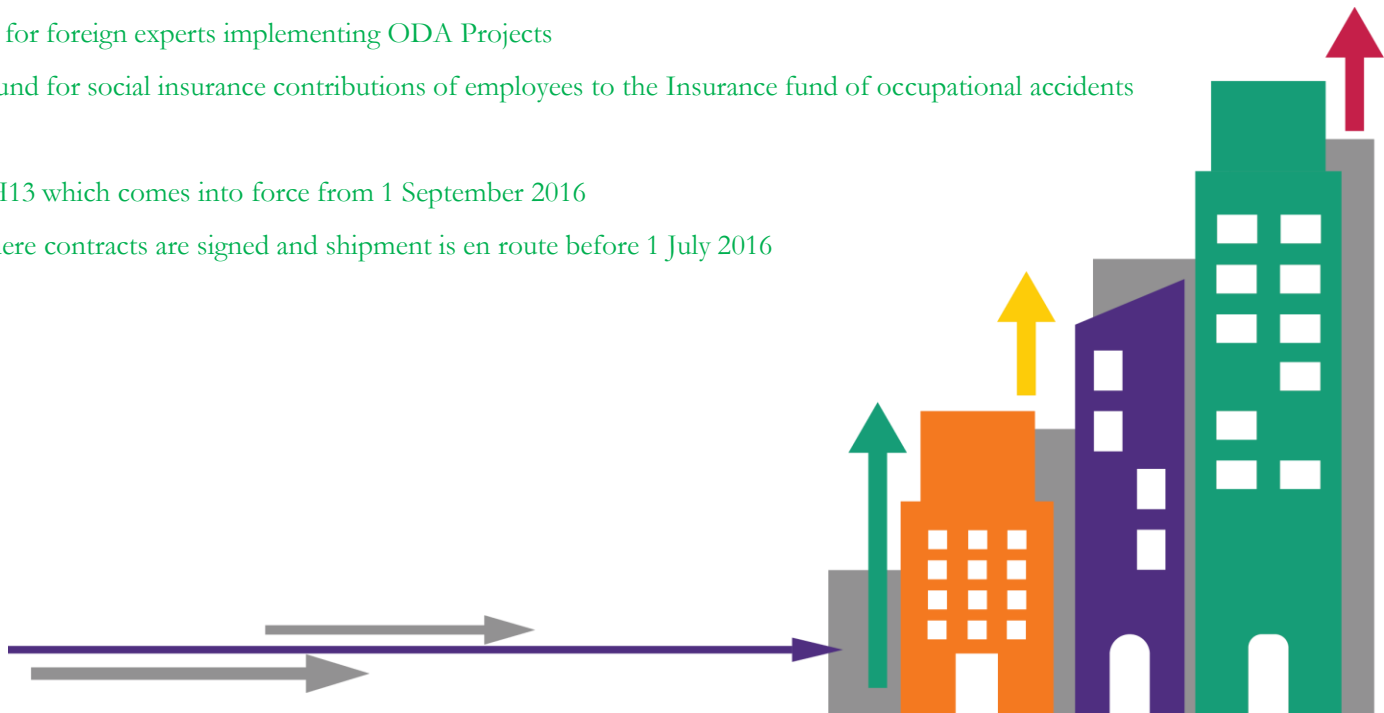


Updates on taxation, labour and customs

June 2016

In this newsletter, Grant Thornton Vietnam would like to highlight the following updates relating to taxation, labour and customs:

1. Amendments on Value Added Tax (“VAT”), Special Consumption Tax (“SCT”) and Law on Tax Administration effective from 1 July 2016
2. Ministry of Finance provides guidance on the determination of regular investment before 2014
3. Endowment Insurance in Japan
4. Personal Income Tax Exemption procedures for foreign experts implementing ODA Projects
5. Enterprises to contribute 1% of their salary fund for social insurance contributions of employees to the Insurance fund of occupational accidents and diseases from 1 July 2016
6. Law on export and import no. 107/2016/QH13 which comes into force from 1 September 2016
7. Import of used machinery and equipment where contracts are signed and shipment is en route before 1 July 2016



1. Amendments on VAT, SCT, and law on tax administration effective from 1 July 2016

The National Assembly has issued Law no. 106/2016/QH13 on 6 April 2016 which will come into effect from 1 July 2016 with the following notable updates:

Value Added Tax (“VAT”)

- Additional goods and services that are not subject to VAT:
 - Care services for elderly and disabled people
 - Exported goods that are processed from natural resources or minerals with total value of natural resources or minerals plus energy costs constituting 51% and above of the product price
- Amendments, supplements to regulations on VAT refunds:
 - The enterprises declaring and paying VAT under the credit method may carry forward the input VAT that has not been credited in this month or quarter, to the next period.
 - The input VAT that has not been credited shall not be entitled to VAT refund but can be carried forward to the next period, in the following cases:
 - ✓ An investment project that has not fully contributed its charter capital as registered; that engages in a conditional business sector but has not met the qualifying conditions as prescribed by the Law on Investment or the fulfillment of such conditions is not maintained throughout its operation;
 - ✓ Natural resource extraction projects or mineral extraction projects that are granted licenses from 1 July 2016 or manufacturing projects where the total value of natural resources or minerals plus energy costs constitutes more than 51% of the product price.



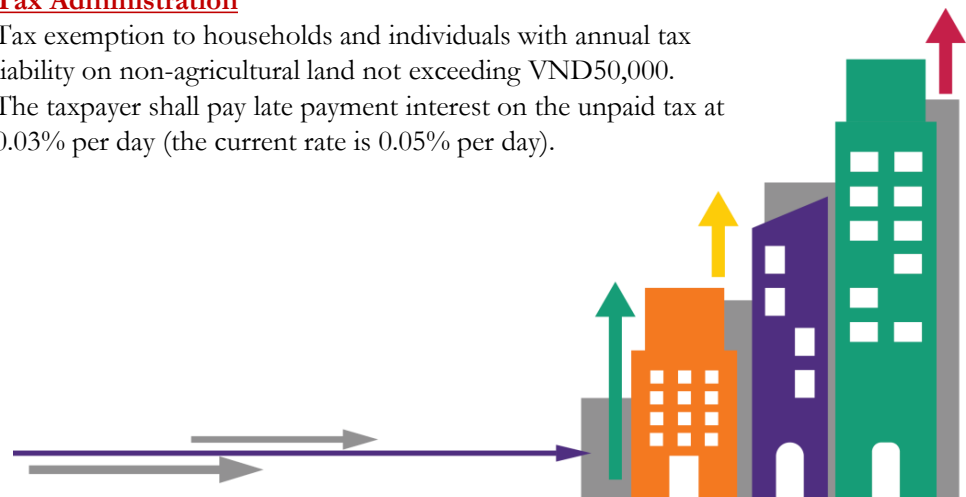
- ✓ Exported goods but not carrying-out the export procedures within a customs controlled area as prescribed by the Law on Customs.
- Inspection after tax refund shall apply to manufacturers of exported goods that do not violate Law on taxation or customs for two consecutive years; and taxpayers that is not considered as high-risk in accordance with the Law on Tax Administration.

Special Consumption Tax (“SCT”)

Amendments on SCT rate for imported motor vehicles with less than 9 seats: From 1 July 2016, motor vehicle having a cylinder capacity not exceeding 1500cm³ shall be subjected to SCT of 40% (the current SCT rate is 45%); and the SCT rate of 55% will be imposed on motor vehicle having a cylinder capacity exceeding 2500cm³ but not exceeding 3000cm³ (the current SCT rate is 50%).

Tax Administration

Tax exemption to households and individuals with annual tax liability on non-agricultural land not exceeding VND50,000. The taxpayer shall pay late payment interest on the unpaid tax at 0.03% per day (the current rate is 0.05% per day).



2. Ministry of finance providing guidance on determination of regular investments before 2014

Pursuant to the propositions of European Chamber of Commerce in Vietnam (EuroCham) and with an aim to ensure the transparency and simplicity of the procedures in relation to the regular investment activities, the Ministry of Finance provides guidance as follows:

Regular investments made by active enterprises from 2009 to 2013 are not deemed as expansion investments and are eligible for Corporate Income Tax (“CIT”) incentives being granted to the projects.

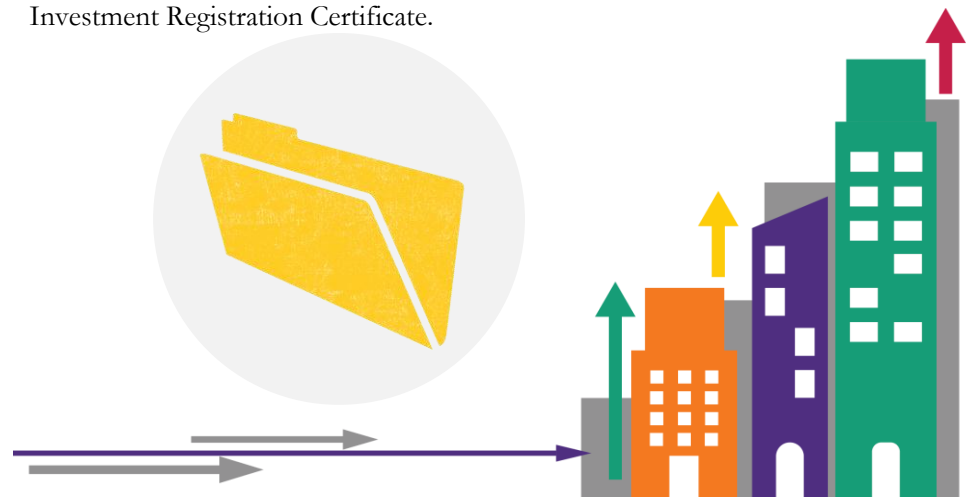
Regular investments are financed by 1 of 3 independent sources to invest in machinery and equipment on a regular basis in a project that currently eligible for CIT incentives, including:

- *Corporate reserve for basic depreciation of fixed assets.*
- *Net profit for reinvestment.*
- *Funds from the investment capital registered with competent authorities.*

The above regular investment in machinery and equipment must not increase the production capacity according to the registered or approved business plans of the project granted with CIT incentives.

Of note:

- In the event that the Investment Registration Certificate indicates the scale of project, the regular investments that enhance such scale shall not be considered as regular investments and shall not be entitled to CIT incentives.
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- This provision is not applicable when the Investment Registration Certificate does not define the project's scale OR the enterprises only supplements / replaces machinery and equipment on a regular basis and not granted an Investment Registration Certificate.
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- If the enterprise having regular investments that enlarge the output of production in comparison to the Investment Registration Certificate, CIT incentives shall not be applied to income generated from the excess output as defined in the Investment Registration Certificate.



3. Endowment insurance in Japan

General Department of Taxation (“GDT”) provided guidance on Personal Income Tax (“PIT”) on 27 May 2016 in relation to the endowment insurance in Japan and in the event the endowment insurance is treated as a compulsory insurance in Japan, such insurance contribution shall be deducted from the taxable income for PIT calculation purpose.

4. Personal income tax exemption procedures for foreign experts implementing ODA projects

Pursuant to guidance provided by the GDT on 27 May 2016, if foreign expert contracts with the foreign contractor funded by ODA, such foreign contractor shall be responsible for conducting PIT exemption procedures for the expert.

If the foreign contractor does not have a head office in Vietnam, the foreign contractor may authorize the project owner to conduct PIT exemption procedures for the expert directly with the local tax authority.



5. Enterprises to contribute 1% of salary fund for social insurance contribution of employees to the insurance fund for occupational accidents and diseases from 1 July 2016

Government issued Decree no. 37/2016/ND-CP (“Decree 37”) on 15 May 2016 providing details and guidance on the implementation of certain articles of the Law on Occupational Safety and Hygiene in accordance with compulsory insurance for occupational accidents and diseases; in which, providing the contribution rate by the employer to the Insurance fund of occupational accidents and diseases effective from 1 July 2016 to 31 December 2017.

The employer shall contribute 1% of salary as social insurance contribution, particularly:

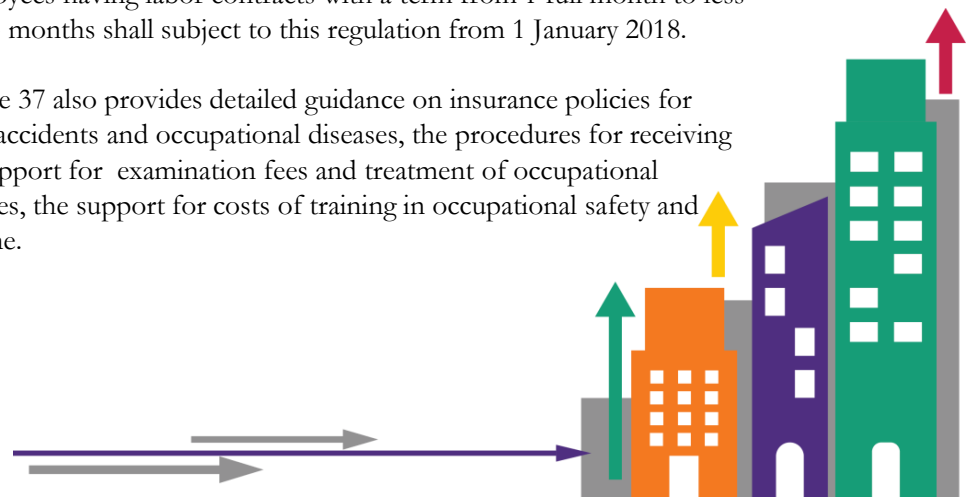
- Officials and public employees regulated by the law on officials and public employees;
- Persons working under indefinite-term labor contracts and labor contracts with a term of 3 months and longer, and persons working under labor contracts with a term of 1 month but less than 3 months. This point excludes domestic helpers
- Salaried managers of enterprises and cooperatives; and
- Others including officers or professional soldiers in the people's army

Any person who is currently entitled to occupational accident or disease benefits, and victims of occupational accidents or diseases that completed their treatment or are discharged from hospital before 1 July 2016 shall be covered under the regulations of Law on social insurance in 2014 and the further guidance on implementation of occupational accidents and diseases policies that were promulgated before 1 January 2016.

Contributions to social insurance before 30 June 2016 shall be considered as period of contributing insurance to occupational accidents and diseases as regulated in this Decree, except for entities only contributing to the fund of retirement and survivorship as regulated by Law on social insurance.

Employees having labor contracts with a term from 1 full month to less than 3 months shall subject to this regulation from 1 January 2018.

Decree 37 also provides detailed guidance on insurance policies for labor accidents and occupational diseases, the procedures for receiving the support for examination fees and treatment of occupational diseases, the support for costs of training in occupational safety and hygiene.



6. Law on export and import no. 107/2016/ql13 comes into effect from 1 September 2016

Grant Thornton Vietnam would like to summarize some notable points in Law no. 107/2016/QH13 for your ease of reference:

Raw materials, supplies, and accessories imported for export production shall be exempt from import duty.

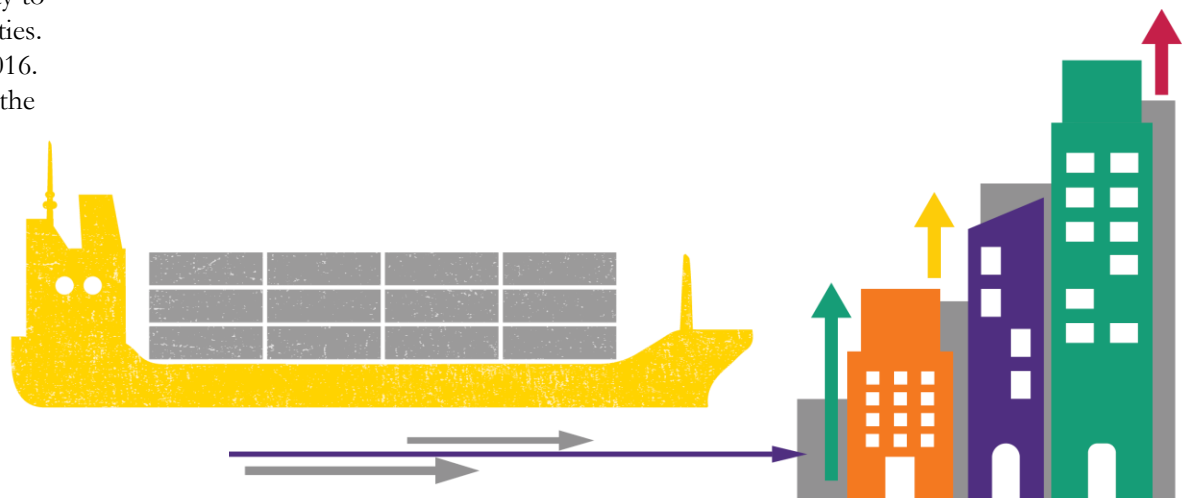
Raw materials, supplies, and accessories, imported for export production but have yet to be exported; goods temporarily imported that have yet to re-export, that have been registered with the custom authorities before the effective date of this Law and tax on which have not been paid, shall apply this Law.

The Law sets out Chapter III on Anti-dumping duty, anti-subsidiary duty and safeguard duty; in which, Ministry of Industry and Trade will be the party to decide on the application of Anti-dumping duty, anti-subsidiary duty and safeguard duty; and, the Ministry of Finance will be the party to stipulate the regulations on declaration, collection, refund of such duties. Law no. 107/2016/QH13 will come into effect from 1 September 2016. Law on Export and Import no. 45/2005/QH11 will be invalid from the effective date of Law no. 107/2016/QH13.

7. Import of used machinery and equipment where contract is signed and shipment is en route before 1 July 2016.

On 8 June 2016, the Customs Control and Supervision Department – General Department of Customs has issued an Official Letter providing guidance on the import of used machinery, equipment and technological lines. Particularly, in the event a Company imported used machinery and equipment where the contract and shipment have been arranged before the effective date of Circular no. 23/2015/TT-BKHCHN providing guidance on the import of used machinery, equipment and technological lines (1 July 2016), the Company shall not be subject to the adjustment under this Circular.

With respect to the import of used machinery, equipment and technological lines, please kindly see the Newsletter dated 2 February 2016 of Grant Thornton Vietnam for your information.



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Should you need to use information from this newsletter or support from Grant Thornton Vietnam, please contact our professional consultants.

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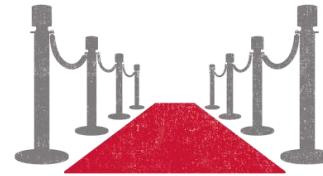
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