesses in a number of sectors, such as information technology and education. Such incentives typically include a tax holiday, followed by a period of reduced corporate income tax rates. In certain instances, incentives may run for the entirety of the project's duration.

From 2014, enterprises having expansion projects may still be entitled to incentives if certain conditions are met.

Businesses which bring new technology or expertise to Vietnam may also be entitled to waiver of import duties and Value Added Tax.

Incentives are made available based on the business activity rather than the business itself, as such, businesses must account separately for incentive and non-incentive activities.



Establishing a business in Vietnam

Summary

Since 1 July 2006, both foreign and domestic investment laws were unified and are now regulated by the Law on Investment and the Law on Enterprises.

The Law on Investment introduces a common regime for investment by both domestic and foreign investors, and includes a single law governing both domestic and foreign investment, covering both direct and indirect sources.

Together, the Law on Investment and the Law on Enterprises changed Vietnam's business environment and made a far more level playing field, however some gaps still remain.

Forms of investment

Foreign investors may establish a business in Vietnam in any of the following forms:

- Business co-operation on the basis of a business co-operation contract
- Joint venture enterprise
- Enterprise with one hundred per cent (100%) foreign owned capital

Licensing Procedures for Foreign-Invested Enterprises in Vietnam

As part of establishing a 100% foreign-owned enterprise (100% FOE) or a joint venture (JV) in Vietnam, a foreign investor must go through a series of licensing procedures before being entitled to conduct business in Vietnam.

An investor must first engage in an investment project and prepare an application file to apply for an Investment Certificate (IC), which is also considered to be the business registration for the enterprise. The IC is the official license allowing foreign investors to conduct business activities in Vietnam.

The application file shall comprise of:

- Investment registration request on the stipulated form
- Report on financial capability of the investor (which shall be prepared and liable by the investor). The report should indicate the source of capital and confirm on the financial ability of the investor to implement the investment project.
- Draft Charter of the enterprise corresponding to the particular form of the enterprise (limited liability company, joint stock company or partnership company)
- List of founding members and their certified legal status

- Notarized copy of the passport or ID card of the authorised representative in the case of individual investors. For the corporate investor, the power of attorney made to the authorized representative shall be required.
- In the case of a JV, the joint venture contract signed by all parties
- Whereas a JV party uses the State budget to contribute for the JV, it should require an acceptance paper issued by the relevant authority for such contribution.
- Other files stipulated in the relevant laws and regulations

The duration of an investment project can be up to 50 years and will be stated in the Investment Certificate. In some circunstancies, the government may extend the duration, but not to exceed 70 years in total.

The procedures to grant an IC to a foreign-invested enterprise depends on the registered capital (below or above VND300 billion) and/or nature such investment (conditional or non-conditional business activities). Processing time may vary from 15 days to 45 days. However for investments in conditional sectors such as Telecommunications, processing can take significantly longer.

For projects that require registration, the issuance of an IC takes approximately 15 working days. For projects subject to evaluation, the time it takes to obtain an IC is likely to vary. Projects not requiring the Prime Minister's approval generally take 20 to 25 working days, while projects that do need such approval take approximately 37 working days.

Business registration

Once the IC has been issued, the following additional steps have to be taken to complete the procedure and start business operations

Investment Licensing and Permits Process in Vietnam

Business registration

- Domestic investment projects with invested capital below VND15 billion (approximately USD943,990), excluding conditional projects are entitled to proceed business registration
- The Company does not have to apply the investment process, unless recording of investment incentives is desired
- The Company will receive a Business registration certificate which is issued under the Law on Enterprises.

Investment registration/ certification

- Domestic investment projects with invested capital from VND15-300 billion; Foreign invested projects with invested capital below VND300 billion (approximately USD18,880,000); excluding conditional projects are entitled to proceed

- Registration of investment on a sample form at the provincial State administrative body for investment, accompanied by prescribed documentation (more onerous for foreign projects) is applicable

- Investment documents received:

    - For foreign projects, an investment certificate (which is also a business registration certificate in the case of the initial establishment of an economic organisation to undertake the first investment project)
    - For domestic projects, an investment certificate and a business registration certificate (a one-step but two-part process)

Investment evaluation/ certification

- Investment evaluation/certification is required for projects with invested capital of VND300 billion (approximately USD18,880,000) or more and conditional projects in:

    - Sectors relating to national defense and security, social order and safety;
    - Banking and finance;
    - Sectors impacting public health;
    - Culture, information, the press and publishing;
    - Entertainment services;
    - Real estate business;
    - All aspects of natural resources and the ecological environment;
    - Development of education and training;
    - A number of other sectors in accordance with law.

  For foreign investors, the range of "conditional projects" is wider, dependant on the specific conditions of Vietnam's international treaties. The list of sectors in which foreign investment is subject to conditions is appended to Decree 108/2006/NĐ-CP dated 22 September 2006.

- Different project files depending on sub-category of project: (i) projects below VND300 billion which are in conditional sectors, (ii) projects over VND300 billion which are in conditional sectors, and (iii) projects over VND300 billion which are not in conditional sectors.

- Investment documents received:
    - For foreign projects, an investment certificate (which is also a business registration certificate in the case of the initial establishment of an economic organisation to undertake the first investment project).
    - For domestic projects, an investment certificate and a business registration certificate (a one-stop but two part process).

Opening up to Foreign Investment

Since opening up its economy to foreign investment in the late 1980's, Vietnam has experienced dramatic improvements in living standards and the economy in general. This modernisation and economic growth led to a long period of negotiation and finally accession to full WTO membership in 2007.

Even though Vietnam is still having macro challenges, it is experiencing a strong recovery in foreign investment with 70.5% growth of new investment projects and 30.8% increase in additional funding for current projects. Foreign investment contributed 21.6 billion USD in 2013.

Domestic real estate and banking suffered the worst from the current economic situation, however the government is making an effort to improve these two sectors. A new draft law has been submitted to the Government, proposing that foreigners be allowed to buy real estate for living and for rent in Vietnam. Should the draft approved, it will open a promising investment channel for foreign investors as the economy is recovering.

To create further investment interest, a draft law was submitted to the Government on 14 November 2013 which allows foreign investors to acquire up to 60% of the ordinary shares of domestic companies, which was previously restricted or problematic in implementation.

Furthermore, the outlook for the imported goods industry is also optimistic. Taxes in 2013 saw an average decrease of 2.85% for 214 agriculture products and mechanical products, medical products and items such as bronze pipes, washing liquid for contact lenses and electric cars.

The Government has also been attentive to enterprises' needs by conducting a survey for 8,053 enterprises which provided 3,870 opinions for improvements. To support them more effectively, they have cut some procedural barriers and have improved facility and information systems to serve their enterprises better. Hence, it is expected that they are and will improve procedures to facilitate foreign investment.

Finance

Summary

The year 2013 marked initially positive changes in Vietnam's banking system reform process. Specifically, all credit institutions have completed the first phase of self-restructuring without any intervention by the State Bank of Vietnam ("SBV") as stipulated in Credit Institution Restructuring Plan and Non-Performing Loan Resolution Plan. In addition, in May 2013 Vietnam Asset Management Company ("VAMC") was established following Decree No. 53/2013/ND-CP with the business purpose of purchasing Non-performing loans- a burden on Vietnamese credit institutions.
As of 31 October 2013, total assets of the banking system reached VND5,424,468 billion, equivalent to growth of 6.66% compared with the end of last year.

As at 31 December 2013, Vietnam's annual credit growth was 12.51% compared with 2012. At a press conference to initiate the banking sector's 2014 tasks, credit growth for 2014 is targeted to be between 12 and 14%. The central bank will continue applying rate caps to deposits in VND to stabilise market interest rates and more closely monitor exchange rates andthe currency market.

Banking system

The SBV is a Governmental body and the Central Bank of Vietnam. The SBV is responsible for State management of currency and banking operations, and acts as a bank for credit organisations. The Bank is allowed to issue currency and conduct monetary services in favour of the Government. Credit institutions under the governance of the SBV are responsible for commercial activities. In Vietnam, credit institutions are composed of state-owned banks, joint-stock commercial banks, branches of foreign banks, joint-venture banks, wholly foreign-owned banks, finance companies, leasing companies and representative offices of foreign banks. Currently, Vietnam's banking sector is dominated by state-owned banks with four giants: the Vietnam Bank for Agriculture and Rural Development (Agribank); the Vietnam Joint Stock Commercial Bank for Industry and Trade (Viettinbank); the Bank for Investment and Development of Vietnam (BIDV) and Bank for Foreign Trade of Vietnam (Vietcombank). Total assets of state-owned banks accounted for approximately 44%, equivalent to VND 2,371,198 billion, of the total assets of the entire Vietnamese banking system as of 31 December 2013.

Since the Credit Institutions Restructuring Plan initiated in 2011 which detailed the mandatory reform of nine underperforming joint stock commercial banks, mergers and acquisitions have increased in Vietnam's banking sector over the past two years. In 2012, the banking sector witnessed two of the biggest hostile takeover deals in Vietnamese history relating to Sacombank and the Phuong Nam Bank and two domestic strategic investment deals (DOJI poured money into Tien Phong Bank and Viettel- a telecommunications giant in Vietnam into Military Bank). In addition Thien Thanh Group bought Trust Bank and BTMU bought stakes of Vietinbank. In 2013, PetroVietnam Finance Corporation (PVFC) announced its plan to merge with Western Bank. In March 2013, Saigon Commercial Bank got the approval from SBV to sell stakes to foreign investors. Dai A Bank was also reported to have a plan to merge into HD Bank. Over the past two years, Vietnam's banking sector saw foreign financial groups taking larger stakes in the banking sector. Notably, Vietcombank sold a 15% stake to the Bank of Mizuho and the Bank of Tokyo Mistubishi UFJ Ltd made a significant capital injection into Vietinbank.

A government decree, effective from 20 February 2014, allows single strategic foreign investors to own up to 20% of domestic banks, (increased from15%). The ownership cap for foreign organisations will increase to 15% from 10%. However, the total non-Vietnamese ownership will remain capped at 30%. The government has pledged to consider increasing this as well as loosening other regulations for strategic investors in certain cases to facilitate reform of weak banks. Reuters also reported that Prime Minister Nguyen Tan Dung was expected to approve an amendment increasing the foreign ownership limit and voting rights to 60% from the current 49% in certain listed firms which do not operate in the banking sector.

Capital markets

The Vietnam securities market comes under is monitored and regulated by the State Securities Commission. Currently, there are two trading centres including the Ho Chi Minh City Stock Exchange (HSX), which was the first to open in July 2000, and the Hanoi Stock Exchange (HNX), which opened in March 2005. The nations two stock exchanges are expected to merge. If the project materialises, costs related to technology, infrastructure, facilities and human resources will be reduced considerably.

The market for unlisted public companies, UPCoM, was established in June 2009 with the aim of decreasing the number of transactions on the open market, improving information transparency and reducing risks for investors.

All securities transactions in Vietnam must be conducted in Vietnamese Dong. In order to trade securities of listed enterprises, foreign investors must hold a dealing code issued by the SBV and must transact through a Vietnamese Dong account held with a Securities Company.

Over the past years, Vietnam’s stock market has been recognised by American news organisations like the Wall Street Journal and Bloomberg as a market that out-performed expectations. At the end of 2013, the VN-Index had increased by 22% and currently takes the lead in Southeast Asia, followed by the EMAS Index of Malaysia with an increase of 11.44%. Bloomberg reported for the whole 2013, foreign capital flows into Vietnam’s stock market reached a net value of over $250 million, ranking second in Southeast Asia.

The Ministry of Finance in collaboration with the State Securities Commission submitted a plan to raise the foreign ownership limit for publicly traded companies from the existing 49%. The plan, if passed, is expected to bring a breakthrough in foreign investment and trigger further development of the stock market.

The VN-Index ended the year at 504.63, rising by around 22.2% in comparison with late 2012 while the HNX-Index advanced 18.9% at 67.84. During the year, the VN-Index hit the record high of 527.95 on June 7 whereas the HN-Index reached its peak at 68.3 on December 23.

Business entities

The Enterprise Law of Vietnam (2005) sets out 5 types of business entities that are permitted to operate in Vietnam, comprised of:

- Limited liability company,
- Joint-stock company,
- Private enterprise,
- Partnership, and
- Group of companies.

The main characteristics and management structures of each type of business entities are summarised below

Limited liability companies

Establishing a limited liability company

- Two types of limited liability company are available:
  - One member Limited Liability companies, and
  - Limited Liability companies with two or more members.
- Limited liability companies are not entitled to issue shares.
- The total members in a limited liability company cannot exceed fifty.

General management in a limited liability company

- All members in a limited company constitute a Members' Council which is the highest decision-making element of the company.

- A Director/General Director is appointed or hired by members to manage daily business operations of the company. The chairman of the Members' Council, who is also elected by members, can be concurrently the company's Director/General Director.

- For a company whose total members exceed eleven, a Control Board must be established to supervise the management and direction of the company by the Management Board and the Director/General Director. The rights and duties of the Control Board are also subject to the company's charter.

Joint-stock companies

Establishing a joint-stock company

- The charter capital of a joint-stock company is divided into equal portions known as shares. Multiple classes of shares may be permitted.
- Individuals and organisations can be the shareholders of the joint-stock company.
- The minimum number of shareholders in the company is three. There is no limit for the maximum number of shareholders.

Capital stock and shareholders

- A joint-stock company must issue ordinary shares and may issue preference shares. Types of preference shares include:

    - Voting preference shares: only held by government-authorised organisations and founding shareholders,
    - Dividend preference shares,
    - Redeemable preference shares, and
    - 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 and officers

- The Shareholders' Meeting, which is convened by all shareholders with voting rights, acts as the highest decision-making element of a joint-stock company.

- The Management Board, whose members are elected under decisions passed at the Shareholders' Meeting, acts as the management body of the company. For a joint-stock company with more than eleven shareholders, a Control Board is required to supervise the management and direction of the company by Management Board and the Director/General Director.

- A Director/General Director is appointed or hired by the Management Board to manage the daily business operations of the company. The chairman of the Management Board may concurrently be the company's Director/General Director.

Filing requirements

- The joint-stock company is required to prepare the following reports and materials by the end of the fiscal year:

    - Annual financial statements,
    - Report on the business operations of the company, and
    - Evaluation report on the management and direction of the company.

- Annual financial statements must be audited before being submitted to the Shareholders' Meeting.

- All shareholders who possess the company's shares for at least one year are entitled toreview the reports and statements at an appropriate time.

Private enterprises (Sole proprietorships)

Establishing a private enterprise

- The owner of a private enterprise must be an individual and is personally liable for all debts.
- Private enterprises are not permitted to issue any type of securities.
- The private enterprise's owner has full decision-making power and directly manages all day-to-day business operations.
- The owner is entitled to sell the enterprise to another person with prior notice in writing to the business registration office.

Partnerships

Establishing a partnership

- At least two partners are required to establish a partnership. Partners are co-owners of the company, and jointly run the business under one common name.
- A partnership must not issue any type of security.
- There are two types of partnerships accepted by Law:
  - General partnerships,
  - Limited partnerships.
- Both general and limited partners are required to conduct capital contribution in full and on time as committed.

General partners

- General partners must be individuals, and are personallyliable for all obligations of the partnership. Partners are jointly and severally liable.

- General partners cannot also be the owner of any private enterprise or partner of other partnership, nor transfer part or whole of their capital contribution to other partners.

Limited partnerships

- In a partnership, limited partners are liable for the company's debts only to the extent of their capital contribution to the partnership.

Business Management

- All partners constitute a Partners' Council to decide on all business issues of the partnership.

- All general partners are entitled to be representatives-at-law and run the daily business operations of the partnership.

Group of companies

- A group of companies is a combination of companies which have long-term interrelations in terms of economic benefits, technology, market and other business services.

- For Parent – Subsidiary relationships, the parent entity acts as a member, an owner or a shareholder of the subsidiary company, depending on the legal form of the subsidiary.

- For Economic Conglomerates, the Government will stipulate and guide the criteria for organisation, management and operation.

Dissolution of business entities

- An enterprise is to be dissolved under the following circumstances:

    - The operation duration stated in the company's charter has expired without any decision to renew,

    - There is a dissolution decision made by the enterprise owner, for private enterprises; by all general partners, for partnerships; by the Members' Council or the company owner, for limited liability companies, or at the Shareholders' Meeting, for joint-stock companies,

    - The minimum number of company members cannot be maintained for six consecutive months, or

    - The business registration is withdrawn.

- An enterprise is considered dissolved only when it pays off all the debts and other property liabilities.

- For an effective dissolution, an enterprise is required to follow all procedures set out in Vietnam's Enterprise Law (2005), including thepublication and notification of the dissolution decision to the business registration office, all creditors, people with related rights, obligations and interests, and all labourers within seven working days from the date of decision.

Labour

Summary

Labour and employment issues are normally governed by the Labour Code in Vietnam. The Labour Code pertains to recruitment, rights and obligations employee and employers, types of labour contract, content of labour contracts, cases of suspension or termination of labour contracts, cases in which an employer is prohibited from unilaterally terminating a labour contract, payment of wages, hours of work, overtime, benefits legislation, public paid holidays, vacation pay, severance allowance, separate provision for female employees etc.

Employees of enterprises, agencies and organisations have the right to establish, join and operate trade unions in accordance with the Law on Trade Union.

Wages

When determining what to pay employees in Vietnam, it's best to take into consideration your region, sector and the going rate of similar positions. It should be noted that the Government has defined region-based minimum wage levels applied to enterprises:

- Level of VND2,700,000/month applies to enterprises operating in localities of region I.
- Level of VND2,400,000/month applies to enterprises operating in localities of region II.
- Level of VND2,100,000/month applies to enterprises operating in localities of region III.
- Level of VND1,900,000/month applies to enterprises operating in localities of region IV.

In order to know which region your enterprise belongs to, please refer to the Appendix of Decree 182/2013/ND-CP.

Social security

Vietnam's compulsory social insurance regime cover sickness, maternity, work-related accidents, occupational disease, 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. Effective from 1 January 2014, the contribution rate from employers and employees on employees' salary are as follows:

1. Employers: social insurance: 18%; health insurance: 3%; unemployment insurance: 1%. Total contribution from the Employers is 22%
2. Vietnamese Employees: social insurance: 8%; health insurance: 1.5%; unemployment insurance: 1%. Total contribution from the Employee is 10.5%

Contributions are calculated on the lower of the employee's actual salary, or 20 times the basic minimum salary (currently VND1,150,000 for a maximum basis of VND23,000,000 per month).

Foreign employees are not required to pay social or unemployment insurance, but are required to contribute to compulsory health insurance..

Pensions

Retirement benefits are provided under the compulsory social insurance regime.

A deduction of up to VND1 million 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 means to save for retirement, diversify the sources of their pensions and will provide employers with a means to retain key employees.

Fringe benefits

Holiday pay

If the employees are required to work on public holidays they may be compensated by either receiving 3 (three) days paid-leave in lieu, or be paid a wage 3 times the amount of their regular wage.

Employees who work overtime can be compensated by receiving time off in lieu or paid a wage at the following rates:

- On normal days, at least equal to 150% of current salary
- On weekends, at least equal to 200% of current salary

Sick pay

When an employee is absent from work and covered by social insurance, the employer is not required to pay a wage to the employee. Conditions for being entitled to the sickness regime under Law on Social Insurance:

- Taking leave due to sickness or accident, with the certification of a medical establishment.

  In case of taking leave due to sickness or accident from self-inflicted injuries, drunkenness, abuse of drugs or other addictive substances, labourers are not entitled to cover for the lost working days.

- Taking leave to take care of children under seven who get sick with the certification of a medical establishment.

The rate of compensation ranges from 45% to 100% of the employee's salary as regulated under the Law on Social Insurance.

Workers' compensation

Vietnam's worker's compensation regime seeks to protect individuals from injuries, death or illnesses that occur while they are on the job. This is regulated under the Labour Code and Law on Social Insurance.

Healthcare

The health insurance fund is set up from contrition of employers and employees and managed within the system of the health insurance institutions. Healthcare services are provided through the health insurance-covered medical providers who are health care establishments and contracted with a health insurance institution. The health insurance-covered medical care providers include commune health stations and the equivalent, maternity houses; general and specialised clinics; and general and specialised hospitals.

Employment protection legislation

Vietnam's government takes great care to ensure the employees are treated fairly by the employers. The protection is also inclusive of cases in which an employer is prohibited from unilaterally terminating a labour contract; compensation to employees in case an employer unilaterally terminates a labour contract illegally, protection of maternity for female employees; etc… The protection of employment under the Labour Code is outlined at the following address:
http://www.molisa.gov.vn/docs/VBPL/detailVBPL/tabid/213/DocID/9604/TabModuleSettingsId/450/language/vi-VN/Default.aspx

Unions

Employees of enterprises, agencies and organisations have the right to establish, join and operate trade unions in accordance with the Law on Trade Unions. Agencies, organisations and enterprises, regardless of whether such agencies, organisations and enterprises are grassroots trade-union organisations or not, have to contribute 2% of the employee's salary to the Trade Union. The employees' salaries are calculated on the same basis as for compulsory social insurance, as noted above.

Personnel limitations - foreigners/nationals

Generally, foreign citizens must obtain a valid work permit in order to work in Vietnam. Foreign citizens are exempt from work permit in certain cases such as:

- Capital-contributing members or owners of limited liability companies
- Members of the Board of Directors of joint-stock companies
- Chiefs of representative offices and directors of projects of international organisations or non-governmental organisations in Vietnam.
- Those who stay in Vietnam for under 3 months to offer services for sales.
- Those who stay in Vietnam for under 3 months to deal with complicated technical or technological problems that adversely impact or are at risk of exerting adverse impacts on production and business activities and these problems cannot be handled by Vietnamese and foreign experts who are currently in Vietnam.

Domestic enterprises, agencies, organisations, individuals and contractors may only employ foreign citizens in such positions as manager, managing director, expert and technical worker which Vietnamese employees are still unable to fill to meet production and business requirements.

The maximum period of the work permit is two (2) years.

Financial reporting and audit

Summary

As a result of the introduction of, and continuing improvements to, the accounting and auditing standards together with the development of professional bodies and an increase in the number of qualified accountants and auditors; accounting and auditing practices in Vietnam have improved dramatically over the past few years.

Filing/publication requirements

Accounting standards

There are currently 26 Vietnamese Accounting Standards (VAS) which were issued between 2001 to 2005. These standards were adopted from and primarily based on the International Accounting Standards("IAS") published by the International Federation of Accountants prevailing at the time of issuance, and in harmony with the development of Vietnam's economy, legislation and accounting practice. Detailed guidance on the implementation of standards is issued by the Ministry of Finance ("MOF") along with the promulgation of the related standards.

Many of these VAS standards are now outdated, due to the continuous improvements and amendments of the International Financial Reporting Standards ("IFRS") issued by the International Federation of Accountants. The MOF is conducting a project to update and issue new standards to replace the current ones. The MOF is also in the process of studying the Accounting Standards which are not yet issued in Vietnam, especially the Accounting Standards on Financial Instruments, and Agricultures.

According to the scheduled plan, the MOF is expected to issue all these VAS's by 2015.

In addition, several decisions and circulars have been issued to regulate and provide detailed guidance on accounting treatment and reporting requirements for local and foreign invested business entities, small and medium sized companies and for entities operating in specialised industries such as banking and finance institutions, insurance companies, fund management companies, investment funds and securities companies. The form of financial statements, chart of accounts, account books and accounting documents are also prepared as stipulated in these decisions and circulars.

All companies and corporations are required to comply with Vietnamese Accounting Standards and Systems. Any departures from Vietnamese Accounting Standards and Systems needs prior written approval from the MOF.

Audit requirements

According to Independence Audit Law of Vietnam, the following entities to have their financial statements audited by independent audit firms:

- Enterprises with foreign investments
- Credit institutions established and operating under the Law on Credit Institutions
- Financial institutions, insurance enterprises, insurance brokerage firms
- Public companies, issuers and securities trading organizations
- Stated owned enterprises, except for state owned enterprises operating in the field of state secrets as prescribed by law
- Enterprises, organisations implementing the national important projects, group –A projects as stipulated in Article 7 and 8 of Decree No. 12/2009/ND-CP using the State funds, except for the projects in the field of state secrets as prescribed by law
- Enterprises and organisations with state contributed capital and projects funded by other State capital prescribed by the Government
- Auditing firms, branches of foreign auditing firms in Vietnam
- Enterprises and organisations voluntarily audited

Statutory audits in Vietnam are performed in accordance with Vietnamese Standards on Auditing ("VSA") which was released by MOF on 29 March 2011 and took effect on 1 January 2012.

Pubic interest entities which include listed entities, public entities, financial institutions, financial services companies and insurance companies are required to submit mid-year reviewed financial statements and year-end audited financial statements. The mid-year review and year-end audit should be performed by audit firms duly registered and approved by MOF and the State Securities Commission of Vietnam (SSC).

The MOF is responsible for selection of audit firms that are allowed to perform independent audits of public interest entities. The MOF issues the relevant guidance and criteria for qualification and approval. The list of audit firms approved to audit public interest entities is reviewed and revised annually and published on the websites of SSC, VACPA and the MOF usually around November and December each year.

Grant Thornton Vietnam is one of approved audit firms.

APPROVED

Branches of foreign companies

The Commercial Law dated 14 June 2005 constitutes legal ground for representative offices and branches of foreign businesses in Vietnam, which is further specified by Decree No.72/2006ND-CP, on representative offices and branches of foreign businesses in Vietnam, issued by Government on 25 July 2006, as amended and supplemented by Decree No.210/2011/ND-CP, dated 16 December 2011, of the Government. The annual financial statements should be prepared in accordance with trhe regulations of Vietnam.Filing/publication requirements.

Accounting standards

Foreign-invested entities operating in Vietnam are required by law to comply with VAS when recording their financial transactions. In a nutshell, the VAS requires that accounting records:

- Are in the Vietnamese language other than FDI enterprises who are permitted to use dual language
- Use VND as the accounting currency
- Comply with the Vietnam chart of accounts
- Include numerous reports specified by VAS regulations, printed on a monthly basis, signed by the General Director, and affixed with the company seal.

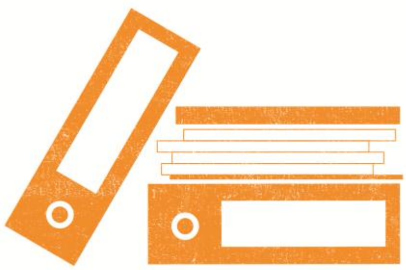
In practice, for foreign parent company reference, foreign owned entities often choose to convert into IFRS from VAS-based accounts on a quarterly semi annual or annual basis.

If foreign companies want to use another currency for their accounting records, they need to submit an application to the local managing tax office. This accounting currency unit must be one that is mainly used for the foreign company's banking transactions, services and selling price quotations. The same foreign currency can be also used to account for revenues, employee salaries and payment of material costs.

The 12-month accounting period in Vietnam generally starts from January 1 to December 31. However, foreign companies may apply accounting period beginning the first day of each quarter, e.g. April 1 to March 31 of the following year; July 1 to June 30 of the following year can be adopted after registering with Tax authority.

Audit requirements

All foreign-invested entities are required to have their annual accounts audited by an independent audit firm in accordance with the Vietnam Standards on Auditing within 90 days from the end of each financial year prior to transferring their profits overseas.



For representative offices and branch of foreign business, compliance procedures are different. They are required to report on their activities to a local department of trade prior to the last working day of January of the following year.

Tax

Summary

The Vietnamese tax system follows the hierarchy of other laws, starting with Laws defining general regulations, Decrees defining the Laws in more detail, and Circulars defining the implementation. Official Letters confirming tax treatment are also granted on a case-by-case basis, and as such, cannot be relied upon as precedent in other instances.

Vietnamese tax regulations are subject to frequent change, typically at the Circular level, though such changes are often not significant to the majority of taxpayers. However, the relatively broad drafting of the regulations, and lack of practitioner's guidance notes, results in relatively wide-ranging differences in interpretation and subsequent implementation of the law between regional tax offices.

Companies

Organisations conducting business and earning taxable income are subjected to Corporate Income Tax (CIT). These include:

- Enterprises established pursuant to the law of Vietnam;
- Foreign enterprises earning income in Vietnam with or without a permanent establishment in Vietnam;
- Enterprises established pursuant to the Law on Co-Operatives;
- Any other organisation conducting activities of production or business that earns income.

It is noted that foreign companies, foreign organisations, and foreigners conducting business in Vietnam other than pursuant to the Law on Enterprises and the Law on Investment or having income sourced in Vietnam are required to pay CIT in accordance with the regulations on taxation of foreign contractors.

Liability to tax

Taxable income includes income earned from production and trading of goods and services. Other taxable income typically includes income from the transfer of capital, transfer of real estate, sale of foreign currency; and written-off bad debts that are repaid.

Tax rates

From 1 January 2014 the standard CIT rate fell to 22% , except for those business establishments conducting prospecting, exploration and mining, which are subject to various CIT rates from 32% to 50% and those already operating with tax incentive rates lower than 22%..

From 1 January 2016, the standard CIT rate is scheduled to reduce to 20%.

The following incentive rates are typically available for eligible companies:

- 10% CIT rate for 15 years
- 10% CIT rate for the entire operational period 20% CIT rate for 10 years
- 20% CIT rate for the entire operational period

Such incentives are granted based on the nature of the organisation and its activities, notably for businesses operating in the field of high technology; in fields for critical production such as agriculture, aquaculture, forestry and high quality steel production; in fields beneficial to the State such as education, sustainable developments and environmentally-focused activities; in specific large-scale investments and in areas facing significant socio-economic difficulties as defined in guiding regulations.

Tax base

Taxable income = (Gross revenue – Deductible expenses) + Other income

Assessable income = Taxable income – (Tax exempt Income + Losses carried forward)

There may be differences between book and taxable profits, which are generally caused by expenditure excluded before taxable income calculation.

Where a company has paid income tax outside Vietnam, the amount of tax already paid may be credited against Vietnamese liabilities. The credit may not exceed the total amount of CIT otherwise payable as per Vietnam tax Law on the income subject to the foreign tax.

Deductible expenses must satisfy all three of these conditions below:

- Actually arose and related to the business of a company;
- Not in the list of expenses prohibited for deduction;
- Accompanied by eligible invoices and vouchers. Invoices valued at VND20 million or more should be settled via bank payment, unless specifically stated otherwise by relevant law.

Non-deductible expenses include:

- Expenses that fail to meet all conditions mentioned above, with certain exceptions;
- Fines for administrative violations;
- Administrative expenses allocated by a foreign enterprise to its permanent establishment in Vietnam which exceed the specified limit;
- Interest expenses on loans that are not given by credit institutions or economic organisations and exceed 150% of basic interest rates announced by the State bank of Vietnam.
- Expenses on loan interest corresponding to the charter capital deficit;
- Expenses exceeding the advertising, marketing and promotion cap; and
- Voluntary payments to retirement funds or social security funds, payments for voluntary retirement insurance for employees that exceed the limits imposed by law.

Groups

Vietnam does not offer consolidated tax filing. Accordingly, related entities may not take advantage of group relief. However, financial reporting on a group-wide basis may be required in certain instances.

Filing of tax returns

Taxpayers subject to CIT are generally required to file tax declarations and settle liabilities on a quarterly and annual basis.

Declaration/Documents	Deadline
Quarterly income tax return filed and taxes paid	30th day of the following quarter
Annual CIT finalisation return filed and taxes paid	90 days from the end of the fiscal or calendar year

Enterprises are to pay tax in the place where it has its main head office. If an enterprise has a "dependent accounting production establishment" in another province or city, the amount of CIT assessable and payable will be determined in accordance with the ratio of expenses between the production establishment and the main head office.

The tax declaration dossier of taxes being declared and paid each quarter generally includes:

- The quarterly tax declaration;
- The list of invoices of sold goods and services (if any);
- The list of invoices of purchased goods and services (if any);
- Other documents related to the tax payable.

Use of losses

A company may carry forward losses and offset against assessable income. Losses should be carried forward continuously and entirely within 5 years.

Dividends

Dividends remitted to corporate entities, whether domestic or foreign, are exempt from corporate income tax.

Dividends may only be remitted annually and when the disbursing entity is not carrying accumulated accounting losses.

Withholding taxes

Withholding taxes are also applicable on other transactions, such as payments to foreign parties for services rendered, royalties for the rights to use intellectual property, or interest to foreign parties. Withholding taxes are generally imposed under the Foreign Contractor Tax ("FCT") regulations, and may include elements of CIT and Value Added Tax.

Effect of treaties

Vietnam is party to over 65 double tax avoidance agreements ("DTAs"). Such tax treaties may give stipulate tests for determining residence and instances where permanent establishments are created, and with regard to potentially limiting gross tax leakage on certain payments. Where the terms of such treaties differ from domestic regulations, the treaties take precedence.

However, the treaties are not applied automatically: taxpayers must apply in order to avail themselves of the treaties' protection. Further, as Vietnam follows a self-assessment system, the full benefits of the treaty may be subsequently over-ruled if it is determined that the treaty was incorrectly applied (that is, successful application of intent to make use of a DTA does not ensure the taxpayer is eligible to the benefits of the treaty).

Countries with existing tax treaties with Vietnam				
Algeria*	Australia	Austria	Bangladesh	Belarus
Belgium	Brunei Darussalam	Bulgaria	Canada	China
Cuba	Czech Republic	Denmark	Egypt*	Finland
France	Germany	Hong Kong	Hungary	Iceland
India	Indonesia	Ireland	Israel	Italy
Japan	Kazakhstan*	Kuwait	Laos	Luxemburg
Malaysia	Mongolia	Morocco	Mozambique*	Myanmar
Netherlands	New Zealand*	North Korea	Norway	Oman
Palestine*	Pakistan	Philippines	Poland	Qatar
Rumania	Russia	Saudi Arabia	Serbia*	Seychelles
Singapore	Slovakia	South Korea	Spain	Sri Lanka
Sweden	Switzerland	San Marino*	Taiwan	Thailand
Tunisia	Ukraine	United Arab Emirates	United Kingdom	Uzbekistan
Venezuela				

(*): not yet in effect.

Notably, of Vietnam's major trading partners, there is no tax treaty with the United States at present.

Individuals

Law No. 26/2012/QH13 on Personal Income Tax amended and supplemented a number of articles of the Law on Personal Income Tax No. 04/2007/QH12, and took effect from 1 July 2013.

Resident individuals are subject to PIT and are taxable on worldwide income, with non-resident individuals being taxed only on income arising within Vietnam.

Tax rates

Tax residents of Vietnam are subject to personal income tax at progressive rates from 5 to 35 percent on their employment income irrespective of the source.
Income not classified as employment income, such as income being dividends or interest – are subject to separate rates which are typically applied on a gross basis, and do not impact the taxable income subject to progressive rates.

Progressive tax rates for resident Individuals on salary and business income received by residents

Tax bracket	Portion of Annual Assessable Income (VND)	Portion of monthly Assessable Income (VND)	Tax Rate
1	Up to 60 million	Up to 5 million	5%
2	From 60 to 120 million	From 5 to 10 million	10%
3	From 120 to 216 million	From 10 to 18 million	15%
4	From 216 to 384 million	From 18 to 32 million	20%
5	From 384 to 624 million	From 32 to 52 million	25%
6	From 624 to 960 million	From 52 to 80 million	30%
7	Over 960 million	Over 80 million	35%

(Source: Circular 111/2013/TT-BTC)

Residence criteria

An individual is considered a tax resident in Vietnam if meeting any one of the following conditions:

- The individual is physically present in Vietnam for a period of 183 days or more within one western calendar year, or within 12 consecutive months from the date the individual is first present in Vietnam.
- Having a regular residential location in Vietnam in one of the following cases:
    - Having a permanent residence recorded in the residence card or temporary residence card, or
    - Having a leased/ rented place(s) of 183 days or more (90 days or more if before 1 July 2013).

  For an individual who has a regular residential location in Vietnam but actually stays in Vietnam for less than 183 days (more than 90 days and less than 183 days if before 1 July 2013) in a tax year, the individual will be viewed as a Vietnamese resident unless the individual can prove that he/she is a resident of another country.

Individuals who do not meet any of the above criteria are considered non-resident in Vietnam for tax purposes.

Taxation of non-residents

Non-tax residents of Vietnam are subject to tax in Vietnam only on Vietnam-sourced income at a flat rate of 20%.

Non-residents with income which is not employment income are typically subject to the same gross rates applicable to residents.

Special rules for expatriates

A number of tax-exempt allowances may be granted to tax-resident employees pursuant to employment contracts and provided that certain conditions (dependent on the allowance) is met. Non-Vietnamese nationals tax resident in Vietnam may be entitled to certain additional allowances which would be considered taxable income for Vietnamese nationals, such as annual flights back to their home country for vacation purposes.

Tax returns and payment

Income paying organisations making payments of income subject to withholding personal income tax are generally required to make monthly tax declarations not later than the 20th day of every month, though in some cases quarterly declaration is permitted instead. In either case, an annual finalisation, including reconciling tax payments, should be made by the 90th day of the following year.

Effect of treaties

Tax treaties, as noted earlier, take precedence over domestic rules where applicable. Such treaties may alter residence regulations and may also limit the rate of tax or the eligibility of certain income to tax in either of the contracting States.

Value Added Tax ("VAT")

Taxpayers

In general, organisations and individuals producing and trading VAT taxable goods and services in Vietnam, or importing VAT taxable goods or services from foreign countries are liable to pay VAT.

VAT exempt goods and services

Main categories of goods and services not subject to VAT include

- Raw or semi-processed products of cultivation, husbandry, aquaculture
- Animal breeding stock and plant varieties including breeding eggs, young animals, seedlings, seeds, seeding twigs and bulbs, sperm, embryos and genetic materials
- Salt products
- Transfers of Land Use Rights
- Life insurance; re-insurance and a number of insurance products
- Credit services provided by credit and non-credit institutions
- Securities business activities

Derivative financial services

- Assignment of capital
- Medical health services and veterinary services including medical examinations
- Importation and distribution of newspapers, magazines, specialised newsletters, political books, textbooks and teaching materials
- Publications
- Educational and vocational training
- Sale of debts
- Foreign currency trading
- Goods, services of business individuals with an annual revenue of VND100mil or less

Other items exempt from VAT when imported include

- Machinery, equipment and materials that are not yet able to be produced domestically and are required for direct use in scientific research and technological development activities
- Machinery, equipment, replacement parts, specialised means of transportation and materials which are not yet able to be produced domestically and are required to be imported to carry out prospecting, exploration and development of petroleum and natural gas fields
- Aircraft, drilling platforms and watercraft which are not yet able to be produced domestically and which are required to be imported to form fixed assets of enterprises or are leased from foreign parties for use in production and business, including the case of import and sub-lease.

Business establishments are not entitled to a credit and refund of input VAT in respect of goods and services used by businesses, which are not subject to VAT.

Cases where it is not necessary to declare and pay VAT

- Receipt of payments being compensation, bonus, support, emission rights assignment and other financial income by organisations and invididuals

- Procument of services by Vietnam-based manufacturing and trading organisations and individuals from foreign organisations without permanent establishments in Vietnam or offshore individuals being non-residents in Vietnam, such as: repair of means of transportation, machinery and equipment (including materials and replacement parts); advertising and marketing; investment and trade promotions; sale of goods and service provision brokerage; training; and share of charges for international post and telecommunications services between Vietnamese and foreign parties, which are provided outside Vietnam

- Sales of assets by non-trading organisations and individuals that are not VAT payers

- Transfers of investment projects for producing VAT-taxable goods and services to business entities and co-operatives

- Sale of raw or semi-processed products of cultivation, husbandry, aquaculture to business entities and co-operatives.

Note: Input VAT of goods and services used for the activities of providing goods and services where it is not necessary to declare and pay VAT is considered for full creditability.

Applicable VAT rates

There are 3 levels of VAT rates:

- <u>0% VAT</u>: Exported goods and services; construction and installation operations of export processing enterprises; goods sold to duty-free shops; international transportation, and to goods and services that are not subject to VAT and that are exported, except for the following: technology transfers and intellectual property transfers to foreign countries; services being reinsurance offshore; credit services, assignment of capital and derivative financial services; post and telecommunications services (including post and telecommunications services provided to organisations and individuals in non-tariff zones; the provision of prepaid mobile phone cards with codes and face value to overseas or into non-tariff zones); and export products being exploited natural resources and mined minerals that have not yet been processed.

The following services provided in Vietnam to offshore organisations and individuals are not entitled to the 0% tax rate:

- Sports competition, art, cultural and recreational performances, conferences, hotels, training, advertising and travel; online payment services.

- Reinsurance services with insurers overseas; technology transfer, transfer of intellectual property to parties overseas; transfer of capital, provision of credit, investment in securities overseas; derivative financial services; outgoing international postal or telecommunications services; products for export being exploited natural resources or minerals which have not been processed into other products; goods or services provided to individuals who do not have business registration in a non-tariff zone

- Petrol and oil sold to automobiles of business establishments in non-tariff zones which are purchased domestically

- Automobiles sold to organizations and individuals in non-tariff zones

- Services provided by domestic business establishments to organizations and individuals in non-tariff zones but the place of provision and consumption of services is located outside the non-tariff zone such as leasing of housing, meeting-halls, offices, hotels or warehouses; and transport services for employees

- 5% VAT: Areas of the economy considered as essential goods and services, including clean water for manufacturing and for living purposes; fertilisers; ore used for production of fertilisers; pesticides and growth stimulants for animals and crops; feed for cattle, poultry and other animals; fresh food produce; unprocessed products made from jute, sedge, bamboo, rattan, thatch, coconut fibre, coconut shell, water hyacinth, and other forestry materials; semi-processed cotton; newsprint; medical equipment and instruments; medical sanitary cotton and bandages; preventive and curative medicines; and pharmaceutical products and pharmaceutical materials which are the raw materials for producing preventive and curative medicines, gloves for medical use; scientific and technological services as stipulated in the Law on Science; sales, hire-purchase or rental of social houses

- 10% VAT: All other goods and services not subject to the 0% and 5% rates.

Methods of calculating VAT

The VAT payable is to be calculated by applying the tax credit method or by calculating tax directly on the basis of added value.

The tax credit method applies to business establishments that fully implement the prevailing regime on Accounting, invoices and source vouchers, and register to pay VAT by the tax credit method.

The method of tax calculation based directly on added value only applies to business establishments, foreign organisations and individuals conducting business without a resident establishment in Vietnam, which have income arising in Vietnam and do not implement the regime on accounting, invoices and source documents; and activities of purchasing and selling gold, silver and precious stones.

Credit for input Value Added Tax

In principle, business establishments that pay VAT in accordance with the tax credit method are permitted a credit for input VAT as follows:

- Input VAT levied on goods and services used by businesses subject to VAT is fully credited

- Input VAT levied on goods and services that are used in a business that has elements subject to VAT and elements not subject to VAT, only the amount of input VAT levied on the goods and services used in elements subject to VAT will be credited

- Input VAT levied on fixed assets used in both VAT businesses and non-taxable businesses will be fully credited. However, input VAT associated with fixed assets, machineries and equipment of credit institutions, business establishments operating in re-insurance, life insurance, securities, medical, educational businesses; with civil yachts and aircrafts not used for transportation businesses would not be creditable but capitalised as part of the acquisition value.

Upon determination of the tax payable for a period, creditable input VAT arising during such period will be declared and credited. Where the business establishment discovers an amount of VAT which was not deductible upon declaration, due to omission of an invoice or receipt for tax payment which was not declared for credit, it is permitted to make a declaration for an additional credit; the maximum period for the declaration and additional credit is **unlimited** providing that the declaration is made before the tax audit.

At the minimum, the following conditions must be satisfied to be able to credit the input VAT:

- There is an added value invoice for the purchase of the goods and services or a receipt for payment of VAT at the import stage

- There is evidence of payment via a bank for the purchased goods and services, except where the goods and services have a value below VND20million.

In principle, VAT refund is available for the outstanding creditable input VAT, subject to the meeting of certain qualification criteria.

VAT declaration and payment

VAT filing is due on a monthly or quarterly basis. Quarterly declarations are applicable to taxpayers having total revenue of the immediate preceding year of VND20 billion or less. Newly established taxpayers are still subject to monthly VAT declarations until the next calendar year after having been operation for 12 months.

The deadline for submission and payment is no later than the 20th day of the following month, and no later than the 30th day of the following quarter for monthly and quarterly declarations, respectively.

Foreign Contractors

Withholding tax for foreign contractors

Foreign corporations doing business in Vietnam or earning income in Vietnam without establishing a legal entity therein are subject to a withholding tax, generally comprising CIT and VAT.

Depending on whether or not the foreign contractors adopt Vietnamese Accounting Standards, the FCT can be applied on a deemed method or a deduction method. Generally, the former is used in most cases. The majority of services carry the rate of 5% each for both VAT and CIT.

In addition, a hybrid method where a foreign contractor pays VAT under the deduction method and pay deemed CIT on a withholding basis on the gross value of the contract may also be applied for eligible foreign contractors.

CIT for foreign contractors under deemed method
CIT to be withheld = CIT-taxable revenue x CIT rate (%)

Foreign Contractor CIT rates as a percentage of taxable revenue under deemed method

Business Activities	CIT rates as % of taxable revenue
Distribution and supply of goods and raw materials, including supply of on-spot export and import (except for processing goods for foreign organisations, individuals); supply of machinery and equipment associated with services in Vietnam; supply of goods under the DDP, DAT, DAP conditions of Incoterms	1%
Services, lease of machinery and equipment, drilling rigs, insurance	5%
Restaurant, hotel and casino management services	10%
Leases of aircraft, aircraft engines, aircraft spare parts and ocean going vessels	2%
Construction	2%
Other production or business activities; and transportation (including sea and air transportation)	2%
Reinsurance, reinsurance commission	2%
Assignments (transfer) of securities	0.1%
Derivatives	2%
Loan interest	5%
Income from royalties	10%

VAT for foreign contractors

VAT to be withheld= Added value x Applicable VAT rate
Added value= VAT- Taxable revenue x Added Value rate (%)

Foreign Contractor Value Added rates as a percentage of taxable revenue

Business activities	Rates of added value as % of taxable revenue
Services (except for petroleum drilling services), leasing machinery and equipment, insurance	50%
Petroleum drilling services	70%
Construction, assembly and installation that includes supplying materials, machinery and equipment	30%
Construction, assembly and installation that does not include supplying of materials, machinery and equipment.	50%
Transportation, production and other businesses	30%

Other taxes

Registration Fees

The following are exempt from registration fees: residential houses and residential land of poor households; residential houses and residential land of ethnic minority people in communes, wards and townships in areas with difficult conditions; and inland watercraft (including fishing boats) with total engine deadweight under 15 tons, watercraft with total main engine capacity under 15 horsepower, and watercraft with capacity to carry less than twelve (12) people.

Registration fees are calculated as a percentage of the value of the asset as follows:

Assets	Rates
Land and housing	0.5%
Shotguns and sports guns	2%
Ships and boats, yachts, aircrafts	1%
Motorcycles	1%, 2%, 5%
Passenger vehicles with less than 10 seats for the first time of registration	10%-15%
Passenger vehicles with less than 10 seats for the second time of registration	2%
Other vehicles (including semi-trailers and farm vehicles) that are not passenger vehicles with less than 10 seats and which are not specialized vehicles	2%

The maximum registration fee is VND500 million per single asset, except for passenger vehicles with less than 10 seats (including the driver's seat), boats, and aircraft.

Export duties

Export is encouraged and thus, most goods and services exported are exempt from tax. Export duties are only charged on a limited range of items, such as mineral resources, forest products and scrap metal, ranging from 0% to 45%. The rates are specified in the Export Tariff List promulgated by the Ministry of Finance.

Import duties

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 imports.

In principle, 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 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 tax rates include preferential tax rates, particularly preferential tax rates and ordinary tax rates.

Preferential tax rates are applicable to imports originating from countries or groups of countries or territories that grant most-favored-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-favored-nation treatment or special import tax preferences to Vietnam. The ordinary tax rate is equal to 150% of the preferential tax rate. Apart from 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.

Special Sales Tax ("SST")

Goods generally subject to SST include: cigarettes, cigars and other products processed from tobacco; spirits and beer; passenger vehicles of less than 24 seats; two-wheel motor vehicles with a cylinder capacity above 125cc; aircraft and yachts; various types of petrol; air-conditioners with a capacity of 90,000 BTU or less, votive paper and playing cards.

Businesses subject to SST include: dancehalls; massage lounges and karaoke parlors; slot machines and other similar types of machines; betting businesses; golf and lotteries.

The amount of SST payable is equal to the taxable price multiplied by the SST rate, which ranges from 10% to 70% depending on the taxable goods or services.

The SST taxable price must be calculated in Vietnamese Dong. A taxpayer having turnover in a foreign currency must convert it into Vietnamese Dong at the average trading rate on the inter-bank foreign currency market as announced by the State Bank of Vietnam on the date when such turnover arose, for the purposes of determining the SST taxable price.

Taxpayers manufacturing goods subject to SST from materials subject to SST may be able to credit the SST paid regarding the materials imported or purchased directly from domestic manufacturing establishments when determining the SST payable, subject to certain conditions.

Natural Resources Tax

All organizations and individuals engaged in exploiting or mining natural resources in compliance with the laws of Vietnam, irrespective of their industry, scope and operational form, are liable to register, declare and pay natural resources tax.

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 neighboring 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 tax rates vary from 1% to 35%, depending on certain kinds of natural resources.

Exemptions or reductions in royalty taxes include offshore fishing by high-capacity vessels; unprocessed maritime products, production of salt which is not yet processed, natural water used for generation of hydropower that is not fed into the national power grid; natural water used by households for their daily needs or agricultural purposes, and soil or combined soil products for ground leveling or construction works, and other circumstances regulated by law.

Tax Administration

Tax registration

The following entities are required to register for taxation purposes:

- Business organisations, households and individuals
- Individuals who have income liable to personal income tax
- Organisations and individuals responsible for withholding and paying taxes on taxpayers' behalf
- Other organisations and individuals defined by the tax law.

Deadline for registration

Tax registrants are generally required to undertake tax registration within 10 working days after:

- They are granted business registration certificates or establishment and operational licenses or investment certificates
- They commence their business operations. For organisations not subject to business registration, or households and individuals subject to business registration but having not been granted business registration certificates
- Responsibility for withholding and paying taxes on another taxpayer's behalf arises
- Personal income tax liability arises
- A claim for a tax refund is made.

If taxpayers conduct their own tax calculations, the deadline for tax payment is the last day of the time limit for submission of tax declaration dossiers. However, if tax administration agencies conduct tax calculation or tax assessment, the time limit for tax payment is stated in the notices of the tax administration agencies.

Tax inspections

Tax inspections are conducted in accordance with provisions set out under the Law on Tax Administration and Law on Inspection. Tax inspection durations might vary depending on the level of tax authorities carrying out the inspection. In most cases, inspections carried out by local/provincial authorities do not exceed thirty days from the date of notification of the tax inspection decision.

Penalties for tax violations

Violation of tax procedures may give rise to an administrative fine of up to VND100 million.

Under declaration and payment of taxes are subject to penalties, including:

- Late payment interest, which is calculated at 0.05% of the late amount per overdue day within the first 90 overdue days, or 0.07% from the 91st overdue day onwards.

- 20% % of the missing tax amounts due to incorrect declaration, with the exception for taxes on export, import transactions as follows:
    - Nil if revisions are made within 60 days from customs declaration date
    - 10% if revisions are made after 60 days from customs declaration date
    - 20% in other cases
- 1-3 times the underpaid taxes due to tax evasion or tax fraud.

Deadlines for submission of tax declaration dossiers and payment of taxes

Declaration/Document	Deadline
Monthly tax declaration dossiers	20th day of the following month
Annual tax declaration dossiers	30th day of the first month of the new financial year
Quarterly declaration dossiers	30th day of the following quarter
Annual tax finalisation dossiers	90th day from the year end of the financial year
For taxes that are declared and paid per each time a liability arises	10th day from the date the tax each liability arises
Termination of contracts or operations, corporate reorganisation or transformation of corporate ownership	45th day from the date of termination of the contract or operations, corporate reorganisation or transformation of ownership

Statute of Limitations

The Law on Tax Administration provides that the statute of limitations for tax penalties is as follows:

- For violation of tax procedures - 02 years from the date the act of violation is committed
- For tax evasion or tax fraud not forming a criminal act, acts of late tax payment and declaration of inadequate amount - 05 years from the date the act of violation is committed.

Past the statute of limitations, the taxpayer will no longer be subject to administrative penalties but still liable for the unpaid taxes:

- For 10 past years, for registered tax payers
- For all the past periods, for unregistered tax payers

Tax refunds

- Tax refund after inspection: tax authorities will grant approval or inform taxpayers reasons for non-approval within 40 days counting from the date the tax authorities receive suitable dossiers from taxpayers.

- Tax refund prior to inspection: within 6 working days, the tax authorities will grant approval for tax refunds or provide explanations for refusal in writing. The tax inspection for such refund will need to be completed within one year from the refund date for a number of cases.

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